

Company Registration No. 4250459

ARSENAL HOLDINGS LIMITED

Annual Report and Financial Statements

31 May 2020

ARSENAL HOLDINGS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2020

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

E.S. Kroenke
J.W. Kroenke
T.J. Lewis
Lord Harris of Peckham

COMPANY SECRETARY

D. Miles

COMPANY NUMBER

4250459

REGISTERED OFFICE

Highbury House
75 Drayton Park
London
N5 1BU

AUDITOR

Deloitte LLP
Statutory Auditor
London
United Kingdom

ARSENAL HOLDINGS LIMITED

STRATEGIC REPORT

The directors present their strategic report for the year ended 31 May 2020.

Principal Activity and Strategy

The principal activity of the Group is that of a professional football club playing in the Premier League. The Group is also engaged in a number of property developments.

The Board's long term strategy is to continue to develop Arsenal Football Club as a leading club on both the domestic and global stages. The Board are committed to a business model which invests the funds generated by the business back into the Club with the aim of achieving an increased level of on-field success with the ultimate goal of winning trophies and using that on-field success to increase the Club's engaged worldwide fan base.

Impact of COVID-19

The results for the financial year have been materially impacted by the Coronavirus pandemic and the consequent lockdown and suspension of the 2019/20 football season. Matches from the closing part of the 2019/20 season, including the Club winning the FA Cup for a record 14th time, were completed in the next financial year, ending 31 May 2021.

The key components of the Group's P&L, such as broadcasting facility fees and home match day revenues, are highly predictable and therefore the impact of the pandemic can be quantified with a reasonable degree of accuracy. For 2019/20 pre-tax losses (unaudited) of £35 million attributable to COVID-19 comprise lost match day revenues of £14 million, deferral of £34 million of broadcasting revenues into financial year 2020/21 and £6 million of other commercial and broadcasting revenue losses, offset by cost savings of £19 million, including the wage reduction scheme agreed by the Men's First Team squad.

The impacts of the pandemic have extended into season 2020/21 and are ongoing. Matches continue to be played without fan attendance and consequently the Club is operating without one of its key revenue streams.

Throughout the pandemic, the Group has moved rapidly in making the decisions required to proactively manage and mitigate risk across all areas of its operations and, where possible, to provide appropriate support to its community and stakeholders. Since the year end the Group has refinanced its stadium finance bonds and undertaken a range of cost cutting measures. These steps will ensure the Club is well placed to respond once the situation starts to improve. The financial challenge remains significant, but the Club continues to have options available to it alongside the unwavering support and commitment of its ownership, Kroenke Sports & Entertainment.

Results for the year

The loss for the year after taxation was £47.8 million (2019 – loss of £27.1 million).

Review of the business

The result for the year can be broken down into the following key components:-

	2020	2019
	£m	£m
Operating profit before player trading	37.1	73.0
Exceptional costs (excluding COVID-19)	(10.4)	(3.9)
Amortisation and impairment of player registrations	(113.3)	(91.0)
Sale of player registrations / Loan of players	63.6	16.8
Property trading profits	0.3	0.3
Net interest costs	(13.6)	(12.0)
Other	(17.7)	(15.4)
(Loss) before tax	<u>(54.0)</u>	<u>(32.2)</u>

ARSENAL HOLDINGS LIMITED

STRATEGIC REPORT

The impact of COVID-19 has been referred to above and is the principal reason for the reduction in operating profits. Football Revenue for the year was £343.5 million (2019 - £394.7 million). Aside from the pandemic, notable changes in income were an increase in commercial revenue from £110.9 million to £142.3 million which was driven by the renewal of the Club's partnership with Emirates and the start of a new kit partnership with Adidas. Commercial gains were partially offset by lower broadcasting revenues as a consequence of exiting the UEFA Europa League at the Round of 32 (2019 – finalists).

Overall wage costs finished at £234.5 million (2019 - £234.9 million) with underlying growth in player wages offset by cost saving measures in response to COVID-19, including a wage reduction scheme agreed by the First Team players and a waiver of remuneration by the Executive management team.

The exceptional costs incurred of £10.4 million (2019 - £3.9 million) were attributable to a number of changes in the First Team coaching and support personnel.

The total profit on sale of player registrations was £60.1 million (2019 - £12.2 million) and player loans amounted to £3.5 million (2019 - £4.6 million). The players sold included Alex Iwobi to Everton and Krystian Bielik to Derby County. Player trading profits continue to have a significant impact on overall profitability. Average annual profits on sale of player registrations over the last five years, including 2019/20, have been £40.2 million.

During the year there was limited activity in the Group's property development business.

Net interest costs were impacted by a negative movement of £2.5 million (2019 – 0.7 million negative) in the market value of the Group's Stadium Finance interest rate swap.

Balance Sheet

Following additions to player registrations at a cost of £182.2 million and amortisation charges, the book value of intangible fixed assets (player registrations) was increased to £303.5 million (2019 - £238.2 million). The additions included Nicolas Pépé, Kieran Tierney, William Saliba, Gabriel Martinelli, Pablo Mari and David Luiz.

The year end cash position was significantly impacted by COVID-19 and the exclusion of the normal season ticket renewals process with closing balances of £110.0 million (2019 - £167.0 million). The levels of debtors and creditors were influenced by pandemic related factors and by the Club's transfer activity, both inbound and outbound, with instalments of the transfer fees being payable and receivable over time and mainly over the next two years.

Key performance indicators

Non- financial:

- Premier League 8th place;
- FA Cup winners (competition completed in following financial year) (qualified for UEFA Europa League 2020/21);
- Ticket sales versus capacity (average ticket sales over 21 home games played prior to the first lockdown were 59,254 against 58,943 over 30 home fixtures in the previous season).

Financial

- Cash flow;
- Compliance with applicable financial covenants;
- Revenue;
- Payroll costs;
- Operating profits/EBITDA (before player trading);
- Player trading (acquisitions/sales);
- Property profits;
- Compliance with applicable financial regulations including UEFA Financial Fair Play (FFP).

Quantitative disclosures in respect of financial key performance indicators are included in the financial statements.

ARSENAL HOLDINGS LIMITED

STRATEGIC REPORT

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's long-term performance. The Board meets regularly during the year, either by telephone or on a face to face basis, and monitors these risks on a continual basis. In addition, the management of day to day operational risk is delegated to the Group Executive management team.

The key business risks and uncertainties affecting the Group are considered to relate to:

- The impacts of COVID-19 on the Club's revenues, operations and cash flows;
- the performance and popularity of the first team;
- the recruitment and retention of key employees;
- the rules and regulations of the applicable football governing bodies;
- the negotiation and pricing of broadcasting contracts;
- the rates of UK taxation applicable to the Group and its key employees; and
- the renewal of key commercial agreements on similar or improved terms.

The Group's income is affected by the performance and popularity of the first team and significant sources of revenue are derived from strong performances in the Premier League and UEFA European competitions. The Group seeks to maintain playing success by continually investing in the development of its playing squad and it enters into employment contracts with each of its key personnel with a view to securing their services for the term of the contract. However, the Group operates in a highly competitive market in both domestic and European competition and retention of personnel cannot be guaranteed. In addition, the activities of the Group's main competitors can determine trends in the market rates for transfers and wages that the Group may be required to follow in order to maintain the strength of its first team squad.

The Club is regulated by the rules of the FA, Premier League, UEFA and FIFA. Any change to FA, Premier League, UEFA and FIFA regulations in the future could have an impact on the Group as the regulations cover areas such as: the format of competitions, FFP, the division of broadcasting income, the eligibility of players and the operation of the transfer market.

The Group monitors its compliance with all applicable rules and regulations on a continuous basis and also monitors and considers the impact of any potential changes.

Broadcasting and certain other revenues are derived from contracts which are currently centrally negotiated by the Premier League and, in respect of European competition, by UEFA; the Group does not have any direct influence, alone, on the outcome of the relevant contract negotiations. The Premier League has secured TV rights sales for the three year cycle, ending season 2021/22, with certain overseas rights already secured for a longer term.

The Group derives a material amount of revenue from sponsorship and other commercial relationships. The underlying commercial agreements have finite terms and, whilst the Group fully expects that the global appeal of its brand will allow its commercial revenues to grow in the medium term, the renewal of existing contracts and / or acquisition of new partnerships cannot be guaranteed.

The Directors do not expect there to be a material impact from the UK's departure from the European Union. The Club's participation in European competition (subject to the usual qualification criteria) is expected to continue and the Club expects to be able to continue to recruit overseas players suitable to the development of the Club's playing squad.

The Group's financial performance has previously remained reasonably immune to recessionary economic conditions.

ARSENAL HOLDINGS LIMITED

STRATEGIC REPORT

Section 172 Statement

Section 172 of the Companies Act 2006 requires the Directors to take into consideration the interests of all stakeholders in promoting the success of the Company and the Group and, in so doing, to have regard to a range of matters, including:

- the long-term consequences;
- the interests of employees;
- the interests of other key stakeholders (including the Club's supporters);
- the impact on the community and the environment; and
- the desirability of maintaining a reputation for high standards of business conduct.

Everyone at Arsenal recognises their responsibility as custodians of the Club, to uphold its traditions and values.

Supporters

Our fans are the lifeblood of the Club and we are grateful for their unrelenting, faithful support even more so whilst we play behind closed doors. Despite the challenging circumstances, we are committed to maintaining an open dialogue with our supporters. This comes to life through our Arsenal Fans' Forum which we hold three times a year, enabling fans to put questions to and discuss key issues with our Chief Executive and other senior Club officials. In addition, we keep in regular contact with our supporters through our membership schemes and our network of 185 supporters' clubs around the world.

Employees

Our staff are one of our key priorities and the Group has in place a broad suite of policies and programmes which promote the health and safety and the mental health and wellbeing of our employees.

- We ensure equality and fairness in opportunity, pay and promotion decisions and publish our Gender Pay Gap report annually.
- We pay at least the London Living Wage hourly rate of pay to all employees and encourage our third-party suppliers to adopt the same approach to ensure we remain an employer of choice.

In response to the pandemic, we acted swiftly and efficiently to close operational sites to protect our staff, players and community participants and adapt our operations so the majority of our people could operate remotely.

- We have launched a number of initiatives to support our employees, including: value added healthcare services with access to GPs online, a buddy system, mental health first aiders and access to various wellbeing resources.
- Despite reviewing and evaluating the CJRS/JSS schemes offered by the Government, we decided we would not use the schemes and instead used Club funds to protect jobs for as long as possible. We made discretionary payments to our matchday and non-match-day casual workers during the first two lockdown periods in recognition of their contribution and value to the Club.
- We have established a Hardship Fund to support our people who may have found themselves in extreme financial difficulties caused by COVID-19.

Equality, Diversity, and Inclusion

Ensuring equality and diversity is at the heart of Arsenal is a priority. We endeavour to ensure that everyone associated with the Club – employees, fans, our local community and the wider Arsenal family - feels an equal sense of belonging and can interact with the Club in a manner which is fair and free from any form of discrimination.

ARSENAL HOLDINGS LIMITED

STRATEGIC REPORT

Arsenal in the Community

The Club's commitment to its local and global community is channelled through the Arsenal Foundation and through Arsenal in the Community.

The Arsenal in the Community team delivers sport, social and education programmes to over 5,000 individuals each week – helping to positively change lives of people in our local and global communities.

The Arsenal Foundation supports a wide range of charitable initiatives both locally and across the world. It has a well-established partnership with Save the Children which has delivered large scale infrastructure and support projects through its Coaching for Life scheme.

The pandemic has seen a change from our usual face-to-face delivery, but the Club has continued to provide significant support, including:

- The Arsenal Foundation pledging additional support to local charities;
- Club cars were made available to transport frontline NHS staff, driven by Arsenal staff volunteers;
- We digitalised Arsenal in the Community's academic resources and provided them free of charge online to support home schooling; and
- We partnered with HIS Church charity to begin our year-long campaign to deliver half a million free meals to the most vulnerable in our local community.

Sustaining our game

We are firmly committed to operating in a green and sustainable manner and we take our responsibility extremely seriously for the benefit of future generations.

In November 2019 we were named top of the Premier League sustainability table in a report compiled by the BBC and the United Nations backed Sport Positive Summit. This was based on research carried out in eight key categories:

- clean energy
- energy efficiency
- sustainable transport
- single-use plastic reduction or removal
- waste management
- water efficiency
- plant-based or low-carbon food options
- communications or engagement

In February 2020, through a reusable cup scheme in partnership with our Official Beer Partner, Camden Town Brewery, we passed the milestone of saving half a million plastic cups from landfill.

Streamlined Energy and Carbon Reporting (SECR)

The SECR disclosure presents the Group's carbon footprint within the United Kingdom for Scope 1, 2 and 3 emissions based on SECR Legislation, an appropriate intensity metric and the total energy use of electricity, gas and transport fuel for the year ended 31 May 2020. This is the first year that SECR has applied and comparative data is not available.

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Energy consumption used to calculate emissions (kWh)	19,773,528
Emissions from combustion of gas tCO ₂ e (Scope 1)	1,601
Emissions from combustion of fuel for transport purposes tCO ₂ e (Scope 1)	0
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel tCO ₂ e (Scope 3)	19
Emissions from purchased electricity tCO ₂ e (Scope 2, location-based)	2,807
Total gross tCO ₂ e based on above	4,427
Intensity ratio (tCO ₂ e/£M Turnover)	12.7474

The Group continues to achieve direct savings in energy and associated carbon emissions, through operational and technological improvements, including:

- Being 100% powered from renewable sources via Octopus Energy;
- LED lighting upgrades;
- Increasing investment in training staff about energy efficiency;
- Continuous monitoring and central control of heating, ventilation and air conditioning; and
- Implementation of a new enterprise-level software application providing quality assurance and data capture capabilities into one energy and carbon management solution.

Commercial Partners

We recognise that positive relationships with commercial partners is essential for the continued growth aspirations of the club. We work hard to ensure that we partner with organisations that reflect our values and beliefs and together with our partners, we have continued to push the boundaries to ensure we entertain our fanbase and commit to socially responsible initiatives that promote strong and mutually beneficial relationships.

Suppliers

The Club recognises the importance of its suppliers and has many longstanding contractual relationships in place. The Club monitors its payments to suppliers on a continual basis and seeks to ensure it complies with applicable contractual terms.

Business Conduct

The Group has appropriate policies in place to manage its obligations with regard to employment law and employee matters, environmental issues, anti-corruption / anti-bribery and social matters (including modern slavery and human rights), but does not consider that these are areas of significant strategic risk to its operations.

The Group is committed to paying the right amount of taxes, in the right place, at the right time in accordance with applicable tax laws and regulations. The tax contribution paid by the Group and by its players is substantial and transparent.

ARSENAL HOLDINGS LIMITED
STRATEGIC REPORT

Future developments

The 2020/21 season is ongoing and the Club is competing to finish the season as strongly as possible in both the Premier League and UEFA Europa League. The ongoing impacts of the pandemic have been referred to above.

Approved by the Board of Directors and signed on behalf of the Board.

A handwritten signature in black ink, appearing to read 'D Miles', is positioned above the typed name.

D Miles
Company Secretary
26 February 2021

ARSENAL HOLDINGS LIMITED

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 May 2020.

Principal activities

The principal activity of the Group is that of a professional football club playing in the Premier League. The Group is also engaged in a number of property developments.

Profits and dividends

The results for the year are set out on page 16. The Directors do not recommend the payment of a dividend for the year (2019 - £Nil).

Financial risk management

The Group manages its capital to ensure that the Group will be able to continue as a going concern. The Directors review financial reports on a regular basis and the Group's finance team monitor working capital and liquidity on a continuous basis. The nature of the Group's activities mean that the most significant areas of financial risk relate to cash flow, credit, currency and interest rates. The Group uses financial derivatives, in line with policies approved by the Board, to manage these risks. The Group does not use financial derivatives for speculative purposes.

The Group addresses cash flow risk by carefully managing its working capital inflows and outflows. Forward looking forecasts are prepared, reviewed on a regular basis and subjected to appropriate stress testing.

The Group enters into a number of transactions, relating mainly to its participation in European competition and player transfers, which create exposure to movements in foreign exchange. The Group monitors this foreign exchange exposure on a continuous basis and will usually hedge any significant exposure in its currency receivables and payables.

The Group monitors its compliance with the applicable terms of its debt finance arrangements on a continuous basis and regularly reviews its forecast cash flow to ensure that it holds an appropriate level of bank funds at all times.

Credit checks and other appropriate financial due diligence are performed prior to the Group entering into new material contracts.

The Club continues to be fully compliant with the Financial Fair Play regulations put in place by UEFA and the Premier League including the amendments to those rules put in place to mitigate the impacts of the pandemic.

Going concern

The Directors have given careful consideration to the sufficiency of the financial resources which have been confirmed as available to the Group through loan funding from its ultimate parent company, both now and as required to finance the business for the foreseeable future, together with available bank and other loans and cash balances. On this basis the Directors have a reasonable expectation that the Group and the Company will have adequate financial resources and, accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

Events after the Balance Sheet Date

Details of significant events since the balance sheet date are included in note 26 to the financial statements.

Future developments

Details of future developments can be found in the Strategic Report.

ARSENAL HOLDINGS LIMITED

DIRECTORS' REPORT

Directors

The directors of the company, all of whom served throughout the year unless where stated otherwise, are set out below:

E.S. Kroenke
J.W. Kroenke
T.J. Lewis (appointed 18 June 2020)
Lord Harris of Peckham

In addition, Sir Chips Keswick served as a director and Chairman until the date of his retirement on 15 May 2020 and K.J. Friar served as a director until the date of his retirement on 31 August 2020. On his retirement, K.J. Friar was appointed Honorary Life President in recognition of his seventy years service to the Club.

Directors' Indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its directors, which were made during the year and remain in force at the date of this report.

Employee Consultation

Within the bounds of commercial confidentiality, the Group endeavours to keep staff at all levels informed of matters that affect the progress of the Group and are of interest to them as employees. The Group has a Staff Forum, which meets on a regular basis, with representation from across the Club, ensuring that staff are consulted regularly on a wide range of matters which affect their current and future interests.

Equality and Diversity

The Group's aim is to ensure that equality and diversity is at the heart of Arsenal as a priority. This objective is pursued under the banner of Arsenal for Everyone, an initiative launched in 2008 as a celebration of the diversity of the Arsenal family. We endeavour to ensure that everyone associated with the Club – employees, fans, local community and the wider Arsenal family - feels an equal sense of belonging and can interact with the Club in a manner which is fair and free from any form of discrimination.

Disabled Employees

Disabled persons are given full and fair consideration for all types of vacancy in as much as the opportunities available are constrained by the practical limitations of the disability. Should, for whatever reason, an employee of the Group become disabled whilst in employment, every step, where appropriate will be taken to assist with rehabilitation and suitable retraining. It is Group policy that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees. The Club has had Disability Confident Leader status since November 2017.

ARSENAL HOLDINGS LIMITED DIRECTORS' REPORT

Auditors

In the case of each of the persons who are directors of the Company at the date when this report was approved:

- So far as each of the directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- Each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

The auditor, Deloitte LLP, is deemed to be reappointed pursuant to Section 487 of the Companies Act 2006.

Approved by the Board of Directors and signed on behalf of the Board



D Miles
Company Secretary
26 February 2021

Registered office:
Highbury House
75 Drayton Park
London
N5 1BU

ARSENAL HOLDINGS LIMITED

DIRECTORS' RESPONSIBILITY STATEMENT

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ARSENAL HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARSENAL HOLDINGS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Arsenal Holdings Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 May 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARSENAL HOLDINGS LIMITED (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARSENAL HOLDINGS LIMITED (continued)

Matters on which we are required to report by exception

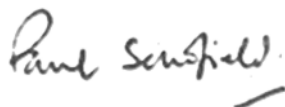
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Paul Schofield FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

28 February 2021

ARSENAL HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 May 2020

	Note	2020			2019		
		Operations excluding player trading £'000	Player trading £'000	Total £'000	Operations excluding player trading £'000	Player trading £'000	Total £'000
Turnover of the Group including its share of joint ventures		341,431	3,485	344,916	393,492	4,582	398,074
Share of turnover of joint venture		(389)	-	(389)	(2,515)	-	(2,515)
Group turnover	3	341,042	3,485	344,527	390,977	4,582	395,559
Operating expenses	4	(330,198)	(113,288)	(443,486)	(337,243)	(90,958)	(428,201)
Operating profit/(loss)		10,844	(109,803)	(98,959)	53,734	(86,376)	(32,642)
Share of joint venture operating result		(1,492)	-	(1,492)	190	-	190
Profit on disposal of player registrations		-	60,050	60,050	-	12,243	12,243
Profit/(loss) before net finance charges		9,352	(49,753)	(40,401)	53,924	(74,133)	(20,209)
Net finance charges	5			(13,621)			(12,006)
(Loss) before taxation				(54,022)			(32,215)
Tax on loss	8			6,244			5,141
(Loss) for the financial year				(47,778)			(27,074)

Player trading consists primarily of loan fees receivable, the amortisation of the costs of acquiring player registrations, any impairment charges and profit on disposal of player registrations.

All trading resulted from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 May 2020

	2020 £'000	2019 £'000
(Loss) after taxation	(47,778)	(27,074)
Exchange differences	4	10
Total comprehensive (loss)	(47,774)	(27,064)

ARSENAL HOLDINGS LIMITED

BALANCE SHEET

As at 31 May 2020

	Note	Group		Company	
		2020 £'000	2019 £'000	2020 £'000	2019 £'000
Fixed assets					
Tangible assets	9	416,852	423,817	-	-
Intangible assets	10	303,547	240,293	-	-
Investments	11	4,880	6,372	30,059	30,059
		<u>725,279</u>	<u>670,482</u>	<u>30,059</u>	<u>30,059</u>
Current assets					
Stock - development properties	12	8,116	8,260	-	-
Stock - retail merchandise		3,294	1,802	-	-
Debtors - due within one year	13	62,609	70,331	134,548	134,940
- due after one year	13	27,151	4,258	-	-
Cash at bank and in hand	14	109,974	166,957	720	717
		<u>211,144</u>	<u>251,608</u>	<u>135,268</u>	<u>135,657</u>
Creditors: amounts falling due within one year	15	<u>(235,792)</u>	<u>(246,313)</u>	<u>(1,809)</u>	<u>(1,809)</u>
Net current (liabilities)/assets		<u>(24,648)</u>	<u>5,295</u>	<u>133,459</u>	<u>133,848</u>
Total assets less current liabilities		700,631	675,777	163,518	163,907
Creditors: amounts falling due after more than one year	16	(302,954)	(228,283)	(15,828)	(15,395)
Provisions for liabilities	19	<u>(52,599)</u>	<u>(54,642)</u>	<u>-</u>	<u>-</u>
Net assets		<u>345,078</u>	<u>392,852</u>	<u>147,690</u>	<u>148,512</u>
Capital and reserves					
Called up share capital	20	62	62	62	62
Share premium account		29,997	29,997	29,997	29,997
Merger reserve		26,699	26,699	-	-
Profit and loss account		288,320	336,094	117,631	118,453
Shareholders' funds		<u>345,078</u>	<u>392,852</u>	<u>147,690</u>	<u>148,512</u>

The loss for the financial year dealt with in the financial statements of the Group's parent company, Arsenal Holdings Limited, was £822,000 (2019 – loss of £724,000).

These financial statements of Arsenal Holdings Limited (registered number 4250459) were approved and authorised for issue by the Board of Directors on 26 February 2021.

Signed on behalf of the Board of Directors



T.J. Lewis
Director

ARSENAL HOLDINGS LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2020

Group	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Profit and Loss £'000	Total £'000
At 1 June 2018	62	29,997	26,699	363,158	419,916
Total comprehensive loss for year ended 31 May 2019	-	-	-	(27,064)	(27,064)
At 31 May 2019	62	29,997	26,699	336,094	392,852
Total comprehensive loss for the year ended 31 May 2020	-	-	-	(47,774)	(47,774)
As at 31 May 2020	62	29,997	26,699	288,320	345,078

Company	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Profit and Loss £'000	Total £'000
At 1 June 2018	62	29,997	-	119,177	149,212
Total comprehensive loss for year ended 31 May 2019	-	-	-	(724)	(724)
At 31 May 2019	62	29,997	-	118,453	148,512
Total comprehensive loss for the year ended 31 May 2020	-	-	-	(822)	(822)
As at 31 May 2020	62	29,997	-	117,631	147,690

ARSENAL HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 May 2020

	Note	2020 £'000	2019 £'000
Net cash inflow from operating activities	21a	22,502	29,860
Taxation paid		(3,900)	(109)
Cash flow from investing activities			
Interest received		667	706
Proceeds from sale of fixed assets		-	15
Purchase of fixed assets		(13,108)	(12,815)
Purchase of investments		-	(25)
Player registrations	21c	(57,959)	(61,860)
Net cash flow from investing activities		<u>(70,400)</u>	<u>(73,979)</u>
Cash flow from financing activities			
Interest paid		(10,714)	(11,175)
New debt issued		15,000	-
Repayment of debt		(9,471)	(8,984)
Net cash flow from financing activities		<u>(5,185)</u>	<u>(20,159)</u>
(Decrease) in cash and cash equivalents		<u>(56,983)</u>	<u>(64,387)</u>
Cash and cash equivalents at start of year		166,957	231,344
Cash and cash equivalents at end of year	14	<u><u>109,974</u></u>	<u><u>166,957</u></u>

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

(a) General information and basis of accounting

Arsenal Holdings Limited is a private company limited by shares and registered in England and Wales under the Companies Act. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the strategic report on pages 2 to 4.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Arsenal Holdings Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Group operates. The consolidated financial statements are presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

(b) Basis of preparation of Group financial statements

The Group financial statements consolidate the assets, liabilities and results of the Company and its subsidiary undertakings made up to 31 May 2020. All intra-group transactions, balances, incomes and expenses are eliminated on consolidation.

As permitted by Section 408 of the Companies Act 2006 the profit and loss account of the parent company is not presented as part of these financial statements. The parent company is exempt from the requirement to prepare a cash flow statement.

(c) Going concern

The Directors have recently undertaken a thorough review of the Group's budgets and forecasts. This financial assessment takes account of the expected impacts of COVID-19, together with prudent assumptions with regard to on-field performance, the Club's key revenue streams, operating costs and cash-flows. It is acknowledged that the pandemic continues to create a significant level of uncertainty. Accordingly, the Club's financial projections have been stress tested to ensure that the financial position remains robust in reasonable worst case scenarios, including the extension of restrictions on fan attendance into season 2021/22. The Directors have also considered a number of actions that they could take in order to further mitigate any potential adverse circumstances. The Group's financial projections take account of the actions already taken to reduce the costs of the Club's operations and reasonably possible changes in trading performance.

The Group currently meets its day to day working capital requirements through a combination of its own financial resources, which include a loan from its ultimate parent company, and bank and similar debt facilities. Following the redemption of the Group's stadium finance bonds, subsequent to the balance sheet date and as referred to in note (26), the Group is reliant on the continued financial support of its ultimate parent company, KSE UK Inc., which has provided a loan to enable the refinancing. KSE UK Inc. has indicated that its financial support will continue for the foreseeable future.

The Directors have given careful consideration to the sufficiency of the financial resources which have been confirmed as available to the Group through loan funding from its ultimate parent company, both now and as required to finance the business for the foreseeable future, together with available bank and other loans and cash balances. On this basis the Directors have a reasonable expectation that the Group and the Company will have adequate financial resources and, accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

(d) **Joint venture and subsidiary undertakings**

The joint venture is an undertaking in which the Group holds an interest on a long-term basis and which is jointly controlled by the Group, which holds 50% of the voting rights, and KSE UK Inc under a contractual arrangement.

The Group's share of the results of the joint venture are included in the consolidated profit and loss account on the basis of audited financial statements. The Group's share of the results and net assets of the joint venture is included under the gross equity method and stated after adjustment to eliminate the Group's share of profits resulting from transactions between the Group and the joint venture which are included in the carrying amount of assets reported in the joint venture's balance sheet.

Investments in subsidiary undertakings are included in the Company's financial statements at cost less provisions for impairment.

(e) **Turnover and income recognition**

Turnover represents income receivable, net of VAT, from football and related commercial activities and income from the sale of development properties completed in the year. The Group has two classes of business - the principal activity of operating a professional football club and property development - both businesses are carried out principally within the United Kingdom.

Gate, match and other event day revenue is recognised over the period of the football season as games are played and events are staged. Sponsorship and similar commercial income is recognised over the duration of the respective contracts. The fixed element of broadcasting revenues is recognised over the duration of the football season whilst facility fees for live coverage or highlights are taken when earned at the point of broadcast. Merit awards have been accounted for based on the known amount at the end of the season pro-rated for games played to the balance sheet date. UEFA pool distributions relating to participation in the Europa League are spread over the matches played in the competition whilst distributions relating to match performance are taken when earned; these distributions are classified as broadcasting revenues. Fees receivable in respect of the loan of players are included in turnover over the period of the loan.

Turnover is recognised in respect of barter transactions only where services are exchanged for dissimilar services and the transaction is deemed to have commercial substance. Such transactions are measured at the fair value of the services received, adjusted by any amount of cash and cash equivalents transferred.

Income from the sale of development properties is recognised on completion of the relevant sale contract. Where elements of the sale price are subject to retentions by the purchaser the retained element of the sale price is not recognised until such time as all of the conditions relating to the retention have been satisfied.

(f) **Depreciation**

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is calculated to reduce the carrying value of buildings, plant, equipment and motor vehicles to the anticipated residual value of the assets concerned in equal annual instalments over their estimated useful lives as follows:

Freehold buildings	2% per annum
Leasehold properties	over the period of the lease
Plant and equipment	5% to 25% per annum

Freehold land is not depreciated.

(g) **Finance costs**

Finance costs of debt are recognised in the profit and loss account over the term of the debt using the effective interest method.

Any non-current assets, e.g. player registrations, acquired on deferred terms are recorded at the discounted present value at the date of acquisition. The associated payable is then increased to the settlement value over the period of deferral, with this value being charged as a notional finance cost through the profit and loss account.

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

Similarly any intangible asset disposed of on deferred terms will be initially recorded at the discounted present value of future receipts and the receivable is then increased to the settlement value over the period of deferral with this value being charged as notional finance income through the profit and loss account.

(h) **Financial instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument and are classified according to the substance of the contractual arrangements entered into.

i. Financial liabilities

Basic financial instruments (including the stadium finance bonds and the C and D debentures) are measured at amortised cost, using the effective interest method. The effective interest rate is the rate which exactly discounts the estimated future payments of receipts over the life of the instrument to its carrying amount at initial recognition, re-estimated periodically to reflect changes in the market rate of interest.

Non basic financial instruments (including the A and B debentures) are recognised at fair value, and measured at the present value of the future payments, discounted at a market rate of interest. Any periodic changes in fair value are recognised in the profit and loss account.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

ii. Derivative financial instruments

The Group uses derivative financial instruments to reduce its exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

(i) **Stock**

Stock comprises retail merchandise and development property for onward sale and is stated at the lower of cost and net realisable value.

Where properties which are intended to be sold have been acquired they have been included in stock as development properties. Development property comprises freehold land inclusive of the direct cost of acquisition and other directly attributable property development costs including interest costs.

(j) **Grants**

Grants received in respect of tangible fixed assets are credited to the profit and loss account over the expected useful economic lives of the assets to which they relate. Grants received but not yet released to the profit and loss account are included in the balance sheet as deferred income.

Other grants are credited to the profit and loss account as the related expenditure is incurred.

(k) **Player costs**

The costs associated with acquiring players' registrations or extending their contracts, including agents' fees, are capitalised and amortised, in equal instalments, over the period of the respective players' contracts. Where a contract life is renegotiated the unamortised costs, together with the new costs relating to the contract extension, are amortised over the term of the new contract. Where the acquisition of a player registration involves a non-cash consideration, such as an exchange for another player registration, the transaction is accounted for using an estimate of the market value for the non-cash consideration.

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

Under the conditions of certain transfer agreements or contract renegotiations, further fees will be payable in the event of the players concerned making a certain number of First Team appearances or on the occurrence of certain other specified future events. Liabilities in respect of these additional fees are accounted for, as provisions, when it becomes probable that the number of appearances will be achieved or the specified future events will occur. The additional costs are capitalised and amortised as set out above.

Profits or losses on the sale of players represent the transfer fee receivable, net of any transaction costs, less the unamortised cost of the applicable player's registration.

Remuneration of players is charged in accordance with the terms of the applicable contractual arrangements and any discretionary bonuses when there is a legal or constructive obligation.

(l) **Impairment**

The Group will perform an impairment review on player registrations if adverse events indicate that the amortised carrying value of its intangible assets may not be recoverable. Whilst no individual player can be separated from the income generating unit, which is represented by the playing squad and the football operations of the Group as a whole, there may be certain circumstances where a player is taken out of the income generating unit. Such circumstances might include a player being excluded from the playing squad due to sustaining a career threatening injury or where a permanent fall out with senior football management means it is highly unlikely a particular player will ever play for the club again. If such circumstances were to arise and be considered permanent, then the carrying value of the player would be assessed against the Group's best estimate of the player's fair value less any costs to sell and, if necessary, a provision would be made.

The Group's assessment of fair value will be based on:-

- in the case of a player who has suffered a career threatening injury, the value attributed by the Group's insurers; or
- in the case of a player who has fallen out with senior football management, either the agreed selling price in the event the player has been transferred since the year end or, if the player has not been sold, the Group's best estimation of disposal value taking into account recent player disposals by both the Group and other clubs.

(m) **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

(n) **Foreign currencies**

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency denominated assets and liabilities held at the year end are translated at year-end exchange rates. Exchange gains or losses are dealt with in the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rate ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in other comprehensive income.

(o) **Deferred income**

Deferred income represents income from sponsorship agreements and other contractual agreements which will be credited to the profit and loss account over the period of the agreements, season ticket renewals for the 2020/21 season and advance income from executive boxes and Club Tier seats at Emirates Stadium.

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

(p) **Leases**

Rentals payable under operating leases are charged to the profit and loss account evenly over the lease period.

(q) **Pensions**

The Group makes contributions on behalf of employees and directors to a number of independently controlled defined contribution and money purchase schemes including The Football League Pension and Life Assurance Scheme (the “Scheme”). Contributions are charged to the profit and loss account over the period to which they relate.

In addition the Group is making contributions in respect of its share of the deficit of the defined benefit section of The Football League Pension and Life Assurance Scheme (the “Scheme”). A provision has been established for the Group’s share of the deficit which exists in this section of the Scheme and this additional contribution is being charged to the profit and loss account over the remaining service life of those Arsenal employees who are members of the Scheme. The amount attributable to employees who have already retired or who have left the Group has been charged to the profit and loss account.

Under the provisions of FRS 102 Section 28 the Scheme would be treated as a defined benefit multi-employer scheme. The Scheme’s actuary has advised that the participating employers’ share of the underlying assets and liabilities cannot be identified on a reasonable and consistent basis and accordingly no disclosures are made under the provisions of FRS 102 Section 28.

The assets of all schemes are held in funds independent from the Group.

(r) **Taxation**

Current tax, including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group’s taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

A deferred tax asset is recognised only when, on the basis of available evidence, it can be regarded as more likely than not that the reversal of underlying timing differences will result in a reduction in future tax payments.

(s) **Goodwill**

Goodwill arising on the acquisition of subsidiary undertakings, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is considered to be five years. Provision is made for any impairment.

Critical accounting judgements and estimates

In the application of the Group’s accounting policies, which are described above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of certain assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Critical judgements in applying the Group’s Accounting Policies

There were no critical judgements apart from those involving estimations, which are dealt with separately below, which the directors have made in the process of applying the Group’s accounting policies and which would have a significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

Provisions and contingent liabilities for player transactions

Creditors and provisions contain allowances for certain contingent amounts payable to players and to other clubs based on management's best estimate of certain future events, such as the number of player appearances, and the amount that will become payable as a result. Actual future costs may differ from the amounts provided.

Property trading stocks

The directors consider that the net realisable value of the Group's property development stocks, making an appropriate allowance for costs to complete, is greater than their book value.

Current taxation

The complex nature of tax legislation under which the Group operates necessitates the use of estimates and assumptions in assessing the tax amounts provided in the financial statements. Actual tax payable may differ from the amounts provided.

2. Segmental analysis

Class of business:-	Football		Property development		Group	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Turnover	343,453	394,730	1,074	829	344,527	395,559
Segment operating (loss)/profit	(99,230)	(32,841)	271	199	(98,959)	(32,642)
Share of operating profit of joint venture	(1,492)	190	-	-	(1,492)	190
Profit on disposal of player registrations	60,050	12,243	-	-	60,050	12,243
Net finance charges	(13,386)	(12,120)	(235)	114	(13,621)	(12,006)
(Loss)/profit before taxation	(54,058)	(32,528)	36	313	(54,022)	(32,215)
Segment net assets	285,842	333,626	59,236	59,226	345,078	392,852

Operating profit from football before amortisation, depreciation and player trading amounted to £37.1 million (2019 - £73.0 million); being segment operating loss (as above) of £99.2 million (2019 - £32.8 million), adding back depreciation (net of grant amortisation) of £16.1 million (2019 - £15.5 million), operating loss from player trading of £109.8 million (2019 - £86.4 million) and exceptional costs (non COVID-19 related) of £10.4 million (2019 - £3.9 million).

Impact of COVID-19 (unaudited)

As described in the Strategic Report the results for the financial year have been materially impacted by the Coronavirus pandemic and the consequent lockdown and suspension of the 2019/20 football season. The Directors consider that the exceptional impact of COVID-19 is fundamental to an understanding of the results for the year and accordingly the financial impacts have been set out in the Strategic Report on page 2. These financial impact disclosures are not repeated in the notes to the accounts as they cannot be audited.

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

3. Turnover

	2020	2019
	£'000	£'000
Turnover, all of which originates in the UK, comprises the following:		
Gate and other match day revenues	78,743	96,244
Broadcasting	118,948	183,025
Commercial	142,277	110,879
Property development	1,074	829
Player trading	3,485	4,582
	<u>344,527</u>	<u>395,559</u>

4. Operating expenses

	2020	2019
	£'000	£'000
Operating expenses comprise:		
Amortisation of player registrations	109,114	89,678
Impairment of player registrations	4,174	1,280
Depreciation and impairment charges (less amortisation of grants)	16,613	15,497
	<u>129,901</u>	<u>106,455</u>
Total depreciation, amortisation and impairment	129,901	106,455
Staff costs (see note 6) (including exceptional costs)	234,478	234,922
Cost of property sales	201	6
Other operating charges (including exceptional costs)	78,906	86,818
	<u>443,486</u>	<u>428,201</u>

	2020	2019
	£'000	£'000
Total operating expenses include:		
Exceptional costs (non COVID-19 related)	10,374	3,907
	<u>10,374</u>	<u>3,907</u>
Auditor's remuneration		
- audit of the company's annual accounts	16	23
- audit of the subsidiaries pursuant to legislation	106	135
	<u>122</u>	<u>158</u>
Total audit fees	122	158
- other services	28	42
- tax compliance services	10	8
	<u>38</u>	<u>50</u>
Total non-audit fees	38	50
Operating lease rentals	263	267
Profit on disposal of tangible fixed assets	-	(15)
	<u>263</u>	<u>267</u>

Exceptional costs (non COVID-19 related) in the current year are attributable to changes to the First Team management, coaching and support staff. In the prior year exceptional costs were attributable to the changes to the First Team management, coaching and support staff and costs of professional advice in connection with KSE UK Inc acquiring 100% of the Company.

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

5. Net finance charges

	2020	2019
	£'000	£'000
Interest payable and similar charges:		
Bank loans and overdrafts	2	3
Fixed/floating rate bonds	10,184	10,744
Other	787	495
Costs of raising long term finance	744	735
	<hr/>	<hr/>
Total interest payable and similar charges	11,717	11,977
Interest receivable	(633)	(664)
	<hr/>	<hr/>
Change in fair value of financial instruments	11,084	11,313
	<hr/>	<hr/>
Net finance charges	2,537	693
	<hr/>	<hr/>
	<hr/>	<hr/>
	13,621	12,006
	<hr/>	<hr/>

6. Employees

The average monthly number of persons employed by the Group during the year was:

	2020	2019
	Number	Number
Playing staff	70	73
Training staff	77	87
Commercial and Administrative staff	432	441
Ground staff	124	123
	<hr/>	<hr/>
	703	724
	<hr/>	<hr/>

In addition, the Group used on average 1,135 temporary staff each month, mainly on match days (2019 – 1,057). The Company had no employees in either year.

	2020	2019
	£'000	£'000
Staff costs:		
Wages and salaries	204,700	205,210
Social security costs	27,105	27,137
Other pension costs	2,673	2,575
	<hr/>	<hr/>
	234,478	234,922
	<hr/>	<hr/>

Exceptional costs (non COVID-19 related) (see note 4) included within staff costs amounted to £9.5 million (2019 – £3.2 million).

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

7. Directors' emoluments

	2020 £'000	2019 £'000
Emoluments	529	1,503
Pension contributions – money purchase	-	-
Pension contributions – defined benefit	-	-
	<u>529</u>	<u>1,503</u>
The number of directors who were:-		
Members of a defined benefit pension scheme	1	1
Members of a money purchase pension scheme	-	1
	<u>-</u>	<u>1</u>
Remuneration of the highest paid director:-	£'000	£'000
Emoluments	435	846
Pension contributions	-	-
	<u>435</u>	<u>846</u>
Remuneration of key management personnel	<u>2,855</u>	<u>3,983</u>

The Group's key management personnel comprised of the Board of Directors and the Head of Football and the Managing Director.

8. Tax on loss

	2020 £'000	2019 £'000
UK corporation tax (credit) at 19% (2019 – 19%)	-	(3,458)
Overseas tax	-	3
(Over) provision in respect of prior years	-	(12)
Total current taxation	<u>-</u>	<u>(3,467)</u>
Deferred taxation (see note 19)		
Origination and reversal of timing differences	(8,834)	(1,711)
Impact of change in tax rate	2,620	-
(Over)/under provision in respect of prior years	(30)	37
Total deferred taxation (credit)	<u>(6,244)</u>	<u>(1,674)</u>
Total tax (credit) on (loss)	<u>(6,244)</u>	<u>(5,141)</u>

The Group's deferred tax liabilities have been valued based on the tax rates that are expected to apply in the periods in which the underlying timing differences are predicted to reverse. The expected rate has increased to 19% as legislation to reduce the rate of corporation tax to 17% from April 2020 was withdrawn.

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

8. Tax on (loss)/profit (continued)

	2020 £'000	2019 £'000
The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the (loss)/profit before tax are as follows:		
Group (loss) before tax	<u>(54,022)</u>	<u>(32,215)</u>
Tax on Group (loss) before tax at standard UK corporation tax rate of 19% (2019 – 19%)	(10,264)	(6,121)
Effects of:		
Expenses not deductible	1,430	1,198
Impact of rate difference between corporation and deferred tax	2,620	(246)
Adjustments to tax charge in respect of prior years	(30)	25
Overseas tax	-	3
Group total tax (credit) for the year	<u>(6,244)</u>	<u>(5,141)</u>

Full provision has been made for the deferred tax liabilities related to the roll-over of profits on sale of player registrations into the tax cost of new qualifying player registrations (see note 19). There is no expiry date on any timing differences.

9. Tangible assets

	Freehold properties £'000	Short Leasehold properties £'000	Plant and equipment £'000	Total £'000
Group				
Cost				
At 1 June 2019	419,806	23,064	147,710	590,580
Foreign exchange	-	-	22	22
Additions	-	-	9,735	9,735
Transfers	-	1	(1)	-
Disposals	-	-	-	-
At 31 May 2020	<u>419,806</u>	<u>23,065</u>	<u>157,466</u>	<u>600,337</u>
Depreciation				
At 1 June 2019	75,719	7,383	83,661	166,763
Foreign exchange	-	-	19	19
Charge for the year	5,887	778	10,038	16,703
Transfers	-	1	(1)	-
Disposals	-	-	-	-
At 31 May 2020	<u>81,606</u>	<u>8,162</u>	<u>93,717</u>	<u>183,485</u>
Net book value				
At 31 May 2020	<u>338,200</u>	<u>14,903</u>	<u>63,749</u>	<u>416,852</u>
At 31 May 2019	<u>344,087</u>	<u>15,681</u>	<u>64,049</u>	<u>423,817</u>

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

9. Tangible assets (continued)

At 31 May 2020 the Group had contracted capital commitments of £Nil million (2019 - £5.4 million). The cost of fixed assets includes £38.6 million of interest costs which were incurred on the stadium financing bank facilities during the periods when Emirates Stadium was under construction. The capitalisation of interest ceased in 2006 when Emirates Stadium came into use.

10. Intangible assets

	£'000
Cost of player registrations	
At 1 June 2019	519,817
Additions	182,205
Disposals	(86,356)
At 31 May 2020	<u>615,666</u>
Amortisation of player registrations	
At 1 June 2019	279,524
Charge for the year	109,114
Impairment	4,174
Disposals	(80,693)
At 31 May 2020	<u>312,119</u>
Net book value	
At 31 May 2020	<u>303,547</u>
At 31 May 2019	<u>240,293</u>

The figures for cost of player registrations are historic figures for the costs associated with acquiring players' registrations or extending their contracts. Accordingly, the net book amount of player registrations will not reflect, nor is it intended to, the current market value of these players nor does it take any account of players developed through the Group's youth system.

The directors consider the net realisable value of intangible assets to be significantly greater than their book value.

11. Investments

	Group	
	2020	2019
	£'000	£'000
Accumulated share of profit of joint venture	4,855	6,347
Other investments	25	25
	<u>4,880</u>	<u>6,372</u>

The joint venture represents an interest in Arsenal Broadband Limited, a company incorporated in Great Britain and engaged in running the official Arsenal Football Club internet portal. The Group owns all of the 20,000,001 Ordinary "A" shares of £1 each and the one "C" share of £1 issued by Arsenal Broadband Limited and controls 50 percent of the voting rights. The Group's share of the net assets included in the audited balance sheet of Arsenal Broadband Limited for the year ended 31 May 2020 is as follows:

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

11. Investments (continued)

	2020 £'000	2019 £'000
Fixed assets	480	525
Current assets	5,336	6,722
Liabilities	(936)	(900)
	<u>4,880</u>	<u>6,347</u>

Investments in subsidiary undertakings

**Company
£'000**

Balance at 1 June 2019 and 31 May 2020

30,059

The Company has the following subsidiary companies (of which those marked * are indirectly held):

	Country of incorporation	Proportion of ordinary shares owned	Principal activity
Arsenal (AFC Holdings) Limited	Great Britain	100%	Share holding
The Arsenal Football Club plc*	Great Britain	100%	Professional football club
Arsenal (Emirates Stadium) Limited*	Great Britain	100%	Property development
Arsenal Overseas Holdings Limited*	Great Britain	100%	Share holding
AOH-USA, LLC*	USA	100%	Data management
Arsenal Overseas Limited*	Jersey	100%	Retail operations
Arsenal Securities plc*	Great Britain	100%	Financing
Arsenal Stadium Management Company Limited*	Great Britain	100%	Stadium operations
ATL (Holdings) Limited	Great Britain	100%	Share holding
Ashburton Trading Limited*	Great Britain	100%	Property development
HHL Holding Company Limited	Great Britain	100%	Share holding
Highbury Holdings Limited*	Great Britain	100%	Property holding
Arsenal Women Football Club Limited*	Great Britain	100%	Women's football
Arsenal Football Club Asia PTE Limited*	Singapore	100%	Commercial operations
Ashburton Properties (Northern Triangle) Limited*	Great Britain	100%	Dormant
Drayton Park Trading Limited*	Great Britain	100%	Dormant
Queensland Road Trading Limited*	Great Britain	100%	Dormant
Ashburton Properties Holdings Limited	Great Britain	100%	Dormant
Arsenal Stadium Management Holdings Limited	Great Britain	100%	Dormant

The registered address for all Group companies and the joint venture company is as for the Company and as stated in the Directors' Report except for Arsenal Overseas Limited (37 Esplanade, St Helier, Jersey JE1 2TR), AOH-USA LLC (Suite 620, 954 W. Washington Blvd, Chicago, IL 60607) and Arsenal Football Club Asia PTE Limited (2 Shenton Way, 18-01 SGX Centre 1, Singapore 068804).

12. Stock - development properties

Properties are held for resale and are recorded at the lower of cost and net realisable value. The directors consider the net realisable value of development property stocks to be greater than their book value.

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

13. Debtors

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Amounts recoverable within one year				
Trade debtors	25,403	16,161	-	-
Other debtors	21,631	21,645	-	-
Amount due from group undertakings	-	-	134,548	134,939
Prepayments and accrued income	12,244	32,525	-	1
Corporation tax recoverable	3,331	-	-	-
	<u>62,609</u>	<u>70,331</u>	<u>134,548</u>	<u>134,940</u>
Amounts recoverable in more than one year				
Other debtors	26,312	3,232	-	-
Prepayments and accrued income	839	1,026	-	-
	<u>27,151</u>	<u>4,258</u>	<u>-</u>	<u>-</u>

Other debtors include £46.5 million in respect of player transfers (2019 - £23.5 million).

14. Cash at bank and in hand

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Debt service reserve accounts	27,452	36,761	-	-
Other accounts	82,522	130,196	720	717
	<u>109,974</u>	<u>166,957</u>	<u>720</u>	<u>717</u>

The Group was required under the terms of its fixed rate bonds and floating rate bonds to maintain specified amounts on bank deposit as security against future payments of interest and principal. Accordingly the use of these debt service reserve accounts was restricted to that purpose. The Group uses short-term bank treasury deposits as a means of maximising the interest earned on its cash balances.

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Cash at bank and in hand	67,474	135,923	720	717
Cash equivalents (short-term deposits)	42,500	31,034	-	-
	<u>109,974</u>	<u>166,957</u>	<u>720</u>	<u>717</u>

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

15. Creditors: amounts falling due within one year

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Fixed rate bonds – secured	9,556	9,016	-	-
Trade creditors	3,731	11,674	-	-
Corporation tax	-	569	-	-
Other tax and social security	16,544	17,116	-	-
Amounts due to group undertakings	-	-	1,786	1,786
Other creditors	78,046	67,714	-	-
Accruals and deferred income	127,915	140,224	23	23
	<u>235,792</u>	<u>246,313</u>	<u>1,809</u>	<u>1,809</u>

Other creditors, above and as disclosed in note 16, include £153.6 million (2019 - £76.7 million) in respect of player transfers.

16. Creditors: amounts falling due after more than one year

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Balance due to parent undertaking	15,000	-	-	-
Fixed rate bonds – secured	102,761	112,454	-	-
Floating rate bonds – secured	48,586	48,449	-	-
Derivative financial instruments (see note 18)	26,376	23,839	-	-
Debenture loans	15,865	15,430	15,828	15,395
Other creditors	88,363	23,311	-	-
Grants	3,255	3,345	-	-
Deferred income	2,748	1,455	-	-
	<u>302,954</u>	<u>228,283</u>	<u>15,828</u>	<u>15,395</u>
Debenture loans comprise:				
Par value of debentures plus accumulated interest	30,566	30,133	16,139	15,706
Costs of raising finance	(311)	(311)	(311)	(311)
Fair value adjustment	(14,390)	(14,392)	-	-
	<u>15,865</u>	<u>15,430</u>	<u>15,828</u>	<u>15,395</u>

Under the issue terms A and B debentures with a par value of £14,427,000 are repayable at par after 123 years and these debentures are interest free. C and D debentures with a par value of £10,224,000 are repayable at the option of the debenture holders in 8 years and carry cumulative compound interest at 2.75% per annum.

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

16. Creditors: amounts falling due after more than one year (continued)

The fixed rate bonds above and disclosed in note 17 comprise:	2020 £'000	2019 £'000
Fixed rate bonds	113,771	123,242
Costs of raising finance	(1,454)	(1,772)
	<u>112,317</u>	<u>121,470</u>
Due within one year	9,556	9,016
Due after more than one year	102,761	112,454
	<u>112,317</u>	<u>121,470</u>

The fixed rate bonds bear interest at 5.1418% per annum.

The floating rate bonds above comprise:	2020 £'000	2019 £'000
Floating rate bonds	50,000	50,000
Costs of raising finance	(1,414)	(1,551)
	<u>48,586</u>	<u>48,449</u>
Due within one year	-	-
Due after more than one year	48,586	48,449
	<u>48,586</u>	<u>48,449</u>

As a direct consequence of the financial impact of COVID-19 and subsequent to the balance sheet date, in August 2020, the Group redeemed all of the Fixed Rate Bonds, Floating Rate Bonds and the related interest rate swap. At the same time the Group terminated the guarantee provided by Ambac Assurance UK Limited. Funding for the refinance, including the related break costs, was largely provided through a loan from the Group's parent undertaking, KSE UK Inc.

The floating rate bonds paid interest at LIBOR for three month deposits plus a margin of 0.55% (2019 – 0.55%) and the Group entered into interest rate swaps which fixed the LIBOR element of this cost at 5.75%.

The costs of raising debt finance, in the form of fixed and floating rate bonds, were being amortised to the profit and loss account over the term of the bonds. The amortisation charge for the year was £455,000 (2019 - £480,000).

The fixed rate bonds and floating rate bonds were guaranteed as to scheduled payments of principal and interest by certain members of the Group and by Ambac Assurance UK Limited. The Group paid Ambac Assurance UK Limited annual guarantee fees at a rate of 0.50% (2019 – 0.65%) of fixed rate bond principal outstanding and 0.50% (2019 – 0.65%) of the floating rate bond principal outstanding.

The Group's fixed rate bonds and floating rate bonds were secured by a mixture of legal mortgages and fixed charges on certain freehold and leasehold property and certain plant and machinery owned by the Group, by fixed charges over certain of the Group's trade debtors, by fixed charges over certain of the Group's bank deposits, by legal mortgages or fixed charges over the share capital and intellectual property rights of certain subsidiary companies and fixed and floating charges over the other assets of certain subsidiary companies.

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

16. Creditors: amounts falling due after more than one year (continued)

	2020	2019
	£'000	£'000
The Group's financial liabilities/debt were repayable as follows:		
Between one and two years	10,525	9,984
Between two and five years	35,124	33,318
After five years	124,003	135,899
	<u>169,652</u>	<u>179,201</u>
Within one year	9,984	9,471
	<u>179,636</u>	<u>188,672</u>
Total debt	<u><u>179,636</u></u>	<u><u>188,672</u></u>

17. Financial instruments

The Group's financial instruments comprise mainly of cash and bank balances, fixed and floating rate bonds, debentures and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations. The main risks arising from the Group's financial instruments relate to interest rate, liquidity and foreign currency and the Board reviews and agrees its policy for managing these risks.

The carrying value of the Group's financial instruments is analysed as follows:-

	2020	2019
	£'000	£'000
Financial Assets		
<i>Measured at undiscounted amount receivable:</i>		
Cash at bank	109,974	166,957
Trade and other debtors	73,346	41,038
	<u>183,320</u>	<u>207,995</u>
	<u><u>183,320</u></u>	<u><u>207,995</u></u>
Financial Liabilities		
<i>Measured at amortised cost:</i>		
Fixed rate and floating rate bonds	(160,903)	(169,919)
C & D Debentures	(15,828)	(15,395)
<i>Measured at fair value through profit and loss:</i>		
A & B Debentures	(37)	(35)
Interest rate swaps	(26,376)	(23,839)
<i>Measured at undiscounted amount payable:</i>		
Trade and other creditors	(175,965)	(102,699)
	<u>(379,109)</u>	<u>(311,887)</u>
	<u><u>(379,109)</u></u>	<u><u>(311,887)</u></u>

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

17. Financial instruments (continued)

Financial liabilities (continued)

The fair value of the interest rate swaps was determined by reference to the market price at the reporting date. The Group's cash and bank deposits earn interest at rates linked to LIBOR. The Group's other financial assets do not earn interest. Total interest income for the year is shown in note 5.

The interest rates attaching the Group's fixed rate bonds, floating rate bonds and debentures are detailed in note 16. The Group's other financial liabilities do not attract interest. The cost for the year of the Group's financial liabilities was as follows (all of these costs are also disclosed within finance charges in note 5):-

	2020 £'000	2019 £'000
<i>Fair value gains and (losses):</i>		
A & B Debentures	(2)	(1)
Interest rate swaps	(2,537)	(693)
<i>Interest expense at amortised cost:</i>		
Fixed rate and floating rate bonds	(10,184)	(10,744)
C & D Debentures	(433)	(421)
	<u>(13,156)</u>	<u>(11,859)</u>

18. Financial Derivatives

	Current		Non-current	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
<i>Other derivatives:</i>				
Interest rate swaps	-	-	(26,376)	(23,839)
	<u>-</u>	<u>-</u>	<u>(26,376)</u>	<u>(23,839)</u>

As described in note (16) the interest rate swap was terminated as part of the refinance exercise completed subsequent to the balance sheet date.

Interest rate risk

The Group is exposed to interest rate risk because part of its long-term debt is at floating rates of interest. The Group has entered into interest rate swaps the purpose of which is to minimise its exposure to this interest rate risk.

After taking into account these interest rate swaps, the interest rate profile of the Group's financial liabilities at 31 May 2020 was as follows:

	Fixed rate 2020 £'000	Floating rate 2020 £'000	Interest free 2020 £'000	Total 2020 £'000	Weighted average fixed rate %	Weighted average period for which rate is fixed yrs
Bonds – fixed rate	113,771	-	-	113,771	5.6	9
Bonds – floating rate	50,000	-	-	50,000	6.8	11
Debenture loans	15,828	-	37	15,865	2.8	8
	<u>179,599</u>	<u>-</u>	<u>37</u>	<u>179,636</u>		

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

18. Financial Derivatives (continued)

Interest rate risk (continued)

The interest rate profile at 31 May 2019 for comparative purposes was:

	Fixed rate 2019 £'000	Floating rate 2019 £'000	Interest free 2019 £'000	Total 2019 £'000	Weighted average fixed rate %	Weighted average period for which rate is fixed yrs
Bonds – fixed rate	123,242	-	-	123,242	5.8	10
Bonds – floating rate	50,000	-	-	50,000	7.0	12
Debenture loans	15,395	-	35	15,430	2.8	9
	<u>188,637</u>	<u>-</u>	<u>35</u>	<u>188,672</u>		

Borrowing facilities

The Group had undrawn committed borrowing facilities at the balance sheet date, in respect of which all conditions precedent had been met, as follows:

	2020 £'000	2019 £'000
Expiring in:		
One year or less	<u>50,000</u>	<u>50,000</u>

Foreign currency management

The Group is mainly exposed to the foreign currencies of the Euro and US dollar.

In assessing its foreign currency exposure the Group will assess the balance of its outstanding currency denominated assets and liabilities together with known future currency cash flows such as from participation in the UEFA Champions League or UEFA Europa League and from contracted player transfers.

There were no foreign currency contracts in place at the balance sheet date as the Group's expected foreign currency designated cash flows were projected to be broadly in balance over the short to medium term.

Included in cash and cash equivalents are amounts of £3.7 million (2019 - £6.0 million) denominated in Euros and £0.6 million (2019 - £1.6 million) denominated in US dollars.

Included in trade debtors are amounts of £Nil million (2019 - £0.5 million) denominated in Euros and £0.3 million (2019 - £0.1 million) denominated in US dollars. Included in other debtors are amounts of £14.4 million (2019 - £8.8 million) denominated in Euros.

Included in prepayments and accrued income are amounts of £3.4 million (2019 - £14.5 million) denominated in Euros and £Nil million (2019 - £0.2 million) denominated in US dollars.

Included in trade creditors are amounts of £Nil million (2019 - £0.3 million) denominated in US dollars and £Nil million (2019 - £0.2 million) denominated in Euros.

Included in other creditors are amounts of £91.1 million (2019 - £44.6 million) denominated in Euros. Included in provisions are amounts of £16.6 million (2019 - £10.6 million) denominated in Euros.

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

19. Provisions for liabilities

	Group	
	2020	2019
	£'000	£'000
Pensions provision (see note 25 (b))	1,288	1,756
Deferred taxation	19,057	25,301
Transfers	32,254	27,585
	<u>52,599</u>	<u>54,642</u>

The Transfers provision relates mainly to the probable additional transfer fees payable based on the players concerned achieving a specified number of appearances. In this respect, new provisions of £18.7 million were made during the year, £8.2 million of provisions were reclassified as creditors and £5.7 million of provisions were cancelled as no longer required.

The deferred tax credit for the year was £6.2 million (see note 8) (2019 – charge of £1.7 million).

	Group	
	2020	2019
	£'000	£'000
Deferred tax provision		
Tax losses	(5,357)	-
Accelerated capital allowances	7,320	7,095
Capitalised interest	6,062	5,530
Rollover relief on player registrations	14,372	14,918
Other timing differences	(3,340)	(2,242)
	<u>19,057</u>	<u>25,301</u>

20. Called up share capital

	£	£
Allotted, issued and fully paid		
Subscriber Ordinary shares of £1 each	2	2
Ordinary shares of £1 each	<u>62,217</u>	<u>62,217</u>

The two Subscriber Ordinary shares carry no right to vote or to income and a deferred right to a return of capital paid up.

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

21. Notes to the consolidated cash flow statement

(a) Reconciliation of operating loss to net cash inflow from operating activities

	2020	2019
	£'000	£'000
Operating loss	(98,959)	(32,642)
Amortisation of player registrations	109,114	89,678
Impairment of player registrations	4,174	1,180
Profit on disposal of tangible fixed assets	-	(15)
Depreciation (net of grant amortisation)	16,613	15,497
	<hr/>	<hr/>
Operating cash flow before working capital	30,942	73,698
(Increase)/Decrease in stock	(1,348)	3,631
Decrease in debtors	11,090	2,137
(Decrease) in creditors	(18,182)	(49,606)
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>22,502</u>	<u>29,860</u>

(b) Analysis of changes in net debt

	At 1 June	Non cash	Cash flows	At 31 May
	2019	changes	2020	2020
	£'000	£'000	£'000	£'000
Cash at bank and in hand	135,923	-	(68,449)	67,474
Cash equivalents	31,034	-	11,466	42,500
	<hr/>	<hr/>	<hr/>	<hr/>
	166,957	-	(56,983)	109,974
Debt due within one year (bonds)	(9,016)	(10,011)	9,471	(9,556)
Debt due after more than one year (bonds)	(160,903)	9,556	-	(151,347)
Derivative financial instruments	(23,839)	(2,537)	-	(26,376)
Other debt due after more than one year	(15,430)	(435)	(15,000)	(30,865)
	<hr/>	<hr/>	<hr/>	<hr/>
Net (debt)	<u>(42,231)</u>	<u>(3,427)</u>	<u>(62,512)</u>	<u>(108,170)</u>

Non cash changes represent £455,000 in respect of the amortisation of costs of raising finance, £433,000 in respect of rolled up, unpaid debenture interest, £2,000 in respect of the change in fair value of the Group's A and B debentures and £2,537,000 in respect of the change in fair value of the Group's interest rate swaps.

(c) Gross cash flows

	2020	2019
	£'000	£'000
Player registrations		
Payments for purchase of players	(100,669)	(118,144)
Receipts from sale of players	42,710	56,284
	<hr/>	<hr/>
	<u>(57,959)</u>	<u>(61,860)</u>

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

22. Leasing commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2020 £'000	2019 £'000
Group		
One year or less	105	249
Two to five years	8	106
Over five years	84	86
	<u>197</u>	<u>441</u>

23. Commitments and contingent liabilities

Under the conditions of certain transfer agreements in respect of players purchased, further transfer fees will be payable to the vendors in the event of the players concerned making a certain number of First Team appearances or in the event of certain other future events specified in the transfer agreements. In accordance with the Group's accounting policy for transfer fees, any additional fees which may be payable under these agreements, will be accounted for in the year that it becomes probable that the number of appearances will be achieved or the specified future events will occur. The maximum potential liability not provided for, in respect of contracts in force at the year end date, is £18.1 million (2019 - £8.0 million).

24. Related party transactions

Following a reorganisation of activities, the Group was not charged a fee by its joint venture entity, Arsenal Broadband Limited, in respect of the financial year ended 31 May 2020 (2019 – net charge of £3.4 million). At 31 May 2020 the balance owing from the Group to Arsenal Broadband Limited was £8.3 million (2019 - £11.7 million).

25. Pensions

a) *Defined contribution schemes*

Total contributions charged to the profit and loss account during the year amounted to £2,613,000 (2019 - £2,515,000).

b) *Defined benefit scheme*

	2020 £'000	2019 £'000
Provision at start of year	1,756	2,203
Payments in year	(468)	(447)
Increase in provision	-	-
	<u>1,288</u>	<u>1,756</u>

The Group is advised of its share of the deficit in the Scheme (Note 1(q)). The most recent actuarial valuation of the Scheme was as at August 2017 and indicated that the contribution required from the Group towards making good this deficit was £2.5 million at 1 September 2017 (the total deficit in the Scheme at this date was £30.4 million). The Group's share of the deficit is being paid off over a period of five and a half years commencing September 2017.

Additional contributions are being charged to the profit and loss account over the remaining service life of those Arsenal employees who are members of the Scheme. The amount attributable to employees who have already retired or who have left the Group has been charged in full to the profit and loss account.

Payments for the year amounted to £0.5 million (2019 - £0.4 million) and the profit and loss account charge was £60,000 (2019 - £60,000).

ARSENAL HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 May 2020

26. Post balance sheet events

Player transactions

Since the end of the financial year a subsidiary company, Arsenal Football Club plc, has contracted for the purchase and sale of various players. The net payment resulting from these transfers, taking into account the applicable levies, is £54.0 million (2019 – net payment of £92.7 million). These transfers will be accounted for in the year ending 31 May 2021.

Financing

As described in note (16) the Group's stadium finance bonds together with related interest rate swap have been refinanced using a loan provided by KSE UK Inc. The Group has borrowed £120 million via the Coronavirus Corporate Finance Facility, maturing May 2021, to support short-term working capital requirements.

COVID-19

The pandemic has continued to impact the Group's revenues and operations as First Team matches continue to be played behind closed doors.

27. Ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party is KSE UK Inc., which owns 100% of the share capital of the Company. KSE UK Inc. is incorporated in the State of Delaware, USA, and is wholly-owned and controlled by Mr E.S. Kroenke.