Arsenal Holdings plc

Statement of Accounts and Annual Report 2009/10

EMIRATES STADIUM

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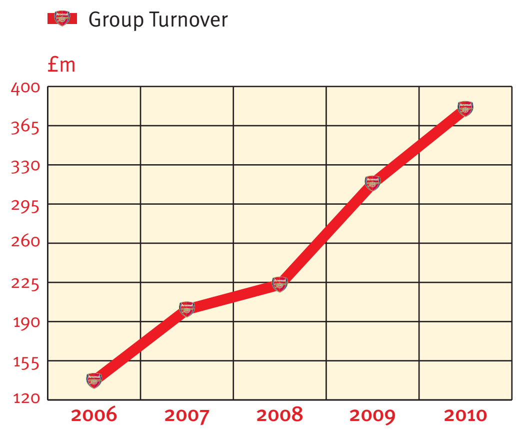
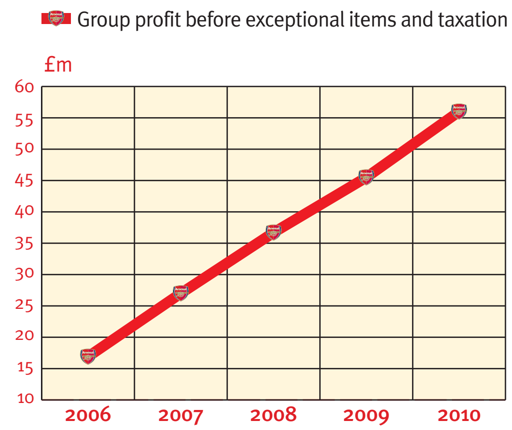
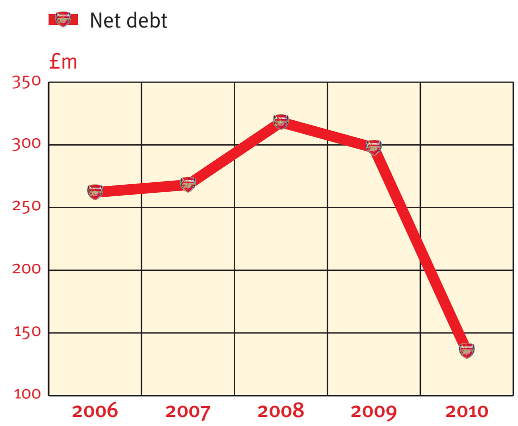
FINANCIAL HIGHLIGHTS

	2010	2009
Group turnover £m	379.9	313.3
Group operating profit before player trading and depreciation £m	72.0	70.5
Profit before taxation £m	56.0	45.5
Earnings per share £	980.31	566.24












CHAIRMAN'S REPORT

I am pleased to open my report to shareholders by confirming another excellent set of financial results. Turnover of £379.9 million and profit before taxation of £56.0 million are at new record high levels for the Group.

The most pleasing aspect of these results is that the returns generated in the property business during the year, particularly at Highbury Square, have allowed us to repay £130 million of bank loans and reduce the Group's overall net debt to just £135.6 million. We now have a debt free property business which is accumulating surplus cash as further unit sales are made at Highbury Square and which has three further property assets to realise over the next few years. The Group's only remaining debts are the long-term bonds which represent our "mortgage" on the Emirates Stadium and supporter held debentures, which are also long-term.

We have also resolved some long-running issues with HM Revenue & Customs such that we now have an agreed and up to date position for the Group across all aspects of our tax affairs.

The finances of football have been something of a hot topic over the last year. It is not my intention to enter this debate or to comment on the financial position of other clubs either in the UK or overseas, however, I would once again reiterate our own belief in and commitment to a financially self-sustaining business model and prudent financial management. The accounts show the Club to be in good financial health and well placed:

- to continue investing, sensibly, in the team, its supporting staff and training facilities;
- to continue investing in Emirates Stadium so that it stays best-in-class and has a clear identity as Arsenal's home;
- to continue our investment in establishing a world class management team capable of building on Arsenal's position as one of the most commercially successful clubs in world football; and
- to comply with all aspects of any increased financial regulation introduced either by the Premier League or UEFA.

It was pleasing to see a full stadium for all of the Club's home fixtures last season and I would thank our fans for the superb support they give to the team. We have been very pleased with the positive feedback from fans on the work we have undertaken to "Arsenalise" the stadium over the last year. The "Arsenalisation" project, which was one of Ivan Gazidis' first initiatives as Chief Executive, has been a great success and is referred to in more detail in Ivan's own report.

Turning to matters on the field, the 2009/10 season had many twists. Although the team at times played some sublime football, there was also some inconsistency and a long injury list which saw several important players sidelined for key fixtures. We finished the Premier League season with an improved 75 points and third in the table, one place higher than in the previous year. The team also reached the quarter-final of the UEFA Champions League. Overall, I think the season's performance showed progression and our young squad's experience is certainly growing with every game. Although it is no substitute for a trophy, the team's qualification straight into the group phase of UEFA Champions League 2010/11 is a significant achievement.

During the year we were delighted to hear that Vic Akers, who stepped down as manager of the Arsenal Ladies team at the end of last season, had been awarded an OBE, for his contribution to football, in the Queen's New Year's Honours List. Vic pioneered Arsenal Ladies long before women's football was an established part of the social landscape and he has made a huge contribution, not only to Arsenal, but to the cause of women's sport. Our congratulations to him on this very well deserved award.

Vic was actually the Club's first ever Community Liaison Officer and in February this year we marked the 25th anniversary of Arsenal in the Community. We were very proud of reaching this milestone. The Club recognises that it has many responsibilities which extend far beyond the football arena and Arsenal in the Community, led by Alan Sefton, does some wonderful work across a wide variety of sporting, charitable, educational and social inclusion projects. These projects are established not just in the Club's local community in Islington, but across our home city of London and, in fact, now reach into many other countries. Our commitment to this area will continue in 2010/11 with the opening of a separate office facility for the Community team and the start of the construction of a new sports centre for their use on Queensland Road. There is more information on the work of Arsenal in the Community and its anniversary elsewhere in the Annual Report and a very informative booklet can be downloaded from Arsenal.com/community. I take this opportunity to once again congratulate Alan and his team and indeed everyone involved in Arsenal in the Community, past and present, on all their achievements and on the genuine difference they have made for so many people.

A few weeks ago we were delighted to announce that a contract extension had been agreed with Arsène Wenger which will see our most successful manager stay with the Club to the end of the 2013/14 season.

Arsène has made an enormous contribution to the Club over the last 14 years and his commitment is as strong and as fresh as ever. The exciting and compelling football which Arsenal teams play under his stewardship is admired the world over and his ability to bring through talented young players is second to none. He also contributes to the responsible management of the Club's financial resources and his conscientious approach is fundamental in the development of the Club for long-term, as well as short-term, success. Not only does Arsène analyse and work within his player budget, but he understands when to extract value – witness these 2009/10 accounts where profits were boosted by some £38 million from the sales of players who were no longer central to his future plans.

Over recent years we have pursued a policy of investment in exceptional youth. Arsène is confident that each year this current group of players is progressing and getting closer to achieving their potential. We share his confidence and start the new season with a great sense of excitement and ambition.

The Club has the playing resources to compete at the highest level and to win trophies – when that happens, the success will be all the sweeter for having been earned through our own hard work, for it having been achieved the Arsenal way.

In closing, I would like to thank my fellow directors, our management team and our entire staff for all of their hard work and dedication over the last year.

Finally, thank you for the fantastic support given to the Club by all of our shareholders, supporters, sponsors and commercial partners. I look forward to welcoming you all again to Emirates Stadium over the course of the new season.

P D Hill-Wood
Chairman
24 September 2010






CHIEF EXECUTIVE'S REPORT

The Group has made good progress, both on and off the field, over the last year.

Before I consider that progress, I would like to start my report to shareholders by echoing the sentiments expressed by the Chairman in relation to Arsenal in the Community and its 25th anniversary celebrations. Since joining the Club at the start of 2009 I have been hugely impressed by the extraordinary work done by our Community department across a whole range of projects and in support of so many educational, charitable and social objectives. Alan Sefton and his team really do make a difference and we are very proud of their achievements.

The financial results for the year, which are covered in more detail in the Financial Review section of this report, are very healthy and show that the Group's self-sustaining business model, despite what was undoubtedly a difficult year for the economy in general, is very much on track. In particular, the results from the property side of the business have been remarkable. Over the last 18 months Highbury Square has moved from being a potential risk for the Group, a project carrying £135 million of bank debt which needed to be renegotiated with a three bank syndicate, to being a debt free and cash generative asset for the Group. The 600th apartment sale was completed in August and we expect to have fully sold all the 655 apartments by the close of the 2010/11 financial year. I'd like to congratulate, once again, everyone involved in the delivery of the Highbury Square project.

Our property business is now debt free and ready to deliver some surplus cash back to the rest of the Group over the next couple of years. Part of that cash will be used to support long-term investment in Emirates Stadium, to ensure it remains a best-in-class spectator facility for our fans which reflects and celebrates Arsenal's history and traditions. We'll also look to invest in the player training facilities and there are projects either underway or at the planning stage for new pitches, constructed to the same standard as the pitch at the Emirates, and a new medical / rehabilitation wing at London Colney. The cash from property will also allow us, for a short period, to push our investment in players ahead of where it might be if it was based purely on the revenues generated from football. Of course, the profits from property are temporary and we need to make sure that in the longer term costs remain at a level which can be paid from our football revenues.

During the year I have been actively involved in the European Club Association's consultation with UEFA in relation to new financial licensing rules to be introduced for UEFA competitions. These new regulations under the banner of Financial Fair Play will introduce a requirement, to be phased in by 2014/15, for clubs to operate on a break-even basis over a rolling three year period. The Premier League has also recently tightened some of its own rules in the area of financial compliance. Financial Fair Play aims to introduce more discipline and rationality in clubs' finances in order to protect the long-term viability of the game across Europe. These objectives clearly make a lot of sense and our self-sustaining business model means that Arsenal is well placed to comply with the new rules. However, it remains to be seen what actual impact the new financial regulations will have on the transfer market and the levels of player wages in general.

On the Field

The 2009/10 season was something of a roller-coaster ride which saw the first-team challenge strongly for the Premier League title over long periods of the season. Ultimately, hampered by a long list of injuries to important players at key moments of the season, that challenge fell short and we had to settle for a respectable third place. The reward was a qualification straight into the group phase of a 13th consecutive UEFA Champions League for 2010/11 and all of the exciting competitive challenges and financial benefits which come with participation in that competition.

The team's positive football and disciplinary record meant the Club received the Premier League Fair Play Award for the 2009/10 season.

In the 2009/10 UEFA Champions League the team campaigned through to the quarter-final stage where, unfortunately, it came up against one of the world's best players on inspired form. Four goals from Lionel Messi in the Nou Camp was something that few teams would have been able to resist and, while losing is never easy, this was exactly the type of historic game that we want to be involved in – in front of a global audience, on a great stage, in a great competition – and the experience for the players will have been invaluable.

We made some good additions to the squad for the 2009/10 season – with Thomas Vermaelen, in particular, standing out across a very good first term with the Club. We also saw a number of young players, such as Alex Song, come through to secure regular and deserved positions within the first team set-up. Aaron Ramsey was also one of the young players to make a positive impact prior to his unfortunate, serious injury. I'm pleased to say that Aaron is recovering well and that we've recently extended his contract with the Club.

Away from the first team the season did see some silverware for the Club. Our Under-18 side, managed by Steve Bould, retained its FA Premier Academy League title with a thrilling 5-3 win over Nottingham Forest – a game played in front of a big crowd at Emirates Stadium. The Arsenal Ladies continued their dominance of the women's game by winning a 12th Women's Premier League; remarkably, this was the Ladies seventh title in a row.

Pages 20 to 22 include a full review of the 2009/10 season for the Club's first team, reserves, youth and ladies teams.

Players

During the close season the Club has secured the signing of some exciting new players.

Moroccan international Marouane Chamakh has joined Arsenal on a long-term contract from French side Bordeaux. The 26 year-old striker made a total of 293 appearances, scoring 79 goals, during his eight years with Les Girondins. He will wear the number 29 shirt for Arsenal.

During the 2008/09 league campaign Chamakh scored 14 goals, helping Bordeaux win the French League title. His good form continued into last season as he helped Bordeaux reach the quarter-finals of the UEFA Champions League, having finished above both Bayern Munich and Juventus in the Group Stage.

Born and raised in France, but playing international football for Morocco through his parentage, Chamakh has made 53 appearances for the North African country, scoring 27 goals, and he was part of the side which reached the Final of the 2004 Africa Cup of Nations.

Laurent Koscielny has joined us from French Ligue 1 side Lorient.

Koscielny is a central defender who has made progress very quickly. The 24 year-old made 40 appearances in all competitions during the 2009/10 season, which was his first with Lorient, helping them to 7th place in Ligue 1. Currently uncapped, he was born in France but would also qualify to represent the Poland national team as a result of his family roots. We believe that Laurent will prove to be a great addition to our squad.









Chief Executive's Report (continued)

Our third signing of the summer was French international defender, Sebastien Squillaci who was purchased from Sevilla.

Part of the France 2010 World Cup squad, Squillaci is a strong and vastly experienced central defender with a competitive edge to his game. He has made 36 appearances in the UEFA Champions League and so far has 21 caps for his country.

Prior to his time in Spain, Squillaci enjoyed a successful spell in France with Lyon where he was part of the team which achieved back-to-back Ligue 1 titles in 2007 and 2008. He was also part of AS Monaco's impressive UEFA Champions League campaign in 2004, helping the side reach the Final and beating Real Madrid and Chelsea en route.

The summer window saw the departure of a number of first team squad players.

Croatian international Eduardo left the Club to join the Ukrainian champions Shakhtar Donetsk. Eduardo made a total of 67 appearances for the Club in all competitions, scoring 20 times. His recovery from a horrific leg injury, sustained at Birmingham City in February 2008, was testament to his strength as a human being – his character and determination will be missed by everyone at Arsenal.

French international William Gallas left Arsenal at the end of June; the expiry of his contract ending the centre back's association with the Club he joined from Chelsea in August 2006. A defensive stalwart and captain for nearly half of his time with the Gunners, Gallas made 142 appearances scoring 17 goals in his four seasons. Quick, tough and an excellent reader of the game, William added experience and influence to the heart of Arsenal's back four. Sadly, his final season was cut short due to a calf injury and his comeback match, against Barcelona, proved to be his last for the Club when he aggravated the injury.

Sol Campbell, who rejoined Arsenal on a short-term contract in January to add some invaluable experience in the dressing room for the closing stages of the season, has moved on to Newcastle United. In total, over his two spells with the Club, Campbell made 211 appearances, scoring a dozen goals.

The other first team squad players to leave were Phillipe Senderos, Mikael Silvestre, Fran Merida, who moved on at the end of their contracts with the Club, and Jay Simpson who was transferred to Hull City.

We wish all of these departing players well for their future careers and thank them all for the contribution they made to Arsenal Football Club.

Charity of the Season

Great Ormond Street Hospital Children's Charity became Arsenal's nominated Charity of the Season for 2009/10, taking over from Teenage Cancer Trust.

The partnership with Great Ormond Street Hospital Children's Charity, which is the fundraising arm behind one of the world's leading children's hospitals, added to the successes achieved in recent years under Arsenal's charitable campaign banner of "Be a Gooner. Be a Giver".

At the start of the season we set ourselves a fundraising target of £500,000 with the aim of funding a brand new Arsenal Lung Function Unit for children who have difficulty breathing or sleeping. Thanks to the outstanding work of everyone involved in the campaign over the course of the season and the generosity of very many supporters, players and members of the Club's staff the final total raised exceeded £800,000.

Further details of this excellent achievement are given on page 23.

Arsenalisation

This Club exists for its fans and we have a clear imperative of ensuring that all of our fans feel they belong and that their experience is the best that it can be, whatever their level of engagement with the Club.

I want the service we provide to our fans to be consistently excellent across all touch points with the Club. In order for this to happen we've invested in our people resource in the personnel and human resources area and this new team has recently launched a unique Arsenal training academy which, in due course, will work with all of our forward facing staff.

The Club's fans must always be central to our thinking and it was with this in mind that in 2009 we started a programme of works to "Arsenalise" Emirates Stadium.

The objective of this programme was to bring the Club's rich heritage to life within Emirates Stadium and to make it feel more like home to all our supporters. We wanted to achieve a very visible stronghold of all things Arsenal and to provide the environment that our fans were asking for. Developments in 2009/10 included the introduction of giant murals on the outside of the stadium, the spectacular "Spirit of Highbury" monument and the Arsenalisation of the lower tier concourses, as well as various developments within the stadium bowl. The continuation of this project into 2010 has included:

- the return of the Clock on the roof at the south of the stadium and the renaming of the stands to bring back the famous Clock End and North Bank. The Clock was ceremonially started and celebrated at our first home game of the new season against Blackpool;
- the Arsenalisation of the upper tier concourses – following the themes that were so well received in the lower tier concourses;
- an incredible 13,000 supporters immortalising their names and messages in commemorative granite within Armoury Square, thus providing a new landmark at the stadium; and
- introducing an option for Season Ticket Holders and Club Level members to personalise and name their seat.

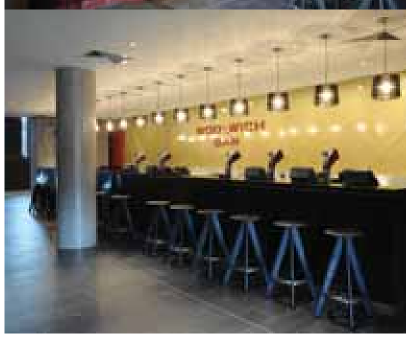
The feedback from fans has been strong and positive and we will continue to look for more innovative ways to listen and respond to our fans in evolving our home and its immediate surrounds.

It is vitally important that we continue to invest in Emirates Stadium – ensuring that it remains one of the leading venues in world football. This will not only help to maximise the experience of our fans but will also provide the best opportunity to grow the revenues we can derive from the stadium. Over summer 2010 we started what will be a rolling programme of stadium development works. The first phase of this programme addressed a quarter of Club Level delivering:

- a full refurbishment of the Woolwich restaurant themed around the achievements of Herbert Chapman and Arsène Wenger, including two 20 foot chainmail portraits suspended from the ceiling;
- The WM Club; a new members a la carte restaurant named after the formation Herbert Chapman made famous. The luxurious space, including bar and lounge will accommodate 248 members;
- The Foundry; a members buffet seating 148 covers, overlooking the Woolwich and celebrating the story of David Danskin and our founding fathers;
- Legends corner bar; developed into a sports bar, with new seating and diner style food offering; and
- 120 additional high definition plasma screens throughout the Club Level space.

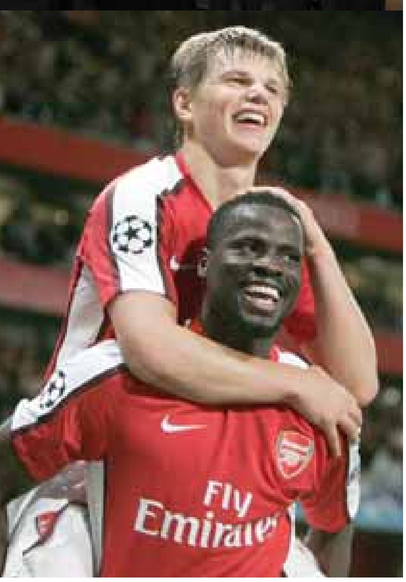










Chief Executive's Report (continued)

The response from supporters indicates these summer works have been extremely well received.

The build up to the 2010/11 season saw us stage another very successful Emirates Cup. With a cumulative two day attendance of 115,000 supporters, the Emirates Cup is firmly established as Europe's pre-eminent pre-season tournament. An important part of the success of the Emirates Cup and of our pre-season Members Day is their unique atmosphere as days for the fans.

Listening to our fans, we have introduced from the start of the 2010/11 season a more professional and co-ordinated game presentation for all home matches. In another recent initiative, we have commissioned the most extensive piece of research work in the Club's history and will be using the output to further improve our service levels and add value to the Club's interaction with its fans.

Finally, with our supporter groups, we have already started making plans for season 2011/12 which will see the Club celebrate its 125th anniversary.

Commercial Partners

In order for the Club to continue to compete at the very highest levels of the game, it is important that we continue to develop as a vibrant and robust business, with sufficient revenues to sustain succes.

There is no doubt that the areas of commercial activity and sponsorship provide the greatest opportunity for the Group to generate significant incremental revenues in the medium to long term. It is vitally important that we have the right people on our commercial team to ensure that we make the most of this opportunity. Tom Fox, who joined as Chief Commercial Officer in September 2009, has led a reorganisation and significant strengthening of the commercial team with some very talented senior level hires in the areas of partnerships, marketing, retail and strategy / business development. We now have a first class commercial team in place which is well placed to leverage the domestic and international power of the Arsenal name.

The Club has developed its commercial programme over the course of last season by improving and extending a number of existing deals, as well as attracting new partners, despite a difficult and challenging economic climate.

In late 2009 the Club confirmed the extension of its agreement with its kit partner, Nike, for a further three seasons to 2014. This extension was anticipated in the original sponsorship agreement and it delivers an improvement in the commercial terms for the remainder of the term. As part of its broader partnership with Nike the Club will look to leverage Nike's global scale to develop its business internationally.

In addition, the Club has recently extended its agreement with Lucozade Sport and we look forward to working closely with the UK's leading sports drink brand for a further three seasons.

The Club is also pleased to welcome Thomson Sport as a new commercial partner. As well as utilising the strength of the Arsenal brand to build its position as one of Europe's leading travel companies, Thomson Sport will provide travel services to our players, fans and executives. Travel offerings for Arsenal fans will include home and away game packages and discounted holidays.

Arsenal Broadband, which operates the Arsenal.com site, has entered a long-term media partnership with MP & Silva with the strategic objective of developing new, exclusive and entertaining high-definition broadcast programming that will appeal to an international audience. MP & Silva is a leading international sports media company that owns, manages and distributes television and media rights for some of the most prestigious sporting events including the English Premier League, in selected markets, and Italy's top professional football league, Serie A, on a global basis.

Our Soccer School programme continues to flourish. In partnership with Emirates Airlines, several thousand children in Dubai attended 'Play the Arsenal Way' courses and our partnership with IBG has been extended to open another ten schools across Middle East and Africa. The first of these schools was opened in Casablanca by Moroccan International and new signing, Marouane Chamakh.

Prospects

On the field the new season has got off to an encouraging start with some good results in the Premier League. Participation in the Group Stage of the UEFA Champions for a 13th consecutive season is important both from a football and financial perspective. In Arsène Wenger, we have a great manager with a long-term commitment to the Club. We also have a very talented, young squad. There is every reason to be both optimistic and ambitious as we look forward to supporting the team in its challenge for trophies over the course of the season.

I have outlined above the progress the Group has made, over the course of the last year, against three key goals which I have set across the organisation, namely:

- to support and fund on field success;
- to develop significant additional revenues; and
- to enhance the fan experience.

These objectives are likely to remain the focus for the next few years and their delivery will be supported by investment in our physical assets, particularly our stadium, and investment in our people capability together with the work we're doing to finalise an ambitious strategic business plan across all aspects of our operations.

All of these goals will be achieved showing the fullest respect to, and driven by, the special values of this great Club including the extraordinary work we do in our local community and beyond.

The competitive landscape makes it ever tougher to achieve success on the field and standing still is simply not, and never has been, an option for the Club. From its earliest roots, now nearly 125 years ago, and the use of "Forward" as the Club's first ever motto, Arsenal has always been renowned for its innovation and for its desire to improve. I am excited by the opportunities which we have in front of us.

I E Gazidis
Chief Executive Officer
24 September 2010





FINANCIAL REVIEW

The financial results for the 2009/10 year are excellent and have allowed there to be a significant reduction in the level of debt carried by the Group.

Strong returns from the property business and player trading ensured that turnover of £379.9 million (2009 - £313.3 million), profit before tax of £56.0 million (2009 - £45.5 million) and retained profit for the year of £61.0 million (2009 - £35.2 million) are all reported at record high levels for the Group.

Operating profit before player trading and depreciation, which is a key measure of our financial performance, also rose to £72.0 million (2009 - £70.5 million).

	2010 £m	2009 £m
Group turnover	379.9	313.3
Operating profit before depreciation and player trading	72.0	70.5
Player trading	13.6	2.9
Depreciation	(11.9)	(11.7)
Joint venture	0.5	0.4
Net finance charges	(18.2)	(16.6)
Profit before tax	56.0	45.5

In season 2008/09 the Club played the maximum number (30) of home games across the three main competitions in which it participated (Premier League, Champions League and FA Cup). In season 2009/10 the Club played five fewer home games and, although the impact of this was partially offset by improved broadcasting revenues, this meant there has been a small dip in turnover and operating profits from football. However, the impact of player sales meant an overall increase in football's contribution to profit before tax.

Sales of 362 (2009 - 208) apartments at Highbury Square were completed in the year and contributed £133.6 million of revenue and a little over £15 million of profit towards the pre-tax results of the Group's property segment. The sale of the social housing element of the development site at Queensland Road for £23.2 million is also included in the property results.

	2010 £m	2009 £m
Football		
Turnover	222.9	225.1
Operating profit*	56.8	62.7
Profit before tax	44.8	39.9
Property development		
Turnover	156.9	88.3
Operating profit*	15.2	7.8
Profit before tax	11.2	5.6
Group		
Turnover	379.9	313.3
Operating profit*	72.0	70.5
Profit before tax	56.0	45.5

* = operating profit before depreciation and player trading costs

The results of the football and property development segments are considered in more detail later in this review.

The cash generated from property sales means that during the year we fully repaid the bank loans which had been drawn to finance the developments at Highbury Square and Queensland Road – these loan repayments amounted to £129.6 million.

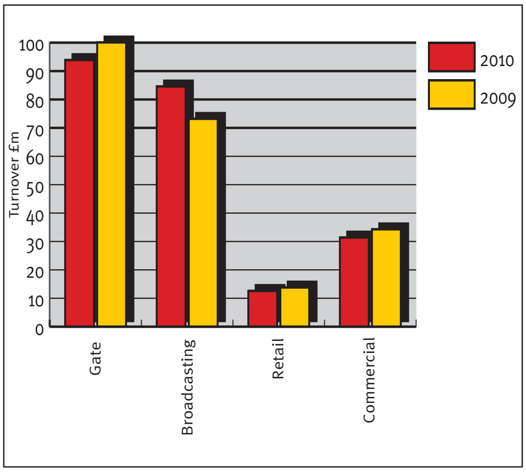
The property business is now debt free which means that all future net sales proceeds from property will deliver surplus cash for the Group. By the year end some £5 million of surplus property cash had accumulated from Highbury Square and this is included in the Group's cash and bank balances of £127.6 million (2009 - £99.6 million).

The elimination of debt in the property business means that overall net debt for the Group fell significantly to £135.6 million against a comparative for the prior year end of £297.7 million. The Group's outstanding debt now comprises solely of stadium funding bonds and supporter held debentures – both of these components are long-term and fixed interest debt.

The balance sheet carrying value of property development stocks has fallen from £167.0 million to £45.8 million as the costs of Highbury Square apartments and the costs attributable to the Queensland Road site have been transferred to the profit and loss account on the completion of sales.

Football segment

Turnover in the football business was £222.9 million (2009 - £225.1 million).



There were five fewer home fixtures played with no equivalent games to the home ties in each of rounds from 3rd to 6th of the FA Cup and the Champions League semi-final staged in the previous year. Gate income of £93.9 million (2009 - £100.1 million) represented 42% (2009 - 44%) of our total football revenues and was derived from 27 first team home fixtures (19 Premier League, 6 Champions League and 2 Carling Cup). The average attendance was 59,765 (2009 - 59,453).

In addition to competitive first team fixtures we successfully staged a pop concert, Capital Radio's 2009 Summertime Ball, a third Emirates Cup weekend and one international friendly – Brazil versus Ireland.

Broadcasting revenues increased to £84.6 million (2009 - £73.2 million). Domestically, the Club was covered for 23 live games compared to 19 in the prior year and earned one additional unit of merit award as a result of finishing third in the Premier League.

However, the main reason for the increased broadcasting revenue was the Champions League where 2009/10 represented the first year of a new cycle of UEFA broadcasting contracts. This fact combined with a new distribution for participants in the qualifying round and the weakness in sterling (UEFA distributes Champions League revenue in Euros) meant that, despite a quarter final exit, our European broadcasting revenues rose to £31.1 million (2009 - £23.8 million).

The retail and commercial revenue lines were perhaps the areas where the Club had its greatest sensitivity to the recessionary climate. Combined revenues of £44.0 million (2009 - £48.1 million) were influenced by the difficult trading conditions. They were also affected, to a significant extent, by the lower number of home games which impacted takings at our Armoury and All Arsenal stores, catering royalties and competition performance bonuses under certain of our sponsorship agreements.

Wage costs rose to £110.7 million (2009 - £104.0 million) representing 49.7% of football segment revenues (2009 - 46.2%). Whilst this level of investment and ratio continues to fall comfortably within our target range there continues to be very strong upward pressure on players' wage expectations. In addition, it should be noted that the existence of performance targets and timing steps within certain players' contracts means that the full cost of a number of the new and revised player contracts entered into in the last 18 months has not yet fully translated into the reported wage cost.

Arsène Wenger continues to have an excellent understanding of the Club's business model and the financial resources available to him. The extension of Arsène's contract to 2014 evidences the Board's complete support for his judgement on all matters relating to the size and mix of the playing squad and the level of contract terms required to secure the long-term commitment of both new and existing players.

Financial Review (continued)

Although the overall level of player investment fell in 2009/10, this fall was not by reason of financial constraint but rather reflected a lack of opportunity to add real incremental quality to the squad at sensible and sustainable levels of valuation.

Our policy for the player investment budget is such that any budget not spent in the current year, including all proceeds from sale of players, is carried forward and added to the available budget for the following season. We do not separately disclose the amount of the total wage bill which is represented by players but the table below provides an indication of the levels of investment.

	2010 £m	2009 £m
Total wages	110.7	104.0
Additions to intangible assets (player registrations)	19.9	41.3
Profit on sale of player registrations	(38.1)	(23.2)
Net expenditure	92.5	122.1

The lower number of home fixtures and retail revenues for the year meant lower direct costs in these areas. However, those savings were partially offset by some lines of increased cost notably in relation to maintenance and repair at Emirates Stadium and a one-off fee in relation to taxation matters (see section below - Profit after tax). Overall, other operating costs fell to £55.0 million (2009 - £55.4 million).

Taking into account all of these changes in revenue and costs the operating profit (before player trading and depreciation) from football fell to £56.8 million (2009 - £62.7 million).

Property Segment

The property business has made good progress.

There were 362 apartment sales completions at Highbury Square in the year producing revenue of £133.6 million (2009 - 208 completions and revenue of £88.0 million) and providing a contribution to segmental operating profit of £19.2 million. These sales brought the cumulative completions up to 570 of the 655 market housing apartments within the development. We continue to make good progress on the sale of the remaining units.

The margin at which we account for profits on each apartment sale has been increased in the year as the final outcome of the development can now be assessed with a high degree of certainty.

The related bank loan was fully repaid during the year and other than direct sale costs, which are mainly legal and estate agency fees, the Highbury Square development is complete in terms of its costs. This means that each sale completion now produces surplus cash for the Group. By 31 May 2010 the cumulative cash surplus amounted to some £5 million.

We have secured an operator for one of the two important commercial spaces within Highbury Square – the nursery. We are delighted to have Kids-unlimited, a leading player in this field, as our tenant. The nursery is now open and available to residents. We are in the later stages of negotiations with a leading gym operator for a lease of the other main area of commercial space.

The Group has a small number of property interests in the roads immediately adjacent to Highbury Square and we have a planning consent for the refurbishment of the existing properties and for the construction of a number of new houses. We are now beginning to progress the "in-fill sites" project which should deliver some 21 property units for completion targeted towards the end of calendar 2011.

We now have a fairly reliable picture of what the final outcome of the Highbury Square project will look like and the overall cash surplus which the Group can expect to realise. Taking into account the fact that the sale completion phase of the project has taken place across a period where conditions in the property and mortgage markets have been hugely difficult, this outcome looks very satisfactory in terms of both profits and cash.

The other property trading activity in the year was at Queensland Road.

In February we completed the sale of the social housing element of the Queensland Road development to Newlon Housing Trust for a sale price of £23.2 million. The cash payment received from Newlon of £11.9 million reflects the fact that they are taking on the responsibility for the demolition, clearance and remediation of the entire site, including works which will eventually move the road to the south. The sale to Newlon is essentially at no gain or loss in profit terms, because we have previously adjusted the carrying value of the site to its estimated recoverable sale value. The proceeds from the Newlon sale allowed the Group's other property trading subsidiary, Ashburton Trading, to fully repay its own bank loan and become debt free. This debt free status means that, as for Highbury Square, any future property sales activity, subject to payment of costs to complete, will generate surplus cash.

Ashburton Trading has three property assets which remain to be sold. Two of these – the site on the corner of Hornsey Road, opposite the Armoury, which includes a pedestrian link through to Holloway Road tube station, and a further site on Holloway Road – are still at the planning consent stage. The third asset is the market housing site at Queensland Road, which comprises of 375 apartments within three towers to be constructed. There has been a good level of interest from potential purchasers of this site over recent months and we are now involved in the preliminary stages of negotiations with a number of interested parties. The requirement to sell with vacant possession and the timings on the site works being undertaken by Newlon means that any sale of the market housing is unlikely to reach legal completion in the 2010/11 financial year.

Until we have a clearer picture of the achievable sale value of the market housing at Queensland Road we are holding the book value of the site at the level in our most recent professional valuation and expensing any costs incurred in relation to the development of this site.

Player Trading

The sale of player registrations generated a profit of £38.1 million (2009 - £23.2 million) which, together with fees of £0.5 million (2009 - £3.6 million) received from the loan of players, meant that overall result from player trading was a surplus of £13.6 million (2009 - £2.9 million).

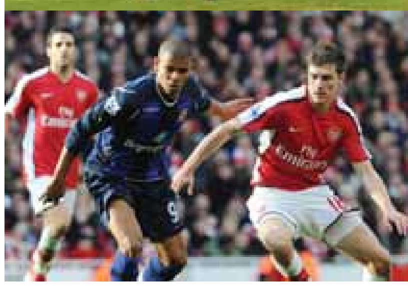
The main contributions to the disposal profit came from the sales of Emmanuel Adebayor and Kolo Toure.

The Board's policy continues to be that all proceeds from player sale transactions are made available to Arsène Wenger for reinvestment back into the development of the team.

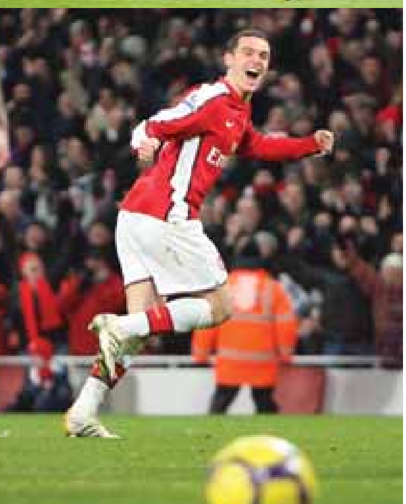
Finance Charges

The net interest charge for the year was £18.2 million (2009 - £16.6 million).

Some £14.6 million of this charge relates to the long-term stadium financing bonds and this interest, which is at a fixed rate, together with the annual capital repayment of £5.6 million gives a total debt service cost for the bonds of £20.2 million. This is effectively the annual "mortgage" payment required on the stadium financing and it was covered at a comfortable margin of nearly three times by the operating profits in the football business segment.








Financial Review (continued)

The majority of the Group's debt outstanding during the year was at fixed rates of interest which meant that the most significant impact of the low base rate has been on the interest we are able to earn on our cash deposits rather than on our debt service costs. Interest receivable for the period was £2.0 million lower than last year, despite the holding of a similar level of cash reserves throughout the year, and as a result the Group booked a higher net interest cost.

Profit after tax

During the year the Group has invested significant time and resource in resolving a number of tax issues with HM Revenue & Customs. As a result, all aspects of the Group's tax affairs have now been agreed with HM Revenue & Customs and are fully up to date. This agreed tax position is reflected within the 2009/10 accounts.

The impact of certain adjustments, required as a consequence of bringing the Group's tax affairs up to date, in respect of corporation and deferred taxation means that overall there was a net tax credit for the period of £5.0 million (2009 - charge of £10.3 million).

Within the overall net tax credit, the calculation of corporation tax payable for 2009/10 includes the ongoing benefit of changes to taxable profits for the rollover of gains on player sales and for the Highbury Square project. The Highbury Square adjustment reflects the transfer of the stadium from fixed assets to trading stock in 2006 at its then market value and the roll-over of the capital gain which arose on that transaction.

The retained profit for the year was £61.0 million (2009 - £35.2 million).

Cash Flow and Treasury

Cash and bank balances in hand of £127.6 million (2009 - £99.6 million) clearly represents a very satisfactory position but it should be remembered that there is a strong element of seasonality to the Club's cash flows.

There are two main reasons for the increase in the year-end cash position. Firstly, a very positive supporter response on the renewal of season tickets meant that some £14 million more of renewals had been processed by the end of May compared to the prior year. Secondly, the fact that the property business is now debt free means that cash from property sales is accumulating rather than automatically being used to repay bank loans as it was last year.

Debt service reserve deposits of £31.5 million are also included in the total cash position although, being part of the security for the Group's listed bonds, the use of these deposits is restricted. In addition, there is a balance of £6.6 million included which is held in connection with the site works at Queensland Road and which can be used only for that purpose.

The Group's activities were strongly cash positive for the year and the cash generated from operations was used as follows:

	£m
Cash from operations	176.5
Net cash from player transfers	15.9
Payment of taxation	(6.3)
Investment in fixed assets	(5.3)
Net interest payments	(17.6)
Debt repayment – property	(129.6)
Debt repayment – football	(5.6)
Increase in year-end cash	28.0

The main components of the Group's net debt are shown in the table on page 17. During the year, mainly as a result of the repayment of property bank loans, the Group's net debt has been reduced from £297.7 million to £135.6 million.

	Emirates Stadium Financing £m	Property Development Financing £m	Debenture Loans £m	Cash Reserves £m
Start of year	(244.9)	(129.6)	(26.4)	99.6
Movement in year	5.6	129.6	(0.3)	28.0
End of year	(239.3)	-	(26.7)	127.6
Term	19-21 yrs	N/A	18-132 yrs	N/A
Fixed rate	5.3%	N/A	0-2.75%	N/A
Variable rate	N/A	N/A	N/A	N/A
Margin	-	-	-	N/A
Guarantee fee	0.5%-0.65%	-	-	N/A

The largest part of the Group's debt is £239.3 million of long-term stadium finance bonds with fixed rates of interest which have been in place since 2006. A repayment of £5.6 million was made during the year in accordance with the terms of the bonds.

Further significant falls in either gross or net debt are unlikely in the foreseeable future. The stadium finance bonds have a fixed repayment profile over the next 21 years and we currently expect to make repayments of the debt in accordance with that profile.

The Group's cash reserves and debt facilities are expected to be sufficient to fund the completion of its property development projects for the foreseeable future and its operations generally for the long-term.

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. These risks and uncertainties are monitored by the Board on a regular basis.

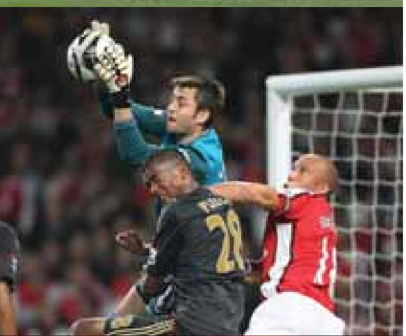
Football

The Group's income is affected by the performance and popularity of the first team. Significant sources of revenue are derived from strong performances in the Premier League, FA Cup and UEFA Champions League (or the Europa League) and the level of income will vary dependent upon the team's participation and performance in these competitions. A significant amount of the Group's income is derived from ticket sales to individual and corporate supporters who attend matches involving the first team at Emirates Stadium and elsewhere. The level of attendance may be influenced by a number of factors including the level of success of the team, admission prices, broadcasting coverage and general economic conditions. Demand for tickets has continued to be strong and all season tickets, including approximately 7,000 premium Club Level seats, have again been sold out for the 2010/11 season. After the allocation of all 2010/11 season tickets the Club currently has in the order of 37,000 supporters on its waiting list for season tickets.

The first team's success is significantly influenced by the performance of members of the playing staff and the performance of the football management team and, accordingly, the ability to attract and retain the highest quality coaching and playing staff is important to the Group's business prospects. The Group insures the members of its first team squad but such insurances may not be sufficient to mitigate all financial loss, such as fees from a potential transfer, in the event of a serious injury. The Group 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






Financial Review (continued)

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 Group's income, which is currently significantly greater than that of the majority of its competitors, and its policy of continual investment in the playing staff by way of both transfers and wages provides a platform for a virtuous circle of continued on-field success and growth in the Club's support and revenues.

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 future could have an impact on the Group as the regulations cover areas such as: the format of competitions, 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.

Commercial relationships

The Group derives a significant amount of revenue from sponsorship and other commercial relationships. The Group aims to enter into long term arrangements with its key commercial partners thus securing certainty over the main components of its commercial income in the medium term. The Group's most important commercial contracts are: naming rights and shirt sponsorship contracts with Emirates Airline which expire in 2021 and 2014 respectively, a kit sponsorship contract with Nike which expires in 2014 and a catering contract with Delaware North which expires in 2026.

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 currently sells its TV rights on a 3 year contract basis and 2009/10 was the final year of the current contract. The next Premier League TV contract has already been secured through to season 2012/13.

Foreign exchange and treasury

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's policy is to eliminate, as far as possible, all of the interest rate risk which attaches to its outstanding debt finance balances. Where debt balances are subject to floating rates of interest the Group will usually enter into interest rate swaps which serve to fix the rate of interest.

The financing arrangements for the Group's football and property business segments operate independently of each other. As a consequence, the transfer of cash between the two business segments can, in general, only occur in circumstances governed by the terms of the applicable bank or debt finance arrangements. In addition, certain minimum bank deposits are required to be maintained as part of the security for the Group's bank or debt finance balances. The Group monitors its compliance with the applicable terms of its bank or debt finance arrangements on a continuous basis and regularly reviews its forecast cash flow to ensure that both its business segments hold an appropriate level of bank funds at all times.

Where income from commercial contracts or other material transactions, such as player transfers, is receivable on an instalment basis then the Group will usually seek to obtain an appropriate bank or similar guarantee.

Property

The Group expects to derive income from the sale of certain property development assets over the next two years. The achievement of these sales may be affected by a number of factors including, but not limited to, the conditions in the mortgage lending sector and the supply and pricing of other residential properties in the local area. The Group continues to monitor the position closely.

Outlook

We have, once again, started the season with a commercially successful and well attended Emirates Cup and with the good news that general admission and Club Tier season tickets have been fully subscribed.

The 2010/11 season is the first year, of three, for a new set of Premier League TV contracts. The main area of growth in these contracts has come from the values achieved for overseas TV rights and, because this revenue line is distributed evenly between clubs, the overall boost to our Premier League broadcasting income is expected to be approximately 10%.

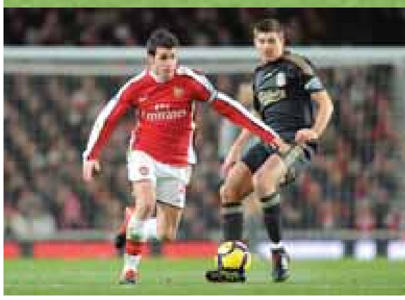
On the cost side, there is strong upward pressure on player wages and, as the full impact of a number of contracts signed in the last 18 months comes through, wage costs for 2010/11 will show a significant increase. The exact quantum will depend on the actual levels of performance bonuses and the extent of any new / revised contracts agreed over the remainder of the season.

There has been very limited player sale activity during the summer transfer window. As a result, in contrast to each of the previous three years, we do not have a significant profit on disposal of player registrations on the books at this stage of the new financial year. Subject to any transfer activity in the January 2011 window this may impact the final level of profits to be reported for the financial year 2010/11.

Since the financial year end a further 33 Highbury Square apartments have completed sale and we are confident that the remaining 52 apartments will be sold prior to the end of this financial year. We will be moving forward with the remaining property projects – the market housing at Queensland Road, together with the sites on Hornsey Road and Holloway Road and the Highbury "in-fills" – but would not expect any sales completions on these sites until 2011/12 at the earliest.

The Group starts the year 2010/11 year in a healthy financial position. The Club's resources and business model should mean that we are well positioned to comply with an environment of increased financial regulation for football clubs and the new rules imposed by the Premier League and UEFA in this respect. As we look further ahead we must be mindful of the fact that the property profits and cash flows which have boosted the Group's 2009/10 results, as well as the additional returns from property we can expect over the next couple of years, are essentially one-off in nature. Longer term growth in revenue, profits and cash for investment in the team, to a level which differentiates us from our competitors, will need to come from the core football business and, in particular, from the development of our commercial revenues.

S W Wisely
Chief Financial Officer
24 September 2010



REVIEW OF THE 2009/10 SEASON

First Team

The first team once more challenged for the Premier League title over long periods of the season, ultimately falling short after a succession of injuries to important squad members.

An excellent start saw Everton beaten 6-1 at Goodison Park on the opening day of the Premier League season with new central defender, Thomas Vermaelen, among the scorers. The goals continued to flow with Portsmouth and Wolves both 4-1, Wigan Athletic 4-0 and Blackburn Rovers, by a score of 6-2, all soundly beaten before the middle of November.

Other impressive results included 3-0 home wins over Tottenham Hotspur and Aston Villa, a 'double' over Liverpool and a run of six consecutive wins between February and March.

With the side strongly placed at the end of March, injuries, to the likes of Thomas Vermaelen, Cesc Fabregas, William Gallas and Robin van Persie, began to take their toll and a series of disappointing results away from home meant that the team's Premier League challenge faded.

There was at least some consolation in a third-placed finish and a 13th consecutive qualification for the UEFA Champions League.

Last season's run in the UEFA Champions League was an exciting one. Firstly, Celtic were despatched 5-1 on aggregate in the third qualifying round, before the side topped a group including Standard Liege, AZ Alkmaar and Olympiacos. In the first knock-out round, a superb 5-0 win over FC Porto overcame a 2-1 first-leg deficit. This set up a tie with holders Barcelona in the quarter-final. Despite bravely pulling level to 2-2 in the home first leg and taking the lead in the second, the side was ultimately beaten 6-3 on aggregate – with Lionel Messi scoring four times for Barcelona in the Nou Camp.

In the FA Cup, the team's progress was relatively short-lived. Arsenal won 2-1 at West Ham in the third round, with goals from Aaron Ramsey and Eduardo, before losing 3-1 away to Stoke City in the fourth round.

The Carling Cup saw a number of the Club's promising younger players given a chance to shine. There was a memorable moment for Sanchez Watt as he scored on his debut in the third round win over West Bromwich Albion, before an experienced Liverpool side was beaten 2-1 at

BARCLAYS PREMIER LEAGUE 2009/10 FINAL TABLE

		HOME					AWAY						
	P	W	D	L	F	A	W	D	L	F	A	GD	Pts
Chelsea	38	17	1	1	68	14	10	4	5	35	18	+71	86
Manchester United	38	16	1	2	52	12	11	3	5	34	16	+58	85
Arsenal	**38**	**15**	**2**	**2**	**48**	**15**	**8**	**4**	**7**	**35**	**26**	**+42**	**75**
Tottenham Hotspur	38	14	2	3	40	12	7	5	7	27	29	+26	70
Manchester City	38	12	4	3	41	20	6	9	4	32	25	+28	67
Aston Villa	38	8	8	3	29	16	9	5	5	23	23	+13	64
Liverpool	38	13	3	3	43	15	5	6	8	18	20	+26	63
Everton	38	11	6	2	35	21	5	7	7	25	28	+11	61
Birmingham City	38	8	9	2	19	13	5	2	12	19	34	-9	50
Blackburn Rovers	38	10	6	3	28	18	3	5	11	13	37	-14	50
Stoke City	38	7	6	6	24	21	4	8	7	10	27	-14	47
Fulham	38	11	3	5	27	15	1	7	11	12	31	-7	46
Sunderland	38	9	7	3	32	19	2	4	13	16	37	-8	44
Bolton Wanderers	38	6	6	7	26	31	4	3	12	16	36	-25	39
Wolves	38	5	6	8	13	22	4	5	10	19	34	-24	38
Wigan Athletic	38	6	7	6	19	24	3	2	14	18	55	-42	36
West Ham United	38	7	5	7	30	29	1	6	12	17	37	-19	35
Burnley	38	7	5	7	25	30	1	1	17	17	52	-40	30
Hull City	38	6	6	7	22	29	0	6	13	12	46	-41	30
Portsmouth	38	5	3	11	24	32	2	4	13	10	34	-3	19

Emirates Stadium in the fourth round. Manchester City proved too strong in the quarter-finals though, winning 3-0 at Eastlands.

Cesc Fabregas was the team's top scorer with 19 goals in 36 appearances from midfield. With eight goals, Thomas Vermaelen scored more than any other defender in the Premier League. There was also welcome return in January for popular defender Sol Campbell, whose experience proved useful throughout the season's latter stages.

Unfortunately, in February, young Welsh midfielder Aaron Ramsey sustained a double leg fracture during the league win at Stoke. Thankfully, Aaron's recovery is going well and he, along with his team-mates, looks forward to being part of a fresh challenge for honours in 2010/11.

Reserves

Neil Banfield's Reserves helped bridge the gap between Under-18 and senior football, performing exceptionally in the process.

Finishing second in the Reserve League South, behind Aston Villa, Banfield's young side recorded ten victories across its 16 games – a 'double' over Chelsea proving a particular highlight.

Sanchez Watt top-scored with five goals, and was among several players to make an impact in the first-team. Craig Eastmond sampled Premier League action on four occasions, twice from the start, and the likes of Wojciech Szczesny, Gilles Sunu and Kyle Bartley also saw action for Arsène Wenger's team.

Szczesny was one of several players from the Reserves pool to go out on loan for part of the season. Our loan players gained some valuable playing experience and turned in some impressive performances for their loan clubs.

The Reserve team also played a big part in helping established first-team players, such as Samir Nasri and Mikael Silvestre, complete their recoveries from injury, whilst Sol Campbell made his Arsenal return in the 4-2 Reserves win at West Ham United.

BARCLAYS PREMIER RESERVE LEAGUE SOUTH FINAL TABLE 2009/10

	P	W	D	L	F	A	Pts
Aston Villa	16	11	4	1	34	12	37
Arsenal	**16**	**10**	**2**	**4**	**28**	**14**	**32**
Fulham	16	8	4	4	25	19	28
Chelsea	16	7	1	8	27	26	22
Portsmouth	16	6	3	7	21	27	21
West Ham United	16	5	4	7	26	27	19
Birmingham City	16	4	3	9	14	34	15
Wolves	16	3	5	8	16	21	14
Stoke City	16	3	4	9	13	24	13

Youth

Steve Bould's Under-18 outfit continued its success of last season, retaining its FA Premier Academy League title in a thrilling 5-3 win over Nottingham Forest in front of a big crowd at Emirates Stadium.

Having won their group by 14 points from Crystal Palace, the team defeated Manchester United on penalties in the play-off semi-final before the win over Forest.

A potent strike force of Benik Afobe (20 goals) and Luke Freeman (11 goals) terrorised opposing defences – with 11-goal winger Roarie Deacon also worthy of an honourable mention.

Unfortunately, there was no repeat of last season's FA Youth Cup success, with the cup campaign ended at the hands of Ipswich Town in the fourth round.

A number of players from the Under-16s team, such as exciting striker Zak Ansah, became more involved as the season progressed. Additionally, there was recognition for a number of players

Youth (continued)

at International level – with Benik Afobe's key role in England Under-17s' superb European Championship win the highlight.

FA ACADEMY LEAGUE UNDER-18s GROUP A FINAL TABLE 2009/10

	P	W	D	L	F	A	Pts
Arsenal	**28**	**17**	**5**	**6**	**72**	**41**	**56**
Crystal Palace	28	13	8	7	49	31	47
Chelsea	28	14	5	9	51	43	47
Norwich City	28	11	6	11	50	57	39
West Ham United	28	10	8	10	52	44	38
Fulham	28	12	2	14	59	59	38
Southampton	28	10	5	13	46	59	35
Charlton Athletic	28	10	4	14	41	58	34
Ipswich Town	28	8	9	11	39	48	33
Portsmouth	28	4	3	21	31	68	15

Ladies

A season of change for Arsenal Ladies ended in celebration, with yet another Women's Premier League title, their seventh in a row and twelfth in total. This was secured, for the second consecutive season, with a win against close rivals Everton – although, this time, there were two matches to spare.

Kim Little was the star of the 2009/10 season. The young Scottish midfielder relished an advanced role and scored a remarkable 45 goals in 35 appearances. There were also valuable attacking contributions from Julie Fleeting, Helen Lander, Rachel Yankey and rapidly-improving winger Gemma Davison.

Scottish defender Jennifer Beattie proved an inspired acquisition and weighed in with a goal every three games, while Corinne Yorston also slotted well into a back line marshalled by the evergreen Faye White.

Sadly, there were to be no further trophies in the Ladies' 2009/10 season. A high-scoring run in the inaugural Champions League ended at the hands of reigning UEFA Cup holders FCR Duisburg, whilst Everton won a controversial League Cup semi-final 2-1 in December. The Toffees would also beat Arsenal Ladies 3-2 in an FA Women's Cup Final played at the City Ground, Nottingham.

Tony Gervaise took over the reins from Vic Akers, manager for the past 22 seasons, at the start of the campaign but in turn passed the manager's role to Laura Harvey halfway through the season and returned to his previous role in charge of Academy development.

Next season sees the commencement of the new Women's Super League, although not until the spring of 2011, thus marking a new era for Arsenal Ladies and women's football as a whole.

FA WOMEN'S PREMIER LEAGUE FINAL TABLE 2009/10

	P	W	D	L	F	A	Pts
Arsenal Ladies	**22**	**20**	**1**	**1**	**79**	**19**	**61**
Everton	22	16	2	4	67	19	50
Chelsea	22	14	1	5	60	27	49
Leeds Carnegie	22	15	1	4	50	16	47
Sunderland	22	12	1	9	36	35	37
Doncaster Rovers Belles	22	9	7	6	36	37	34
Blackburn Rovers	22	7	3	12	27	45	24
Millwall Lionesses	22	6	3	13	24	43	21
Watford	22	4	5	13	23	60	17
Birmingham City	22	4	4	14	21	41	16
Nottingham Forest	22	3	4	15	16	51	13
Bristol Academy	22	3	1	18	12	58	10

CHARITY OF THE SEASON

Great Ormond Street Hospital Children's Charity was the Club's nominated Charity of the Season for 2009/10, taking over from Teenage Cancer Trust.

The partnership with Great Ormond Street Hospital Children's Charity, the fundraising arm behind one of the world's leading children's hospitals, continued the success of Arsenal's Charity of the Season initiative raising £800,000 over the course of the season. This record-breaking total for the Club was delivered under the Charity of the Season's campaign banner of 'Be a Gooner. Be a Giver.'

Great Ormond Street Hospital has the broadest range of dedicated children's healthcare specialists under one roof in the UK. The hospital's pioneering research and treatment gives hope to children, from across the country and abroad, who are suffering from the rarest, most complex and often life-threatening conditions. Great Ormond Street Hospital Children's Charity needs to raise £50 million a year to help rebuild and refurbish Great Ormond Street Hospital, provide vital up-to-date equipment and fund research into better treatments for the children.

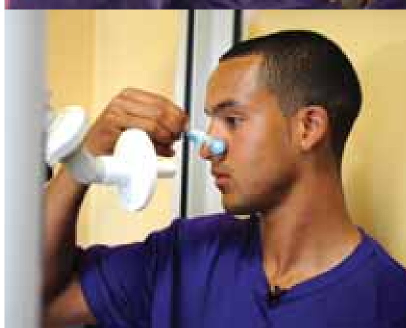
The fundraising target set out at the beginning of the season was £500,000 to help fund a brand new Arsenal Lung Function Unit for children who have difficulty breathing or sleeping. These problems can mean that children may not grow properly and the Lung Function Unit is vitally important in their treatment. The new Arsenal Lung Function Unit will be designed to help newborn babies right through to teenagers and will provide a modern and spacious environment in which to help children and their families. The additional money raised will fund four Sleep Monitoring Systems which will be used in the hospital's Sleep Laboratory. The equipment records levels of oxygen and carbon dioxide gases, breathing, body movements and heart rate whilst some of the Hospital's most critically ill patients are asleep.

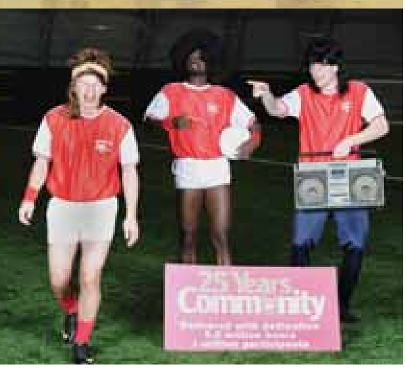
Speaking about the partnership, Arsène Wenger said: "We were delighted to smash our fundraising target of half a million pounds for Great Ormond Street Hospital Children's Charity. The dedication of everyone involved with the Charity and the Hospital has been phenomenal and our supporters' generosity has been fantastic. It is thanks to everyone involved with the Club that we have helped fund this very special unit."

Dr Jane Collins, Chief Executive of Great Ormond Street Hospital, said: "We are so grateful to everyone at Arsenal Football Club and all the fans for their support and the fantastic amount of money that has been raised over the season to help us fund a new Arsenal Lung Function Unit. With Arsenal's help we can vastly improve the facilities for our patients and their families."

The season saw many highlights, including the launch of the partnership back in August 2009 when Arsène Wenger joined Theo Walcott, Manuel Almunia and the Club's captain, Cesc Fabregas, on a visit to the Hospital. The foursome were joined by Arsenal fan, British icon, former patient and long-time supporter of Great Ormond Street Hospital Barbara Windsor and Hospital patient Jake Peach to kick-off the partnership in grand style.

Arsenal's match against Chelsea on 29 November 2009 was dedicated to Great Ormond Street Hospital Children's Charity and saw Arsenal's first team and directors donate a day's wages to the Charity while the Club's staff and supporters were encouraged to donate what they could too. To promote the day, Andrey Arshavin, Cesc Fabregas, Bacary Sagna and Theo Walcott dressed up as furry animals and starred in a short, light-hearted film entitled 'Fundraising Day', produced and directed by creative agency Brothers and Sisters. The Club's manager also made a cameo appearance and the film – together with the dedicated matchday activities including a bucket collection, raffles, pledges





Charity of the Season (continued)

and donations – helped raise over £210,000. In March 2010, the second-ever 'Be a Gunner. Be a Runner.' took place when over 300 runners ran around Emirates Stadium ten times, a total distance of 6.4km. There was also a children's race this year which was two laps of the stadium. The sponsored fun-run raised over £50,000 for Great Ormond Street Hospital Children's Charity.

Two months later, the season's fundraising culminated in The Gunners' World Ball, the annual end of season charity ball. Held at Emirates Stadium, The Gunners' World Ball was hosted by TV presenter Dermot O'Leary and attended by the Club's first team and manager. BRIT nominated pop group The Feeling performed a live set on the night and through live and silent auctions across an evening full of fundraising and entertainment, over £450,000 was raised for the Charity and the Arsenal Charitable Trust.

As well as key events, the partnership was continually supported by Arsenal staff and, in particular, the Charity Champions representing each of the departments within the Club. Arsenal Supporters Clubs based all over the UK and beyond were also heavily involved contributing a fantastic £45,000 over the course of the season. Notably, Arsenal Hampshire Supporters Club's Paul Smith circled Emirates Stadium 51 times in his wheelchair, raising nearly £20,000.

The Club welcomes Centrepoint as its new Charity of the Season for 2010/11; the organisation works to give homeless young people a future.

25 YEARS OF DEDICATION TO THE COMMUNITY

During the 2009/10 season, the Club celebrated 25 years of commitment to its community. Over the last quarter-century, Arsenal in the Community has invested over 5.5 million hours and involved some 1 million individuals, across a wide variety of sport, charity, education, regeneration and social inclusion projects in the UK and overseas. To mark the milestone, Arsenal in the Community joined with Arsenal players in visiting a range of projects throughout a celebratory week in February; the projects highlighted the breadth of the community work in which the Club is involved. The week culminated in a 25th anniversary finale at Emirates Stadium which was attended by Arsène Wenger, Gael Clichy and Thomas Vermaelen.

The Arsenal short mat bowls club, which is as old as Arsenal in the Community, featured in the celebrations with a visit to the local Andover Estate from Theo Walcott, an invitation to show the Manager how to play bowls and members of the bowling team being invited by the Club to watch Arsenal's match against Sunderland.

Arsenal's innovative Double Club programme featured in the celebrations with students from local primary and secondary schools showcasing their work and getting players involved in their football-based literacy, numeracy and language learning. This season over 3,000 students benefited from Arsenal Double Club resources and teaching.

Emmanuel Eboue attended the Club's annual 'World on our Doorstep' initiative. The project, which is funded by the Premier League / PFA Community Fund and administered by the Football Foundation, draws parallels between the team and the multicultural north London area in which the Club has its home. The project closed another successful year with a Question & Answer session with Nicklas Bendtner. Over 5,000 children participated in diversity projects during 2009/10 season as the Club works towards the advanced level of its Racial Equality Standard in conjunction with Kick It Out.

Whilst the Club took a look back on its 25 years of Arsenal in the Community, it also introduced exciting new initiatives in several areas of its community work.

The launch of Premier League 4 Sport saw Abou Diaby and Andrey Arshavin promote the scheme which encourages young people to get involved in six Olympic sports.
In its ever-expanding work in the education sphere, Arsenal in the Community joined forces with City & Islington College and London Metropolitan University to offer a football and coaching foundation degree and was delighted to announce the launch of Arsenal Business Case Studies for A-Level, BTEC and Business and Finance 14-19 Diploma which gives students an opportunity to gain an insight into the commercial world of a professional sports club. University students studying architecture were also welcomed to the Club this season and set a brief by global design practice, Populous.

Working in partnership with Homes for Islington, the Club contributed towards the installation of two new astro-turf pitches at local estates where Arsenal in the Community coaches deliver twice weekly football sessions through its Positive Futures programme.
The department's social inclusion work has also been further developed by offering, in conjunction with Croydon College, more Pathways to Employment through the Future Jobs Fund and an initiative to help local young people find employment at Emirates Stadium.
As part of Arsenal in the Community's overseas work, two gap year students went to Kenya for the first time to run coaching clinics in some of the poorest areas of that country.
Gap year students gain experience with Arsenal in the Community in the UK before undertaking a placement overseas to teach young members of the local community to coach football with the aim of ensuring a sustainable legacy is left once Arsenal in the Community coaches head home.

Arsenal Charitable Trust

Since its formation in 1992, the Arsenal Charitable Trust has raised more than £2 million. Each year around £50,000 is distributed in small amounts to worthy causes. Hospitals, disability groups, charities for young children and young people feature prominently amongst the donations made by the Trust.

Last season, some of the organisations who benefited from donations from the Trust were Mind, Cystic Fibrosis Trust, Care UK, Save the Children, John Hartson Foundation and the Louis Watt Memorial Fund.

Over the years, an emphasis on fun and enjoyment has driven the Trust's fundraising efforts. For over 17 years, ex-professional footballers, sports personalities and celebrity supporters have been playing regularly for the Arsenal Ex-Pro and Celebrity Charity XI team against teams across the south of England to raise money for the Arsenal Charitable Trust and other worthwhile causes.

As part of the anniversary celebrations, the Club and Arsenal in the Community have produced a booklet entitled 'Community Review' which takes both a look back on 25 years of dedicated commitment and a look forward with a pledge for the future and the Club's continued support of community projects and its ongoing commitment to making a difference wherever it can. Copies of this booklet are available on Arsenal.com.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 May 2010.

Principal activities

The principal activity of the Group is that of a professional football club and the related commercial activities. The Group is also engaged in a number of property developments associated with its relocation to Emirates Stadium.

Profits and dividends

The results for the year are set out on page 31 and are considered, together with a review of the Group's business performance for the year and its future prospects, in the Financial Review section of the Annual Report.

The directors do not recommend the payment of a dividend (2009 - £Nil).

Going concern

The Group's business activities together with the factors likely to affect its future development and performance are summarised in the Chairman's Report, the Chief Executive's Report and the Financial Review. The Financial Review describes the financial position of the Group and its cash flows, liquidity position and borrowing facilities.

The Group's bank facilities are not currently due for renewal, however, the Group has held a discussion with its bankers about these facilities and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current financial resources and bank facilities.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and the financial statements continue to be prepared on the going concern basis.

Directors

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

P.D. Hill-Wood
D.D. Fiszman
K.J. Friar OBE
I.E. Gazidis
Lord Harris of Peckham
E.S. Kroenke
Sir Chips Keswick

Political and charitable contributions

During the year the Group made donations for charitable purposes amounting to £97,801 (2009 - £64,722).

Creditor payment policy

The Group's policy is to pay all creditors in accordance with contractual and other legal obligations. Advantage is taken of available discounts for prompt payment whenever possible.

The rate, expressed in days, between the amounts invoiced to the Group by its suppliers in the year and the amount owing to trade and other creditors at the year end was 69 days (2009 - 63 days).

DIRECTORS' REPORT

Employees

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 operates an equal opportunities policy. The aim of this policy is to ensure that there should be equal opportunity for all and this applies to external recruitment, internal appointments, terms of employment, conditions of service and opportunity for training and promotion regardless of gender, ethnic origin or disability.

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.

The Group maintains its own health, safety and environmental policies covering all aspect of its operations. Regular meetings and inspections take place to ensure all legal requirements are adhered to and that the Group is responsive to the needs of its employees and the environment.

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). 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.

Disclosure of information to 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 (as defined in the Companies Act 2006) of which the company's auditors are 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 (as defined) and to establish that the Company's auditors are aware of that information.

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

D Miles
Secretary,
24 September 2010

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

CORPORATE GOVERNANCE

The directors acknowledge the importance of the Combined Code issued in 2008 and have complied with its requirements so far as is appropriate to a Group of the size and nature of Arsenal Holdings plc.

Directors

The Board currently consists of two executive directors and five non-executive directors. The Board meets on a monthly basis to review the performance of the Group and to determine long-term objectives and strategies and is supplied with management accounts and other relevant information.

Each of the directors is subject to re-election at least every three years.

Internal control

The Board is responsible for ensuring that the Group maintains a system of internal controls, including suitable monitoring procedures, and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatements or loss.

The Board continuously reviews the effectiveness of the Group's system of internal controls. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Audit Committee assists the Board in discharging its review responsibilities.

Audit Committee

The Audit Committee consists of three non-executive directors, Sir Chips Keswick (Chairman), D.D. Fiszman and Lord Harris of Peckham.

The Committee considers matters relating to the financial accounting controls, the reporting of results and the effectiveness and cost of the audit. It meets at least twice a year with the Group's auditors.

Nominations Committee

The Nominations Committee is chaired by Lord Harris of Peckham and its other members are Sir Chips Keswick and D.D. Fiszman.

The Nominations Committee reviews the composition of and succession to the Board and senior management, within agreed terms of reference, and recommends to the Board appointments of executive and non-executive directors following a formal and rigorous review process. This involves an ongoing assessment of the overall balance and performance of the Board and its individual members ensuring a strong executive and independent non-executive team. The Committee in particular considers the experience and skills of individuals who may be suitable as directors. The Committee considers and takes account of existing and proposed corporate governance requirements.

Remuneration Committee

The Remuneration Report is set out on page 29.

THE REMUNERATION REPORT

The Remuneration Committee

The Committee consists of three non-executive directors, P.D. Hill-Wood (Chairman), Lord Harris of Peckham and Sir Chips Keswick.

Policy on remuneration of executive directors

The purpose of the Remuneration Committee is to consider all aspects of executive directors' remuneration and to determine the specific remuneration packages of each of the executive directors and, as appropriate, other senior executives, ensuring that the remuneration packages are competitive within the industry in which the Group operates and reflect both Group and personal performance during the year.

The present opinion of the Committee is that the Group's executives are best remunerated by a salary, discretionary bonus and pension contribution, the aggregate of which is intended to reflect market conditions and the performance of the Group and of the individual.

Policy on remuneration of the non-executive directors

The Board as a whole sets the remuneration of the non-executive directors.

Directors' remuneration

A full analysis of the directors' remuneration is set out in note 7 to the financial statements.

P.D. Hill-Wood
Chairman of the Remuneration Committee
24 September 2010

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARSENAL HOLDINGS PLC

We have audited the financial statements of Arsenal Holdings plc for the year ended 31 May 2010 which comprise the consolidated profit and loss account, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors' 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.

Respective responsibilities of directors and auditors

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. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 May 2010 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.

John Murphy (Senior Statutory Auditor)
for and on behalf of Deloitte LLP, Chartered Accountants and Statutory Auditors, London.
24 September 2010

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 May 2010

		2010			2009		
	Note	Operations excluding player trading £000's	Player trading £000's	Total £000's	Operations excluding player trading £000's	Player trading £000's	Total £000's
Turnover of the group including its share of joint ventures		381,262	460	381,722	312,305	3,589	315,894
Share of turnover of joint venture		(1,866)	-	(1,866)	(2,555)	-	(2,555)
Group turnover	3	379,396	460	379,856	309,750	3,589	313,339
Operating expenses	4	(319,272)	(25,033)	(344,305)	(250,950)	(23,876)	(274,826)
Operating profit/(loss)		60,124	(24,573)	35,551	58,800	(20,287)	38,513
Share of joint venture operating result		463	-	463	455	-	455
Profit on disposal of player registrations		-	38,137	38,137	-	23,177	23,177
Profit on ordinary activities before finance charges		60,587	13,564	74,151	59,255	2,890	62,145
Net finance charges	5			(18,183)			(16,633)
Profit on ordinary activities before taxation				55,968			45,512
Taxation	8			5,024			(10,282)
Profit after taxation retained for the financial year				60,992			35,230
Earnings per share Basic and diluted	9			£980.31			£566.24

Player trading consists primarily of 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.

There are no recognised gains or losses in the current or previous year other than those recorded in the consolidated profit and loss account and, accordingly, no statement of total recognised gains and losses is presented.

BALANCE SHEET

As at 31 May 2010

	Note	Group 2010 £000's	Group 2009 £000's	Company 2010 £000's	Company 2009 £000's
Fixed assets					
Tangible fixed assets	10	434,494	440,369	-	-
Intangible fixed assets	11	60,661	68,446	-	-
Investments	12	1,053	730	30,059	30,059
		496,208	509,545	30,059	30,059
Current assets					
Stock – development properties	13	45,755	167,007	-	-
Stock – retail merchandise		1,887	1,751	-	-
Debtors – due within one year	14	62,289	45,981	2	3
– due after one year	14	2,928	9,508	125,601	108,598
Cash and short-term deposits	15	127,607	99,617	16,246	7,951
		240,466	323,864	141,849	116,552
Creditors: amounts falling due within one year	16	(154,835)	(314,096)	(21)	(462)
Net current assets		85,631	9,768	141,828	116,090
Total assets less current liabilities		581,839	519,313	171,887	146,149
Creditors: amounts falling due after more than one year	17	(283,883)	(292,748)	(13,779)	(13,450)
Provisions for liabilities and charges	19	(42,634)	(32,235)	-	-
Net assets		255,322	194,330	158,108	132,699
Capital and reserves					
Called up share capital	20	62	62	62	62
Share premium	21	29,997	29,997	29,997	29,997
Merger reserve	22	26,699	26,699	-	-
Profit and loss account	23	198,564	137,572	128,049	102,640
Shareholders' funds		255,322	194,330	158,108	132,699

These financial statements of Arsenal Holdings plc (registered number 4250459) were approved and authorised for issue by the Board of Directors on 24 September 2010. Signed on behalf of the Board of Directors

P.D. Hill-Wood
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 May 2010

	Note	2010 £000's	2009 £000's
Net cash inflow from operating activities	25a	176,560	62,305
Player registrations	25d	15,903	(12,335)
Returns on investment and servicing of finance	25d	(17,649)	(17,689)
Taxation		(6,294)	(7,622)
Capital expenditure	25d	(5,342)	(2,950)
Net cash inflow before financing		163,178	21,709
Financing	25d	(135,188)	(15,356)
Management of liquid resources		(48,542)	16,145
Change in cash in the year		(20,552)	22,498
Change in short-term deposits		48,542	(16,145)
Increase in cash and short-term deposits		27,990	6,353

Management of liquid resources represents the transfer of cash (to)/from the Group's bank accounts to short-term bank treasury deposits.

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

1. Principal accounting policies

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention, in accordance with applicable United Kingdom Generally Accepted Accounting Practice and, as described in the Directors' Report, on the going concern basis. The particular accounting policies adopted are described below and have been consistently applied throughout the year and preceding year.

(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 2010.

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's profit for the year was £25.4 million (2009 - profit of £0.3 million).

(c) Joint venture

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 its joint venture is 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.

(d) 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. Merit awards are accounted for only when known at the end of the financial period. UEFA pool distributions relating to participation in the Champions 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.

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.

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Depreciation

Depreciation is calculated to reduce the cost 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 20% per annum
Motor vehicles	25% per annum

Freehold land is not depreciated.

(f) Debt

Debt is initially stated at the amount of the net proceeds after deduction of the costs of obtaining the finance. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. The carrying value of long-term debt is not discounted.

(g) Finance costs

Finance costs of debt, in the form of bonds or bank loans, (including the costs directly attributable to obtaining the debt finance) are recognised in the profit and loss account over the term of the debt at a constant rate on the carrying amount.

Finance costs directly attributable to the funding of property development projects are included within stocks.

(h) Derivative financial instruments

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

The Group's interest rate swaps are treated as hedges because the instruments relate to actual liabilities and change the nature of the interest rate by converting variable rates into fixed rates. Interest differentials under the swaps are recognised by adjusting net interest payable over the period of the contracts.

(i) Stocks

Stocks comprise retail merchandise and development property for onward sale and are 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.

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(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. Provision is made for any impairment and player registrations are written down for impairment when the carrying amount exceeds the amount recoverable through use or sale.

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.

Profits or losses on the sale of players represent the transfer fee receivable, net of any transaction costs, less the unamortised cost of the 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) Foreign currencies

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

(m) 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 2010/11 season and advance income from executive boxes and Club Tier seats at Emirates Stadium. Deferred income also includes income from the pre-sale of residential properties at Highbury Square which will be credited to the profit and loss account on completion of the sale contracts.

(n) Leases

Rentals payable under operating leases are charged to the profit and loss account in the period in which they fall due.

(o) 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. 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.

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(o) Pensions (continued)

Under the provisions of FRS 17 – Retirement Benefits – 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 17.

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

(p) 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 sub-stantively 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.

2. Segmental analysis

Class of business:	**Football**		**Property development**		**Group**	
	2010 £000's	**2009** £000's	**2010** £000's	**2009** £000's	**2010** £000's	**2009** £000's
Turnover	222,946	225,052	156,910	88,287	379,856	313,339
Segment operating profit	20,389	30,751	15,162	7,762	35,551	38,513
Share of operating profit of joint venture	463	455	-	-	463	455
Profit on disposal of player registrations	38,137	23,177	-	-	38,137	23,177
Net finance charges	(14,208)	(14,449)	(3,975)	(2,184)	(18,183)	(16,633)
Profit on ordinary activities before taxation	44,781	39,934	11,187	5,578	55,968	45,512
Segment net assets	235,509	188,101	19,813	6,229	255,322	194,330

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

3. Turnover

Turnover, all of which originates in the UK, comprises the following:	2010 £000's	2009 £000's
Gate and other match day revenues	93,929	100,086
Broadcasting	84,584	73,239
Retail	12,613	13,858
Commercial	31,360	34,280
Property development	156,910	88,287
Player trading	460	3,589
	379,856	313,339

4. Operating expenses

Operating expenses comprise:	2010 £000's	2009 £000's
Amortisation of player registrations	25,033	23,876
Depreciation (less amortisation of grants)	11,915	11,682
Total depreciation and amortisation	36,948	35,558
Staff costs (see note 6)	110,733	103,978
Cost of property sales	141,630	79,931
Other operating charges	54,994	55,359
Total operating expenses	344,305	274,826

Other operating charges include:		
Auditors' remuneration		
- audit of the company's annual accounts	19	23
- audit of the subsidiaries pursuant to legislation	126	128
- other services	40	36
	185	187
- tax services	1,581	356
Operating lease payments		
- plant and machinery	163	163
- other	621	645
Profit on disposal of tangible fixed assets	(14)	(42)

In addition to the amounts disclosed above, the Group incurred non-audit services fees payable to the company's auditors in relation to its ongoing property developments of £65,000 (2009 - £4,500) (included in development property stocks).

The level of fees for tax services in the year reflected the resolution of issues with HM Revenue & Customs as referred to in the Chairman's Report and Financial Review.

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

5. Net finance charges

	2010	2009
Interest payable and similar charges:	£000's	£000's
Bank loans and overdrafts	1,908	7,184
Fixed/floating rate bonds	13,790	14,097
Other	(2)	2,071
Costs of raising long term finance	3,329	1,511
	19,025	24,863
Finance costs capitalised	(145)	(5,516)
Total interest payable and similar charges	18,880	19,347
Interest receivable	(697)	(2,714)
Net finance charges	18,183	16,633

The interest capitalised of £145,000 (2009 - £5,516,000) is included in stock development properties.

6. Employees

	2010	2009
The average number of persons employed by the Group during the year was:	**No.**	**No.**
Playing staff	66	62
Training staff	42	38
Administrative staff	220	196
Ground staff	88	88
	416	384

In addition the Group employs on average 861 temporary staff on match days (2009 - 893).

	£000's	£000's
Staff costs:		
Wages and salaries	96,652	90,690
Social security costs	11,946	10,963
Other pension costs	2,135	2,325
	110,733	103,978

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

7. Directors' emoluments

			2010				2009
	Salary/fees	Bonus	Benefits	Sub total	Pension	Total	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
PD Hill Wood	65	-	10	75	-	75	75
KJ Friar OBE	290	700	26	1,016	-	1,016	1,405
DD Fiszman	25	-	-	25	-	25	25
Sir Chips Keswick	25	-	-	25	-	25	25
Lord Harris of Peckham	-	-	-	-	-	-	-
I Gazidis	938	669	111	1,718	100	1,818	667
ES Kroenke	25	-	-	25	-	25	17
RCL Carr	-	-	-	-	-	-	14
Lady Nina Bracewell-Smith	-	-	-	-	-	-	14
	1,368	1,369	147	2,884	100	2,984	2,242

Lord Harris of Peckham waived director's fees of £25,000 and the Group donated this amount to an appropriate charity.

8. Tax on profit on ordinary activities

	2010	2009
	£000's	£000's
UK Corporation tax charge at 28% (2009 - 28%)	1,056	8,111
Over provision in respect of prior years	(18,599)	(2,425)
Total current taxation	(17,543)	5,686
Deferred taxation (see note 19)		
Origination and reversal of timing differences	4,462	2,187
Under provision in respect of prior years	8,057	2,409
Total tax (credit)/charge on profit on ordinary activities	(5,024)	10,282

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

8. Tax on profit on ordinary activities (continued)

	2010 £000's	2009 £000's
The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:		
Group profit on ordinary activities before tax	55,968	45,512
Tax on Group profit on ordinary activities before tax at standard UK corporation tax rate of 28% (2009 - 28%)	15,671	12,743
Effects of:		
Capital allowances in excess of depreciation	(139)	(1,339)
Other timing differences	(4,324)	(852)
Non taxable income/Expenses not deductible	(10,152)	(2,441)
Adjustments to tax charge in respect of prior years	(18,599)	(2,425)
Group current tax for the year	(17,543)	5,686

The Group tax charge in future years may be affected by:

- the amount of capital investment which is expected to be maintained at a level such that in the short term the Group expects to be able to claim capital allowances in excess of depreciation;
- the legislation relating to taxation of profits on disposal of intangible assets, including player registrations, and rollover relief thereon; and
- the capital gain rolled over in respect of Highbury Stadium.

The Finance Act 2010, which provides for a reduction in the main rate of corporation tax from 28% to 27% effective from 1 April 2011, was substantively enacted on 21 July. As this legislation was not substantively enacted at the balance sheet date, the rate reduction is not reflected in these financial statements. This is in accordance with FRS19, as the rate change is a non-adjusting event occurring after the reporting period. The impact of the rate reduction will be reflected in the next reporting period when it is estimated to reduce the Group's deferred tax liability provided at 31 May 2010 by £1.3m.

9. Earnings per share

Earnings per share (basic and diluted) are based on the weighted average number of ordinary shares of the Company in issue, being 62,217 shares (2009 - 62,217 shares).

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

10. Tangible fixed assets

	Freehold properties £000's	Leasehold properties £000's	Plant and equipment £000's	Total £000's
Group				
Cost				
At 1 June 2009	390,152	6,370	81,543	478,065
Additions	2,979	48	3,171	6,198
Disposals	-	-	(256)	(256)
At 31 May 2010	393,131	6,418	84,458	484,007
Depreciation				
At 1 June 2009	17,845	2,023	17,828	37,696
Charge for the year	5,473	376	6,214	12,063
Disposals	-	-	(246)	(246)
At 31 May 2010	23,318	2,399	23,796	49,513
Net book value				
At 31 May 2010	369,813	4,019	60,662	434,494
At 31 May 2009	372,307	4,347	63,715	440,369

At 31 May 2010 the Group had contracted capital commitments of £5.3 million (2009 - £3.9 million).

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

11. Intangible fixed assets

Cost of player registrations	£000's
At 1 June 2009	131,462
Additions	19,954
Disposals	(7,444)
At 31 May 2010	143,972
Amortisation of player registrations	
At 1 June 2009	63,016
Charge for the year	25,033
Disposals	(4,738)
At 31 May 2010	83,311
Net book value	
At 31 May 2010	60,661
At 31 May 2009	68,446

The figures for cost of player registrations are historic cost figures for purchased players only. 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 fixed assets to be significantly greater than their book value.

12. Investments

	Group	
Investment in joint venture	**2010**	**2009**
	£000's	£000's
Investments at cost	20,000	20,000
Accumulated share of profit of joint venture	1,053	730
Adjustment to eliminate unrealised profit on sale of intangible assets	(20,000)	(20,000)
Share of joint venture	1,053	730

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 and controls 50 per cent of the voting rights. The Group's share of the assets included in the audited balance sheet of Arsenal Broadband Limited for the year ended 31 May 2010 is as follows:

	2010	**2009**
	£000's	£000's
Fixed assets	236	307
Current assets	3,054	1,300
Liabilities	(2,237)	(877)
	1,053	730

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

12. Investments (continued)

Investments in subsidiary undertakings	**Company**
	£000's
Balance at 1 June 2009 and 31 May 2010	30,059

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

	Country of incorporation	**Proportion of shares owned**	**Principal activity**
Arsenal (AFC Holdings) Limited	Great Britain	100%	Share holding
Arsenal Football Club plc*	Great Britain	100%	Professional football club
Arsenal (Emirates Stadium) Limited*	Great Britain	100%	Property development
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
Ashburton Properties (Northern Triangle) Limited*	Great Britain	100%	Property development

13. Stocks – 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.

14. Debtors

	Group		**Company**	
	2010	**2009**	**2010**	**2009**
	£000's	£000's	£000's	£000's
Amounts recoverable within one year:				
Trade debtors	13,486	11,380	-	-
Other debtors	18,531	18,211	-	-
Prepayments and accrued income	16,365	16,390	2	3
Corporation Tax	13,907	-	-	-
	62,289	45,981	2	3
Amounts recoverable in more than one year:				
Trade debtors	500	1,500	-	-
Amount due from group undertakings	-	-	125,601	108,598
Other debtors	-	5,319	-	-
Prepayments and accrued income	2,428	2,689	-	-
	2,928	9,508	125,601	108,598

Other debtors, of £18.5 million, include £17.9 million in respect of player transfers (2009 - £22.9 million).

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

15. Cash and short-term deposits

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£000's	£000's	£000's	£000's
Debt service reserve accounts	31,468	32,283	-	-
Other accounts	96,139	67,334	16,246	7,951
	127,607	99,617	16,246	7,951

The Group is 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 is restricted to that purpose. Included in other accounts is a balance of £6.6 million which is held in connection with the site works at Queensland Road. The use of this deposit is restricted to that purpose and Newlon Housing Trust is a joint signatory. The Group uses short-term bank treasury deposits as a means of maximising the interest earned on its cash balances.

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£000's	£000's	£000's	£000's
Cash at bank and in hand	33,547	54,099	46	301
Short-term deposits	94,060	45,518	16,200	7,650
	127,607	99,617	16,246	7,951

16. Creditors: amounts falling due within one year

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£000's	£000's	£000's	£000's
Fixed rate bonds – secured	5,248	4,930	-	-
Bank loans and overdrafts – secured	-	129,172	-	-
Trade creditors	11,079	13,698	-	-
Corporation tax	-	10,068	-	437
Other tax and social security	13,987	10,410	-	-
Other creditors	13,721	24,726	-	-
Accruals and deferred income	110,800	121,092	21	25
	154,835	314,096	21	462

Other creditors, above and as disclosed in note 17, include £17.7 million (2009 - £25.8 million) in respect of player transfers.

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

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

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£000's	£000's	£000's	£000's
Fixed rate bonds – secured	178,432	183,815	-	-
Floating rate bonds – secured	53,143	53,286	-	-
Debenture loans	26,423	26,094	11,993	11,664
Amounts due to group undertakings	-	-	1,786	1,786
Other creditors	6,921	4,803	-	-
Grants	4,284	4,431	-	-
Deferred income	14,680	20,319	-	-
	283,883	292,748	13,779	13,450
Debenture loans comprise:				
Par value of debentures plus accumulated interest	26,734	26,405	12,304	11,975
Costs of raising finance	(311)	(311)	(311)	(311)
	26,423	26,094	11,993	11,664

Under the issue terms debentures with a par value of £14,438,000 are repayable at par after 132 years and these debentures are interest free. Debentures with a par value of £10,224,000 are repayable at the option of the debenture holders in 18 years and carry cumulative compound interest at 2.75% per annum.

	Group	
The bank loans above and disclosed in note 16 comprise:	**2010**	**2009**
	£'000	£'000
Bank loans	-	129,602
Costs of raising finance	-	(430)
	-	129,172
Due within one year	-	129,172
Due after more than one year	-	-
	-	129,172

The costs of raising bank loan finance are amortised to the profit and loss account over the term of the loan. The amortisation charge for the year was £430,000 (2009 - £773,000).

The fixed rate bonds above and disclosed in note 16 comprise:

	2010	**2009**
	£'000	£'000
Fixed rate bonds	189,318	194,905
Costs of raising finance	(5,638)	(6,160)
	183,680	188,745
Due within one year	5,248	4,930
Due after more than one year	178,432	183,815
	183,680	188,745

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

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

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

The floating rate bonds above comprise:

	2010	**2009**
	£'000	£'000
Floating rate bonds	50,000	50,000
Interest rate swap	5,925	6,205
Costs of raising finance	(2,782)	(2,919)
	53,143	53,286
Due within one year	-	-
Due after more than one year	53,143	53,286
	53,143	53,286

The floating rate bonds bear interest at LIBOR for three month deposits plus a margin of 0.22% and the Group has entered into interest rate swaps which fix the LIBOR element of this cost at 5.75%.

The costs of raising debt finance, in the form of fixed and floating rate bonds, are amortised to the profit and loss account over the term of the bonds. The amortisation charge for the year was £659,000 (2009 - £503,000).

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

The Group's fixed rate bonds and floating rate bonds are 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 £46.5 million (2009 - £59.1 million) 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.

The Group's financial liabilities/debt is repayable as follows:

	2010	**2009**
	£'000	£'000
Between one and two years	6,209	5,890
Between two and five years	20,719	19,654
After five years	233,234	240,179
	260,162	265,723
Within one year	5,890	135,189
Total debt	266,052	400,912

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

18. Derivative 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 are interest rate, liquidity and foreign currency risks and the Board reviews and agrees its policy for managing these risks.

The Group has entered into interest rate swaps the purpose of which is to minimise its exposure to interest rate risk. The Group has entered into forward exchange contracts the purpose of which is to minimise its exposure to exchange rate risk in relation to certain Euro denominated receivables. The Group does not hold or issue derivative financial instruments for speculative purposes.

The numerical disclosures in this note deal with financial assets and liabilities as defined in Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures" ("FRS 13"). As permitted by FRS 13, short-term debtors and creditors have been excluded from the disclosures (other than the currency disclosures).

Interest rate profile

After taking into account these interest rate swaps, the interest rate profile of the Group's financial liabilities at 31 May 2010 was as follows:

	Fixed rate 2010 £000's	Floating rate 2010 £000's	Interest free 2010 £000's	Total 2010 £000's	Weighted average fixed rate %	Weighted average period for which rate is fixed yrs
Bonds – fixed rate	189,318	-	-	189,318	5.6	19
Bonds – floating rate	50,000	-	-	50,000	6.6	21
Bank loans	-	-	-	-	-	-
Debenture loans	12,304	-	14,430	26,734	2.8	18
	251,622	-	14,430	266,052		

The interest rate profile at 31 May 2009 for comparative purposes was:-

	Fixed rate 2009 £000's	Floating rate 2009 £000's	Interest free 2009 £000's	Total 2009 £000's	Weighted average fixed rate %	Weighted average period for which rate is fixed yrs
Bonds – fixed rate	194,905	-	-	194,905	5.6	20
Bonds – floating rate	50,000	-	-	50,000	6.6	22
Bank loans	-	129,602	-	129,602	-	-
Debenture loans	11,973	-	14,432	26,405	2.8	19
	256,878	129,602	14,432	400,912		

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

18. Derivative financial instruments (continued)

In the prior year, the interest rate on the floating rate element of bank loans was set at LIBOR plus margins ranging from 1.3% to 2.0%. The Group's bank deposits earn interest at rates linked to LIBOR. The Group's other financial assets, comprising mainly debtor balances, do not earn interest.

In addition to the above, the Group has commitments under letters of credit, as disclosed in note 27, of £1.8 million (2009 - £6.3 million) on which interest is currently paid at a fixed rate of 2%.

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:

	2010	**2009**
	£000's	£000's
Expiring in:		
One year or less	55,000	50,942

Fair values

The fair value of all financial instruments at 31 May 2009 and 2010, other than interest rate swaps as disclosed below, was not materially different from their book value.

	2010		**2009**	
	Book value £000's	**Fair value** £000's	**Book value** £000's	**Fair value** £000's
Derivative financial instruments held to manage the Group's interest rate profile:				
Interest rate swaps	-	(14,915)	-	(11,963)

The fair value of interest rate swaps have been determined by reference to relevant market data and the discounted value of expected cash flows arising from the transactions.

Changes in the fair value of interest rate swaps, which are used as hedges, are not recognised in the financial statements until the hedged position matures.

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

18. Derivative financial instruments (continued)

An analysis of these unrecognised gains and losses is as follows:	Group 2010 £000's	Group 2009 £000's
Unrecognised losses at start of year	(11,963)	(4,750)
Unrecognised losses arising in year	(2,952)	(7,213)
Unrecognised losses at end of year	(14,915)	(11,963)
Of which:		
Gains and losses expected to be recognised later than 2010/11	(14,915)	(11,963)

Foreign currencies

Included in other debtors are amounts of £4.4 million (2009 - £11.8 million) denominated in Euros.

Included in prepayments and accrued income are amounts of £11.1 million (2009 - £6.4 million) denominated in Euros.

Included in other creditors are amounts of £5.6 million (2009 - £6.0 million) denominated in Euros and £0.6 million (2009 - £0.2 million) denominated in US dollars. Included in provisions are amounts of £3.3 million (2009 - £2.1 million) denominated in Euros and £0.6 million (2009 - £0.9 million) denominated in US dollars.

19. Provisions for liabilities and charges

	Group 2010 £000's	Group 2009 £000's
Pensions provision (see note 29 (b))	1,176	1,362
Deferred taxation	35,186	22,669
Transfers	6,272	8,204
	42,634	32,235

The transfers provision relates to the probable additional transfer fees payable based on the players concerned achieving a specified number of appearances. In this respect, new provisions of £2.7 million were made during the year, £2.5 million of provisons were reclassified as creditors and £2.1 million of provisions were cancelled as no longer required.

The deferred tax charge for the year was £12.5 million (see note 8) (2009 - £4.6 million).

Deferred tax provision	Group 2010 £000's	Group 2009 £000's
Corporation tax deferred by accelerated capital allowances	15,505	13,413
Interest capitalised and other timing differences	19,681	9,256
Total provision for deferred taxation	35,186	22,669

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

20. Called up share capital

	2010	2009
Authorised	**Number**	**Number**
Ordinary shares of £1 each	62,217	62,217
Subscriber Ordinary shares of £1 each	2	2
Redeemable preference shares	49,998	49,998

Allotted, issued and fully paid	**£**	**£**
Subscriber Ordinary shares of £1 each	2	2
Ordinary shares of £1 each	62,217	62,217

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

21. Share premium

	Group	Company
	£000's	£000's
Balance at 1 June 2009 and 31 May 2010	29,997	29,997

22. Other reserves

	Merger reserve
	£000's
Group	
Balance at 1 June 2009 and 31 May 2010	26,699

23. Profit and loss account

	Group Profit and loss account	Company Profit and loss account
	£000's	£000's
Balance at 1 June 2009	137,572	102,640
Profit for the year	60,992	25,409
Balance at 31 May 2010	198,564	128,049

24. Reconciliation of movement in shareholders' funds

	2010	2009
	£000's	£000's
Profit for the year	60,992	35,230
Opening shareholders' funds	194,330	159,100
Closing shareholders' funds	255,322	194,330

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

25. Notes to the consolidated cash flow statement

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

	2010 £000's	2009 £000's
Operating profit	35,551	38,513
Amortisation of player registrations	25,033	23,876
Profit on disposal of tangible fixed assets	(14)	(42)
Depreciation	11,915	11,682
Decrease in stock	121,261	25,940
Increase in debtors	(869)	(4,680)
Decrease in creditors	(16,317)	(32,984)
Net cash inflow from operating activities	176,560	62,305

(b) Reconciliation of net cash flow to movement in net debt

	2010 £000's	2009 £000's
Increase in cash and short-term deposits for the period	27,990	6,353
Cash outflow from change in debt	135,188	15,356
Change in net debt resulting from cash flows	163,178	21,709
Change in debt resulting from non cash changes	(1,137)	(1,316)
Net debt at start of year	(297,680)	(318,073)
Net debt at end of year	(135,639)	(297,680)

As disclosed in note 15, a bank balance of £6.6 million, included within net debt, is held in connection with Queensland Road site works.

(c) Analysis of changes in net debt

	At 1 June 2009 £000's	Non cash changes £000's	Cash flows £000's	At 31 May 2010 £000's
Cash at bank and in hand	54,099	-	(20,552)	33,547
Short-term deposits	45,518	-	48,542	94,060
	99,617	-	27,990	127,607
Debt due within one year (bank loans/bonds)	(134,102)	-	128,854	(5,248)
Debt due after more than one year (bank loans/bonds)	(237,101)	(808)	6,334	(231,575)
Debt due after more than one year (debentures)	(26,094)	(329)	-	(26,423)
Net debt	(297,680)	(1,137)	163,178	(135,639)

Non cash changes represent £1,088,000 in respect of the amortisation of costs of raising finance, £329,000 in respect of rolled up, unpaid debenture interest and £280,000 in respect of amortisation of the premium on certain of the Group's interest rate swaps.

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

25. Notes to the consolidated cash flow statement (continued)

(d) Gross cash flows

	2010 £000's	2009 £000's
Player registrations:		
Payments for purchase of players	(29,940)	(35,398)
Receipts from sale of players	45,843	23,063
	15,903	(12,335)
Returns on investment and servicing of finance:		
Interest received	738	2,926
Finance charges paid	(18,387)	(20,615)
	(17,649)	(17,689)
Capital expenditure:		
Payments to acquire tangible fixed assets	(5,366)	(2,992)
Receipts from sale of tangible fixed assets	24	42
	(5,342)	(2,950)
Financing:		
Repayment of borrowings	(133,539)	(15,838)
Increase in long-term borrowings	-	795
Costs of raising finance	(1,649)	(311)
Total debt financing	(135,188)	(15,354)
Debenture repayments	-	(2)
	(135,188)	(15,356)

26. Leasing commitments

Commitments due under operating leases for the period to 31 May 2011 are in respect of:

	2010 Land and buildings £000's	2010 Other £000's	2009 Land and buildings £000's	2009 Other £000's
Leases expiring in:				
One year or less	7	-	-	-
Two to five years	-	164	-	163
Over five years	652	-	621	-
	659	164	621	163

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

27. 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 is £13.9 million (2009 - £7.1 million).

The Group has commitments outstanding under letters of credit, issued to guarantee its performance of certain future contractual obligations in relation to its new stadium and property development projects, of £1.8 million (2009 - £6.3 million). Provision has been made in the accounts for those costs incurred under these contractual obligations by the balance sheet date. When these liabilities are paid, the commitment outstanding under letters of credit will be reduced accordingly.

28. Related party transactions

The Group had the following transactions with Arsenal Broadband Limited in the year:-

	2010 **Income/ (charge)** £000's	**2009** **Income/ (charge)** £000's
Provision of office services	112	123
Merchandising and advertising sales	(617)	(665)
Arsenal TV	(730)	356

At 31 May 2010 the balance owing from the Group to Arsenal Broadband Limited was £2,132,000 (2009 - £1,546,000).

29. Pensions

a) *Defined contribution schemes*
Total contributions charged to the profit and loss account during the year amounted to £2,095,000 (2009 - £2,300,000).

b) *Defined benefit scheme*

	2010 £000's	**2009** £000's
Provision at start of year	1,362	576
Payments in year	(186)	(129)
Increase in provision	-	915
Provision at end of year	1,176	1,362

The Group is advised of its share of the deficit in the Scheme. The most recent actuarial valuation of the Scheme was as at 31 August 2008 and indicated that the contribution required from the Group towards making good this deficit was £1.33 million at 1 September 2009 (the total deficit in the Scheme at this date was £13.2 million).

NOTES TO THE ACCOUNTS

For the year ended 31 May 2010

29. Pensions (Continued)

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.

The agreed revised deficit is being paid off over a period of 10 years commencing September 2009. Payments for the year amounted to £186,000 and the profit and loss account charge was £40,000 (2009 - £24,000).

30. 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 cost resulting from these transfers, taking into account the applicable levies, is £6.5 million. These transfers will be accounted for in the year ending 31 May 2011.

FIVE YEAR SUMMARY

	2006	2007	2008	2009	2010
PROFIT AND LOSS ACCOUNT	£000's	£000's	£000's	£000's	£000's
Group Turnover	137,237	200,843	222,970	313,339	379,856
Operating profit before player trading and exceptional costs	11,323	41,614	48,018	58,800	60,124
Operating expenses – player registrations	(15,262)	(18,238)	(21,285)	(20,287)	(24,573)
Operating expenses – exceptional	-	-	-	-	-
Operating profit / (loss)	(3,939)	23,376	26,733	38,513	35,551
Share of results of joint venture	499	435	469	455	463
Profit on disposal of player registrations	19,150	18,467	26,458	23,177	38,137
Net interest – ordinary	175	(15,304)	(16,992)	(16,633)	(18,183)
Net interest – exceptional	-	(21,401)	-	-	-
Profit before tax	15,885	5,573	36,668	45,512	55,968
Profit after tax	7,902	2,816	25,726	35,230	60,992
Earnings per share	£127.01	£45.26	£413.49	£566.24	£980.31
Earnings per share (excluding exceptional items)	£127.01	£286.05	£413.49	£566.24	£980.31

	2006	2007	2008	2009	2010
BALANCE SHEET					
Tangible fixed assets	451,501	455,376	449,923	441,099	435,547
Intangible fixed assets	66,555	64,671	55,665	68,446	60,661
Net current assets / (liabilities)	(38,166)	61,231	(5,527)	9,768	85,631
Long term creditors and provisions	(349,332)	(447,904)	(340,961)	(324,983)	(326,517)
Net assets	130,558	133,374	159,100	194,330	255,322
Share capital	62	62	62	62	62
Share premium	29,997	29,997	29,997	29,997	29,997
Reserves	100,499	103,315	129,041	164,271	225,263
Shareholders funds	130,558	133,374	159,100	194,330	255,322
Net assets per share	£2,098.46	£2,143.69	£2,557.18	£3,123.42	£4,103.73

	2006	2007	2008	2009	2010
PLAYING RECORD					
Premier League	4th	4th	3rd	4th	3rd
FA Challenge Cup	4th round	5th round	5th round	Semi final	4th round
Europe	Finalist UEFA Champions League	1st K/O round UEFA Champions League	Quarter finals UEFA Champions League	Semi final UEFA Champions League	Quarter finals UEFA Champions League

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