ARSENAL HOLDINGS PLC

Statement of Accounts and
Annual Report 2012/13

DIRECTORS, OFFICERS AND PROFESSIONAL ADVISERS

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FINANCIAL HIGHLIGHTS

	2013 £m	2012 £m
Revenue		
Football	242.8	235.3
Property	37.6	7.7
Group	280.4	243.0
Wage Costs	**154.5**	**143.4**
Operating Profit		
(excluding player trading, exceptional items and depreciation)		
Football	25.2	32.3
Property	4.4	2.2
Group	**29.6**	**34.5**
Profit on player sales	**47.0**	**65.5**
Group profit before tax	**6.7**	**36.6**
Financing		
Cash	153.5	153.6
Debt	(246.7)	(252.5)
Net Debt	(93.2)	(98.9)


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CHAIRMAN'S REPORT

I am delighted to be writing my first report to shareholders following my appointment as Chairman of this great Club. At the same time I am sad that my friend and predecessor Peter Hill-Wood decided it was time to stand down for health reasons. He made a magnificent contribution to our Club since being appointed Chairman in 1982 and continued the legacy created by his father and grand-father stretching back to 1927.

I am honoured to have been asked by our controlling owner, Stan Kroenke, to become Chairman. Stan, along with everyone on the Board, is fully committed to bringing success to the Club in the shape of titles and trophies and that will continue to be our collective goal. It is my job to ensure we steer further along the course we have set. We must continue to grow commercially to provide the Club with the best opportunity to achieve success and we must do this in a way which remains true to our values and which ensures and protects the long-term sustainability of the Club.

We face a competitive landscape across the top of the Premier League and across Europe's elite clubs which is tougher than ever. Despite fair play initiatives the financial competition for top players remains intense and transfer prices and player wages continue to move ever higher.

It is therefore positive that the strong financial platform we have created in recent years allows us to continue to be competitive at the highest level. This was recently confirmed by the notable signing of Mesut Özil, one of the world's best players.

I know the Özil signing has given everyone who loves Arsenal a big lift but it should not be forgotten that we already have a young and talented squad. It is also appropriate to reiterate that the money we generate across the business is always available to our manager, Arsène Wenger, and that he quite properly makes the decisions regarding how to invest those funds based on his extensive football knowledge, experience and judgement. With the Özil transfer I believe we have made a significant statement and when Arsène decides the time is right to invest again, Stan Kroenke, myself and the rest of the Board will be delighted to support him.

Arsène's outstanding leadership has taken us to a 16th successive season in Champions' League competition. This is a tremendous achievement and is not something we should take for granted.

CHAIRMAN'S REPORT

Away from the football you will read in the following pages that, despite one-off costs associated with some rationalisation of the squad at the end of the season, we have reported a profit before tax of £6.7 million. This result has its foundation in the significant progress made on our commercial agenda. We have signed a new partnership with Emirates and have brought other commercial partners to the Club. The success of our recent tours to Asia and the growth of our global following have been key factors in this regard.

As always, our contributions in our local and global communities through the Arsenal Foundation and Arsenal in the Community have changed the lives of many thousands of people. Our aim is to help young people fulfil their potential and this year we have been more active than ever before. A detailed report on our community and charitable activities can be found on pages 28 and 29.

I would like to thank our loyal fans. Your support is crucial and I know the vast majority of you are proud about how we run the Club and how we play under Arsène's guidance. I thank you for your continued support.

I also thank Stan Kroenke for his guidance and support, my fellow directors, our management team and entire staff for all their hard work and dedication over the last year. I also fully recognise the support and contribution from our commercial partners, who are an important part of the Arsenal family.

In closing, it is clear we are entering an exciting phase of the Club's evolution. We have a manager in Arsène who is as focussed and determined to win trophies today as he was when he first arrived here 16 years ago, we have a young and highly talented squad, we have hugely committed supporters at home and abroad and we are attracting important global partners who will help us drive the revenues needed to keep us at the top of the game here and in Europe. Additionally we have a controlling owner in Stan Kroenke and a Board which is united in our resolve to keep Arsenal Football Club at the pinnacle of the game both here and in Europe.

I look forward to welcoming you all to Emirates Stadium over the course of the season.■

SIR CHIPS KESWICK
CHAIRMAN
23 September 2013

CHIEF EXECUTIVE'S REPORT

OVERVIEW

This has been another exciting year for Arsenal Football Club, both on and off the pitch.

Our fourth place finish in the Premier League was secured in dramatic fashion on the last day of the season, sealing our 16th successive qualification for the Champions' League. That is a remarkable achievement and, whilst we all have our ambitions set on the bigger prizes, it is not something we should ever under-estimate.

Our talented young squad showed extraordinary togetherness and spirit in putting together a great run with just one defeat in eleven league matches in the final weeks of the season.

This is a team with a special bond and we have been delighted to supplement that this summer with the arrivals of Mesut Özil, Mathieu Flamini and Emilio Viviano.

The signing of Özil for a Club record fee is a significant step for us. This signing was a direct result of all the hard work we have put in over recent years to build the commercial capability of the Club to deliver the consistent revenues and financial strength required to compete for the world's best players. That said, we will continue to stand by our principles in terms of nurturing young talent. That has been very evident with our extensions to the contracts of key young players over the last year and the emergence of teenagers Serge Gnabry and Gedion Zelalem into the first team squad. This is a key component of what we stand for at Arsenal Football Club and that will continue to be the case.

YOUTH DEVELOPMENT

As you will be aware, Liam Brady has decided to step down from his role as Academy Director at the end of this season. He is helping us in our search for a successor to further develop our academy and he will continue to be closely involved with the Club on an on-going basis. On behalf of everyone at Arsenal I would like to thank Liam for his important and valuable contribution in establishing us as one of the best clubs in the world for producing talented young players.

We have made a significant investment in recruiting expert new staff with responsibility for the physical development of our young players and are making good progress with the first phase of works to significantly upgrade the facilities at our Hale End academy. These are important developments which will make a long-term contribution to our future success.

THE ARSENAL LADIES

Arsenal Ladies have enjoyed yet another outstanding year, with new manager Shelley Kerr building on the success of her predecessor Laura

Harvey. The Ladies won the 2012 editions of both the Women's Super League and Continental Cup, in both cases for a second season running. They then lifted the FA Women's Cup for a twelfth time this May. In Europe, the team once again proved themselves to be amongst the best in the women's game, reaching the Champions League semi-finals for a third year in a row.

In the 2013 Women's Super League the team is currently placed second in the table.

A number of Arsenal Ladies players have excelled on an individual front. Rachel Yankey broke Peter Shilton's record of 125 England appearances in June to become her country's most-capped player, whilst Alex Scott reached the milestone of 100 England caps.

BUSINESS UPDATE

The financial results for the year, which are covered in more detail in the Financial Review section, show a satisfactory increase in revenue led by our extended partnership with Emirates. I am confident, as we move into 2013/14, that we are strongly placed to achieve further revenue growth.

PREMIER LEAGUE

The Premier League has achieved a significant uplift in the value of the domestic and worldwide broadcasting deals it has secured for the next three seasons. We are a member of a league which has once again demonstrated its leading position in the eyes of the huge global audience for football. Our broadcasting revenues from the Premier League will be in the order of fifty per cent higher as a result of these new contracts.

At the same time the Premier League's shareholder clubs have come together to introduce new financial fair play rules designed to enhance the stability of member clubs for the long-term. Arsenal was a leading proponent for the introduction of these new rules and we welcome their adoption.

COMMERCIAL PARTNERSHIPS

The work we have done over the past four years to build our partnerships capability and commercial relationships is bearing fruit. We agreed a new long-term agreement with Emirates to extend their shirt sponsorship until 2019 and their stadium naming rights through to 2028. The new partnership is worth £150 million and is one of the biggest deals in football history. This was a clear signal from one of our primary partners of their belief in our ambition to be a major competitor on the global football stage and provides an important financial building block for the future.

Our recent tours to Asia have seen us attract new regional partners in the shape of Indonesian mobile phone company, Telkomsel and betting

CHIEF EXECUTIVE'S REPORT

company Bodog. The growth in our global following has helped us sign deals with Imperial Bank in Kenya and Uganda, Sterling Bank in Nigeria and India on Track. PaddyPower also recently re-joined us as our betting partner in the UK, Ireland and Italy.

Looking forward to the next financial year, we will continue to look to grow our regional and official partnerships and to significantly progress conversations on our kit supply partnership. This is due for renewal at the end of season 2013/14 and we are confident of achieving a significant uplift in value.

CONCERTS

We successfully staged three concerts this summer featuring performances by Muse and Green Day. More than 150,000 fans attended. We have more concerts in the pipeline and have applied for permission to hold up to six concerts per year in the future. This is providing a strong and regular source of additional income from our stadium.

EMIRATES CUP

After an absence due to the Olympic Games we welcomed back the Emirates Cup with Napoli, Galatasaray and Porto providing the opposition. The weekend attracted almost 120,000 fans, many of whom were first-time visitors to Emirates Stadium. We look forward to seeing them again in the future and are already planning next year's opponents for what is an important part of our pre-season preparations.

ARSENAL FOUNDATION AND COMMUNITY ACTIVITIES

Our contributions to local communities here in the UK and further afield are an important part of our role as a football club. The Arsenal name allows us to open doors for people and young people in particular, as we aim to help them fulfil their potential. Over the past year, with the support of players, staff and fans, The Arsenal Foundation has continued to develop and provide essential funding for a variety of local and global projects. More detail on this work and other community activities can be found on pages 28 and 29.

2013 saw the Foundation announce four new ambassadors in Liam Brady, Martin Keown, Robert Pires and Bob Wilson – all former players whose knowledge and charisma will support the Foundation in its efforts to extend its work further and deeper in the future. The Club was also proud to confirm Bob's charity, Willow Foundation, as an official charity partner, in a move which renews the Club's link with a charity which provides special days for seriously ill young adults.

LOOKING AHEAD

We are entering an exciting phase of the Club's evolution as we continue with the transformation which started almost a decade ago with the move from Highbury to Emirates Stadium and which has continued, more recently, through the increase in our commercial capability off the pitch.

The progress we have made has been delivered in the face of a global economic recession and is testimony to the power and potential of the Arsenal name and to the hard work and commitment of everyone involved with the Club.

We are not yet fully where we want the Club to be, but everyone is looking forward to the challenges ahead and competing for and winning trophies. This includes Stan Kroenke, the Board and everyone connected with the Club. It equally applies to our players and our manager, Arsène Wenger. We are all fully focussed on achieving our ambitions for the Club, but determined to achieve them whilst remaining true to our principles.

We look forward to the rest of the season with excitement and optimism and will continue to work hard to take the Club forward and to make everyone proud to be part of the Arsenal family.■

I E Gazidis
Chief Executive Officer
23 September 2013


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FINANCIAL REVIEW

The Group has recorded a profit before tax for the 2012/13 year of £6.7 million (2012 - £36.6 million). The reduction in profit is, in the main, attributable to two factors:

- A lower surplus on sale of player registrations of £47.0 million, as compared to £65.5 million in the prior year; and
- Increased one-off charges primarily related to the impairment of certain player registrations and associated costs of £10.0 million, as compared to £5.5 million in the prior year.

	2013	2012
	£m	£m
Group turnover	280.4	243.0
Operating profit before amortisation, depreciation and player trading	29.6	34.5
Player trading (see table below)	1.6	26.1
Amortisation of goodwill and depreciation	(12.4)	(11.4)
Joint venture	0.9	0.9
Net finance charges	(13.0)	(13.5)
Profit before tax	6.7	36.6

Operating profits for the year of £29.6 million were reduced compared to the prior year (2012 - £34.5 million), with an increase in commercial revenues and an improved contribution from property activities outweighed by increased costs, including a total wage bill which rose above £150 million for the first time. Costs associated with the impairment review, referred to above, accounted for £4.3 million of the increased wage cost.

Player trading consists of the profit from the sale of player registrations, the amortisation charge, including any impairment, on the cost of player registrations and fees charged for player loans. The profit on sale for the year amounted to £47.0 million (2012 - £65.5 million) with the major contributions to this figure coming from the transfers out of Robin van Persie and Alex Song. During the period we invested £58.7 million in the acquisition of new players and, to a lesser extent, the extension of contract terms for certain existing players. The cost of this investment is being charged against profit over the life of the underlying player contracts and, as a consequence, the amortisation charge for the year was increased to £41.3 million (2012 - £36.8 million).

	2013	2012
	£m	£m
Profit on disposal of player registrations	47.0	65.5
Amortisation of player registrations	(41.3)	(36.8)
Impairment of player registrations and related charges	(5.7)	(5.5)
Loan fees	1.6	2.9
Total player trading	1.6	26.1

In addition to the regular amortisation, £5.7 million (2012 - £5.5 million) of impairment and related charges have been booked in respect of certain player registrations.
The charges relate to the registrations of players who were deemed to be excluded from the Arsenal squad and are consistent with the departure of a number of players subsequent to the financial year end. In addition to writing down book values to reflect recoverable amounts, the accounts include a provision for the additional costs related to certain of these departures.

Net finance charges have been reduced to £13.0 million (2012 - £13.5 million). This reflects the scheduled repayment of stadium finance bonds, leading to a lower interest payable charge. The interest earned on our bank balances was slightly increased despite the continuing low rates of interest generally available to depositors.

At the balance sheet date, the Group's total cash and bank balances amounted to £153.5 million (2012 - £153.6 million), inclusive of debt service reserve balances, which are not available for football purposes, of £33.8 million (2012 - £33.5 million), and the Group's overall net debt was £93.2 million (2012 - £98.9 million).

FINANCIAL REVIEW

FOOTBALL SEGMENT

	2013	2012
	£m	£m
Turnover	242.8	235.3
Operating profit before depreciation and player trading	25.2	32.3
Player trading	1.6	26.1
Profit before tax	1.6	34.1

There were three fewer home fixtures than in the prior year, with one less game in the UEFA Champions League and two less games in the Capital One Cup. Our 26 home fixtures (19 Barclays Premier League, four UEFA Champions League, two E.on FA Cup and one Capital One Cup) achieved an average tickets sold per game of 59,928 (2012 – 59,772). In addition, there was no Emirates Cup tournament in pre-season 2012, as a consequence of the London Olympics. On the positive side there were improved revenues from our pre-season tour matches and the financial year started and ended with venue hire revenues from five nights of concerts headlining Coldplay (3) and Muse (2). Overall, match and event day revenue was slightly lower at £92.8 million (2012 - £95.2 million).

Broadcasting revenues were little changed overall at £86.0 million (2012 - £84.7 million). Our merit share of Premier League distributions was one place lower than the prior year but the competition for fourth place meant we collected an additional three live game facility fees.

The Group's combined retail and commercial revenues were increased by some 19% to £62.4 million (2012 - £52.5 million). With commercial growth representing a key objective over both the short and medium terms, this is a good result. The main driver for this growth was the extended partnership contract with Emirates which came into effect for the second half of the year; revenues from this £150 million contract are being recognised over the new contract term. Accordingly, we will see a further uplift in financial year 2013/14 when this revised partnership with Emirates makes a contribution across the full year. Our partnership roster is becoming increasingly international and new partnerships, contributing to our growth for the year, included Airtel, Malta Guinness and India on Track.

Payroll continues to be by far the largest and most important area of cost. Wage costs for the year rose by 7.7% to £154.5 million (2012 - £143.4 million), which was almost entirely as a result of increases to the cost of our football playing staff. Included in wage costs are one-off charges of £4.3 million which, as mentioned above, arise from the impairment review conducted in respect of certain players.

The wage bill represented 63.6% of our football revenues (2012 – 60.9%). Whilst this ratio has increased in recent years, wage expenditure at this level continues to fall comfortably within the range which the Group's financial resources permit. The Group does not set any particular wage ratio as a performance target but rather monitors its total player spend, being wages plus transfer expenditure and related costs, on a rolling three year basis against its projections for the available funds generated over that period by the Group's business activities.

Other operating costs, which include all the direct and indirect costs and overheads associated with the Club's football operations and revenues, rose to £61.6 million (2012 -£56.7 million). There were a number of components to this change. Our larger scale pre-season tour in summer 2012 contributed to increased travel costs and five nights of concerts meant increased staging costs compared to the prior year. Whilst costs were higher so were the related revenues and for both the tour and concerts the overall profit contributions were increased. There were also increases under the other cost heading from foreign exchange (with sterling's weakness against the euro a particular factor) and operating properties (inclusive of provisions to exit certain surplus sites such as the old ticket reservation centre at Blenheim Court).


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PROPERTY SEGMENT

	2013 £m	2012 £m
Turnover	37.5	7.7
Operating profit	4.4	2.2
Profit before tax	5.1	2.5

Turnover from property included the completion of the sale of the north-east section of Queensland Road to Barratts for a consideration of some £27.0 million in June 2012. Visitors to Emirates Stadium will have observed the progress of Barratts' works in constructing three towers of market residential accommodation in the north-east quadrant of the site. The site had previously been re-valued in the Group's books, to reflect its expected sale price, and as such the transaction is effectively at break-even in profit and loss terms. Of the proceeds, £20 million is receivable in instalments over the course of the 2013/14 financial year.

At Highbury Square we completed the sale of three apartments to leave a single remaining unit, which will be retained by the Group. The final phase of the Highbury development, a mix of 21 new / refurbished property units with addresses on Avenell Road, Gillespie Road and Highbury Hill, has been a success with eight apartment sales and six house sales completed in the year generating revenue of £8.0 million. A further three house sales have completed since the year end and the remaining units are not yet available for sale.

The property business made an overall contribution to operating profits of £4.4 million (2012 - £2.2 million).

We continue to work with Islington Council's planning department to finalise viable development schemes for our two remaining property sites on Hornsey Road and Holloway Road.

PROFIT AFTER TAX

The tax charge for the year was £0.8 million (2012 – £7.0 million). The effective rate of taxation of 13% benefits from the revaluation of the Group's deferred tax liabilities to the 23% rate of corporation tax effective from April 2013. The retained profit for the year was £5.8 million (2012 - £29.6 million).

RISKS AND UNCERTAINTIES

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

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

- ★ the performance and popularity of the first team;
- ★ the recruitment and retention of key employees;
- ★ the rules and regulations of the applicable football governing bodies;
- ★ the negotiation and pricing of broadcasting contracts; and
- ★ the renewal of key commercial agreements on similar or improved terms.

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

The Club is regulated by the rules of the FA, Premier League, UEFA and FIFA. Any change to

FINANCIAL REVIEW

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, financial fair play, the division of broadcasting income, the eligibility of players and the operation of the transfer market. The Group monitors its compliance with all applicable rules and regulations on a continuous basis and also monitors and considers the impact of any potential changes.

Broadcasting and certain other revenues are derived from contracts which are currently centrally negotiated by the Premier League and, in respect of European competition, by UEFA; the Group does not have any direct influence, alone, on the outcome of the relevant contract negotiations. The Premier League currently sells its TV rights on a three year contract basis and has secured broadcasting contracts for season 2013/14 through to season 2015/16 which will provide clubs with an increase in revenues in the order of 50% above the previous levels.

The Group derives a significant amount of revenue from sponsorship and other commercial relationships. The underlying commercial agreements have finite terms and, whilst the Group fully expects that the global appeal of its brand will allow its commercial revenues to grow strongly in the short to medium term, the renewal of existing contracts and / or acquisition of new partnerships cannot be guaranteed. Currently the Group's most important commercial contracts are its naming rights and shirt sponsorship contracts with Emirates Airline, which have been extended to now expire in 2028 and 2019 respectively, and its kit sponsorship contract with Nike which expires in 2014.

FINANCIAL RISK MANAGEMENT

The Group's operations are exposed to a variety of financial risks that include credit risk, currency risk and the risks associated with liquidity and interest rates. 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 arises from 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. In addition, certain minimum bank deposits are required to be maintained as part of the security for the Group's debt finance balances. The Group monitors its compliance with the applicable terms of its debt finance arrangements on a continuous basis and regularly reviews its forecast cash flow to ensure that both its business segments hold an appropriate level of bank funds at all times.

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

FINANCIAL REGULATION

The Premier League has introduced certain new financial regulations effective from the start of the 2013/14 season. These regulations include a three year break-even test, on a similar basis to that contained in UEFA's Financial Fair Play regime albeit with a wider scope for losses, to be made good through equity funding, and a capping mechanism which limits the amount of revenue from the new Premier League broadcasting contracts that can be used to fund growth in player wage costs.

The Group continues to be in a robust financial position, compliant with the requirements of the new regulatory landscape and with the resources to support further investment toward on-field success.■

STUART WISELY
CHIEF FINANCIAL OFFICER
23 September 2013


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SEASON REVIEW

FIRST TEAM

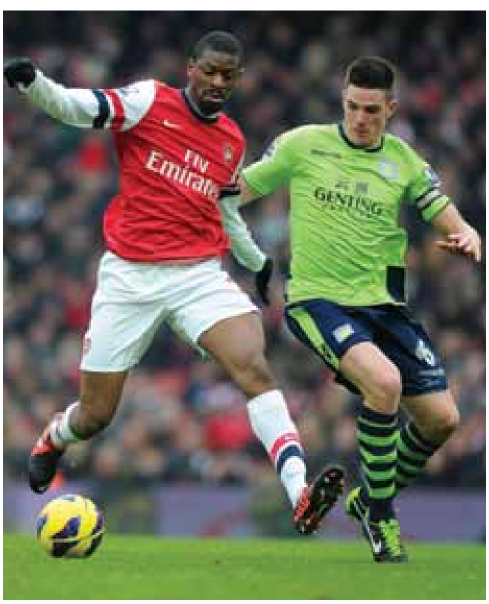
The first-team's season finished on a high note, with another season of Champions League football secured on a tense final day of the campaign thanks to a 1-0 win at Newcastle - the culmination of an impressive end of season unbeaten run.

A good start to the campaign included a 2-0 away win to Liverpool and the Gunners recording a big win against Southampton by 6-1 a week later. New boys Lukas Podolski, Olivier Giroud and Santi Cazorla all found their feet quickly and all three were off the goal scoring mark by October.

A testing autumn included a dramatic 7-5 win over Reading in the Capital One Cup (despite trailing 4-0 at one stage) and a second successive 5-2 home win over Tottenham Hotspur. However, a number of draws, combined with defeats to Norwich City and Swansea City damaged the team's title chances as winter drew in.

December saw a Capital One Cup exit to League Two side Bradford City after a penalty shoot-out, but the Gunners rallied to record another high scoring win against Reading (5-2) and a thrilling 7-3 win over Newcastle United.

In January, Lukas Podolski inspired the team to an excellent 5-1 home win over West Ham. However, there was disappointment the following month with interest in the FA Cup ended as the team lost to Championship side Blackburn Rovers just days before Bayern Munich visited north London for a Champions League round of 16 clash. The Germans, eventual winners of the competition, won the first leg 3-1. The second leg was a different story and saw Arsenal recording a superb 2-0 win. The away goals rule meant that we narrowly missed out on a quarter-final place. However, it proved to be a result which set the tone for Arsenal's strong end to the campaign.



The Gunners were unbeaten in their final ten Premier League games, winning eight of them and keeping five clean sheets in the process. This fine run ensured that the Club narrowly beat Tottenham into fourth place in the Premier League – a feat that seemed a tall order after the 2-1 defeat at White Hart Lane in March.

Cazorla was named 'Player of the Year' after a superb first season, while Theo Walcott top-scored with 21 goals. There were also plaudits for the defence, which, strongly anchored by Laurent Koscielny and Per Mertesacker, played a big part in steering the side home in the final weeks.

UNDER-21S

The Arsenal Under-21s again proved an important bridge between Under-18 and senior football.

The side began the season well with wins against Bolton, Blackburn and Everton. Consistency was harder to find thereafter, but there were some memorable results and performances - including a 2-1 win over Manchester United in March, a battling win at Wolves with ten men and a late-season victory at Liverpool. The Gunners finished fifth in their Premier Reserve League group, using 47 players during the campaign.

With three over-age players allowed in an Under-21 squad, the side also proved a useful vehicle for first-team players to work their way back to match fitness – and the likes of Wojciech Szczesny, Lukasz Fabianski and Bacary Sagna all played during the season.

Those who shone throughout the campaign included 13-goal Chuba Akpom, still in his first

SEASON REVIEW

year with the Academy, along with Thomas Eisfeld, Hector Bellerin, Isaac Hayden, Kristoffer Olsson and Serge Gnabry.

UNDER-19S

The Gunners' Under-19 side, led by Terry Burton, enjoyed a successful first season in the NextGen Series.

Drawn in a tough group featuring Olympiacos, Marseille and Athletic Bilbao, Arsenal qualified for the knock-out stage in second place behind the Greeks.

A long-range strike from Nico Yennaris put paid to Inter Milan and saw the side into the Round of 16. Serge Gnabry's fine winner saw off CSKA Moscow in a memorable quarter-final held at Emirates Stadium. The Gunners travelled to Como, Italy, for the final stages over Easter and were unlucky to lose a dramatic semi-final 4-3 against Chelsea – having leveled the tie with two goals in the last two minutes of normal time. A 3-1 defeat to Sporting Lisbon in the third-place play-off could not diminish a promising side's achievements.

UNDER-18S

The Under-18s enjoyed another encouraging season, finishing fourth in their Academy Premier League group.

Impressive results included a 3-0 win over Norwich in September, a victory over West Ham by the same score-line, an emphatic 5-0 defeat of Blackburn, a superb 5-2 win over league winners Aston Villa and a thrilling 5-4 triumph at Newcastle in the campaign's final game.

The FA Youth Cup campaign was ended in the fifth round, at the hands of a strong Everton side.

The team fielded 45 different players during the season, a number of them schoolboys. Jon Toral was top scorer with five goals from just six games, while first-years Austin Lipman and Tarum Dawkins both impressed in netting four times.

ARSENAL LADIES

Arsenal Ladies' footballing commitments continue to be year round.

Many of our women players were involved in Euro 2013, held in Sweden, which meant that the 2013 Women's Super League (WSL) season was put on hold until August, with the Gunners looking in good shape to defend their superb 2012 title win. That was their ninth consecutive domestic title and their second in this format of the league.

Our Ladies also emerged triumphant in the 2013 FA Women's Cup, beating Bristol Academy 3-0 in the final at Doncaster's Keepmoat Stadium to take the trophy for the 12th time.

That completed a brilliant domestic 'treble', with the team having won the Continental Cup last October – beating Birmingham City 1-0 at Barnet through Kim Little's strike.

There was also the excitement of a long run in the Champions League. Barcelona, Turbine Potsdam and ASD Torres were all defeated before eventual winners, Wolfsburg, proved too strong at the semi-final stage.

There was a change in the team manager during the season with Laura Harvey departing in February to be replaced by Scottish coach Shelley Kerr.

The season's resumption in August saw a number of important victories – one of which, over Everton, earned the Gunners another Continental Cup final berth against Lincoln.■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THE ARSENAL FOUNDATION

Over the past year, The Arsenal Foundation has continued to work at increasing the impact which it and the Club can have in helping young people across the globe to fulfill their potential.

We have focused on those young people who face difficult social and/or economic barriers which are preventing them from gaining self-confidence, life skills or employment. Our mission is to give those young people a chance to overcome barriers and to take a path to live healthy and productive lives in their communities. Through extensive grant making the Foundation has sought to work with a wider group of partners and on a broader portfolio of projects in order to increase the number of opportunities available to such young people. Our vision is to reach more and more young people, across a larger group of communities, with a greater variety of projects that will help them on their way.

The Arsenal Foundation continues to work hand in hand with Arsenal in the Community to realise its ambitious vision. Focused principally on our local boroughs, Arsenal in the Community engages over 2,000 individuals each week in more than 40 different projects across 55 separate venues, offering everything from the opportunity to play football to a multitude of other educational, social inclusion and employment programmes.

The launch of the Gunners Fund in 2013 means that The Arsenal Foundation and Arsenal in the Community now support a wider array of projects in Islington, Camden and Hackney across the areas of education, sport and the arts. Small grants of up to £2,500 are available from the Gunners Fund and awards made to Highbury Opera Theatre, Gillespie Park Nature Reserve, St Mark's Primary School and the London Communities Football League have all helped to contribute to fantastic activities for the local community.

Whilst the introduction of the Gunners Fund has increased the breadth of smaller projects which the Foundation and the Club support, the Foundation also continues to contribute to larger-scale initiatives in the local area. Earlier in the year, one such project saw Arsenal midfielder Jack Wilshere officially open a new Community Art Centre at Drayton Park Primary School in Highbury. The Morris Art and Community Building, part funded with a donation from The Arsenal Foundation, will support pupils and parents at the school, located just metres away from Emirates Stadium. As well as providing a vital new facility for pupils and parents, the centre will also provide local groups and individual artists with a space which they can hire outside school hours.

Arsenal's strong partnership with global charity partner, Save the Children, is also making a difference in Islington. The Arsenal Foundation donated £70,000 to support the delivery of Save the Children's Eat, Sleep, Learn, Play! (ESLP!) and Families and Schools Together (FAST) programmes for the first time in the borough, improving the wellbeing of over 100 families in the local area. Each week families took part in practical and fun activities designed to improve children's wellbeing and help develop their family and wider social relationships.

THE ARSENAL FOUNDATION

Internationally the Club has continued to partner with Save the Children to implement large-scale projects providing access to education for young people who would otherwise struggle to enter or stay in long term education.

As well as progressing to the second year of a three-year project with Save the Children in China, which is providing essential education resources to 15,000 disadvantaged children in Beijing, a new project was announced in Indonesia, to coincide with the pre-season Asia Tour in 2013.

The Indonesia project will support 4,000 vulnerable young people in Bandung Province, West Java, by providing them with enhanced vocational education and employment skills. To mark the announcement a group of young beneficiaries from Bandung were invited by The Arsenal Foundation to Jakarta during the Asia Tour to help prepare a traditional meal to break the day's fasting for Ramadan. They shared this meal and their stories with Arsène Wenger, Ivan Gazidis and young players Chuba Akpom and Chuks Aneke.

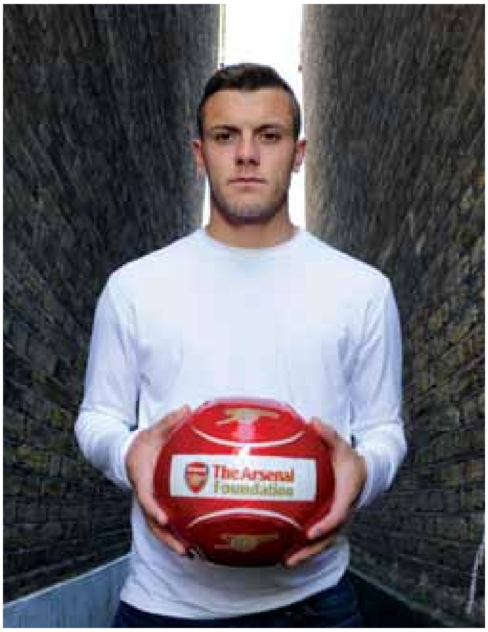
The Foundation is also proud to support Save the Children's critical emergency response work in areas affected by natural disaster or conflict. The conflict in Syria has displaced hundreds of thousands of young people with devastating effects on their lives. Arsenal Foundation Ambassador, Martin Keown, flew out to the Za'atari refugee camp in Jordan to hear some of the devastating stories from children who have been affected by the conflict, before meeting with Save the Children representatives to see how their work is making a difference on the ground. The ex-Gunners defender also opened a new football pitch at the camp and provided coaching to the children to highlight the Foundation's commitment to the cause. This year's Arsenal Foundation Ball raised £120,000 to fund temporary learning spaces for children affected by the crisis in Syria and provide them with essential learning materials.

2013 also saw the completion of a new lung function unit at Great Ormond Street Hospital, London and a ward for young cancer patients at University College Hospital, London. The Teenage Cancer Trust Hub is situated in UCH's Macmillan Cancer Centre, which offers the most advanced service of its kind in the UK. The Club's Charity of the Season partnership in 2008/9 raised more than £560,000 towards the UCH facility, which provides day care treatment and outpatient consultation for patients aged 13 to 24 from across London and the surrounding areas.

None of these projects would be possible without the support and generosity of the Arsenal family. Over the course of the year the Foundation Ambassadors, the Manager, players, staff and supporters have all come together to get involved in a range of fundraising activities which are essential to enable the Foundation to continue to build its important work.

In 2013/14 The Arsenal Foundation and the Club will continue to strengthen their charitable efforts aiming to reach ever increasing numbers of young people with opportunities that enable them to take their rightful place at the heart of their communities.■

More information about The Arsenal Foundation can be found at www.arsenal.com/thearsenalfoundation.




EMIRATES STADIUM
Emirates


EMIRATES STADIUM
Arsenal

DIRECTOR'S REPORT

The directors present their annual report and the audited financial statements for the year ended 31 May 2013.

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 the Emirates Stadium.■

PROFITS AND DIVIDENDS

The results for the year are set out on page 37 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 for the year (2012 - £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 and liquidity position. 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:
Sir Chips Keswick ★ K.J. Friar OBE ★ I.E. Gazidis ★ Lord Harris of Peckham ★ E.S. Kroenke
In addition, P. D. Hill-Wood served as a director until the date of his retirement on 14 June 2013.■

DIRECTORS INDEMNITIES

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

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year the Group made donations for charitable purposes amounting to £71,536 (2012 - £70,259).■

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 56 days (2012 - 58 days).■

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 aspects 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 AUDITOR

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 auditor is unaware; and
- Each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

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

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.■

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

D Miles

D MILES

COMPANY SECRETARY

23 September 2013

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

CORPORATE GOVERNANCE

The directors acknowledge the importance of the UK Corporate Governance Code and endeavour to comply with its requirements so far as the directors consider is appropriate to a Group of the size and nature of Arsenal Holdings plc.■

DIRECTORS

The Board currently consists of two executive directors and three non-executive directors. The Board meets on a regular 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 two non-executive directors, Sir Chips Keswick (Chairman) 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 auditor.■

NOMINATIONS COMMITTEE

The Nominations Committee is chaired by Lord Harris of Peckham and its other member is Sir Chips Keswick. 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 where relevant.■

REMUNERATION COMMITTEE

The Remuneration Report is set out on page 35.■

THE REMUNERATION REPORT

THE REMUNERATION COMMITTEE

The Committee consists of three non-executive directors, Lord Harris of Peckham (Chairman), Sir Chips Keswick and E.S. Kroenke.■

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.■

LORD HARRIS OF PECKHAM
CHAIRMAN OF THE REMUNERATION COMMITTEE
23 September 2013

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

We have audited the financial statements of Arsenal Holdings plc for the year ended 31 May 2013 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes 1 to 33. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.■

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.■

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 2013 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.

M. R. Lee-Amies

MARK LEE-AMIES
SENIOR STATUTORY AUDITOR
for and on behalf of Deloitte LLP, Chartered Accountants and Statutory Auditor, London. 23 September 2013

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MAY 2013

	Note	2013 Operations excluding player trading £'000	2013 Player trading £'000	2013 Total £'000	2012 Operations excluding player trading £'000	2012 Player trading £'000	2012 Total £'000
Turnover of the Group including its share of joint ventures		281,176	1,598	282,774	242,577	2,901	245,478
Share of turnover of joint venture		(2,400)	-	(2,400)	(2,465)	-	(2,465)
Group turnover	3	278,776	1,598	280,374	240,112	2,901	243,013
Operating expenses	4	(261,634)	(47,021)	(308,655)	(217,018)	(42,319)	(259,337)
Operating profit/(loss)		17,142	(45,423)	(28,281)	23,094	(39,418)	(16,324)
Share of joint venture operating result		945	-	945	952	-	952
Profit on disposal of player registrations		-	46,986	46,986	-	65,456	65,456
Profit on ordinary activities before finance charges		18,087	1,563	19,650	24,046	26,038	50,084
Net finance charges	5			(12,996)			(13,496)
Profit on ordinary activities before taxation				6,654			36,588
Taxation	8			(849)			(6,995)
Profit after taxation retained for the financial year				5,805			29,593
Earnings per share							
Basic and diluted	9			£93.30			£475.64

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

Consolidated statement of total recognised gains and losses

For the year ended 31 May 2013

	2013 £'000	2012 £'000
Profit after taxation	5,805	29,593
Exchange difference	2	-
Total recognised gains and losses relating to the year	5,807	29,593

BALANCE SHEET
AS AT MAY 2013

	Note	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Fixed assets					
Goodwill	10	1,924	-	-	-
Tangible fixed assets	11	421,539	427,157	-	-
Intangible fixed assets	12	96,570	85,708	-	-
Investments	13	3,031	2,326	30,059	30,059
		523,064	515,191	30,059	30,059
Current assets					
Stock - development properties	15	12,987	37,595	-	-
Stock - retail merchandise		2,131	1,681	-	-
Debtors - due within one year	16	88,484	52,332	4	-
- due after one year	16	8,287	5,201	132,311	133,001
Cash and short-term deposits	17	153,457	153,625	7,561	6,517
		265,346	250,434	139,876	139,518
Creditors: amounts falling due within one year	18	(149,931)	(145,159)	(22)	(22)
Net current assets		115,415	105,275	139,854	139,496
Total assets less current liabilities		638,479	620,466	169,913	169,555
Creditors: amounts falling due after more than one year	19	(274,721)	(268,066)	(14,822)	(14,466)
Provisions for liabilities and charges	21	(60,403)	(54,852)	-	-
Net assets		303,355	297,548	155,091	155,089
Capital and reserves					
Called up share capital	22	62	62	62	62
Share premium	23	29,997	29,997	29,997	29,997
Merger reserve	24	26,699	26,699	-	-
Profit and loss account	25	246,597	240,790	125,032	125,030
Shareholders' funds		303,355	297,548	155,091	155,089

These financial statements of Arsenal Holdings Plc (registered number 4250459) were approved and authorised for issue by the Board of Directors on 23 September 2013.

Signed on behalf of the Board of Directors

Chips Keswick

SIR CHIPS KESWICK
DIRECTOR

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MAY 2013

	Note	2013 £'000	2012 £'000
Net cash inflow from operating activities	27a	53,359	27,694
Player registrations	27d	(25,915)	(1,785)
Returns on investment and servicing of finance	27d	(12,356)	(13,071)
Taxation		(47)	(4,624)
Capital expenditure	27d	(6,496)	(8,610)
Acquisition of subsidiary	27d	(2,164)	-
Net cash inflow/(outflow) before financing		6,381	(396)
Financing	27d	(6,549)	(6,208)
Management of liquid resources		36,811	(79,633)
Change in cash in the year		36,643	(86,237)
Change in short-term deposits		(36,811)	79,633
Decrease in cash and short-term deposits		(168)	(6,604)

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

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 2013.

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 £2,000 (2012 - £30,000).

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

(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 at the point of broadcast. 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.

(E) DEPRECIATION

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

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

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

Freehold land is not depreciated.

(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 stock.

(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.

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

(K) PLAYER COSTS

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

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

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

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

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MAY 2013

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(L) IMPAIRMENT

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

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

★ in the case of a player who has suffered a career threatening injury, the value attributed by the Group's insurers; or

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

(M) PROVISIONS

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

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

(N) ONEROUS CONTRACTS

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

(O) 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.

(P) 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 2013/14 season and advance income from executive boxes and Club Tier seats at Emirates Stadium.

(Q) LEASES

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

(R) 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.

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.

(S) 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.

(T) GOODWILL

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

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MAY 2013

2. SEGMENTAL ANALYSIS

Class of business:	**Football**		**Property development**		**Group**	
	2013 £'000	**2012** £'000	**2013** £'000	**2012** £'000	**2013** £'000	**2012** £'000
Turnover	242,825	235,329	37,549	7,684	280,374	243,013
Segment operating (loss)/profit	(32,713)	(18,526)	4,432	2,202	(28,281)	(16,324)
Share of operating profit of joint venture	945	952	-	-	945	952
Profit on disposal of player registrations	46,986	65,456	-	-	46,986	65,456
Net finance charges	(13,614)	(13,793)	618	297	(12,996)	(13,496)
Profit on ordinary activities before taxation	1,604	34,089	5,050	2,499	6,654	36,588
Segment net assets	266,037	265,280	37,318	32,268	303,355	297,548

Operating profit from football before amortisation, depreciation, player trading and exceptional items amounted to £25.2 million (2012 - £32.3 million); being segment operating loss (as above) of £32.7 million (2012 - £18.5 million), adding back depreciation of £12.3 million (2012 - £11.4 million), amortisation of goodwill of £0.2 million (2012 - £Nil) and operating loss from player trading of £45.4 million (2012 - £39.4 million).

3. TURNOVER

Turnover, all of which originates in the UK, comprises the following:	**2013** £'000	**2012** £'000
Gate and other match day revenues	92,780	95,212
Broadcasting	86,025	84,701
Retail and licensing	18,057	18,303
Commercial	44,365	34,212
Property development	37,549	7,684
Player trading	1,598	2,901
	280,374	243,013

4. OPERATING EXPENSES

Operating expenses comprise:	2013 £'000	20121 £'000
Amortisation of goodwill	213	-
Amortisation of player registrations	41,349	36,802
Impairment of player registrations and related costs	5,672	5,517
Depreciation and impairment charges (less amortisation of grants)	12,294	11,391
Total depreciation, amortisation and impairment	59,528	53,710
Staff costs (see note 6)	154,490	143,448
Cost of property sales	33,078	5,463
Other operating charges	61,559	56,716
Total operating expenses	308,655	259,337

The total charge resulting from impairment of player registrations was £10.0 million (2012: £5.5 million) comprising of write down of the book value of intangible assets of £4.5 million (2012: £5.5 million), provisions for onerous player contracts (reported within staff costs - note 6) of £4.3 million (2012: £Nil) and other related costs of £1.2 million (2012: £Nil)

Other operating charges include:	2013 £'000	2012 £'000
Auditor's remuneration		
- audit of the company's annual accounts	20	20
- audit of the subsidiaries pursuant to legislation	133	129
Total audit fees	153	149
- other services	74	72
- tax services	106	96
Total non-audit fees	180	168
Operating lease payments		
- plant and machinery	173	166
- other	1,017	694
Profit on disposal of tangible fixed assets	(53)	(12)

Further non-audit fees of £22,500, relating to the acquisition of a subsidiary company, are included in the costs of acquisition.

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MAY 2013

5. NET FINANCE CHARGES

	2013 £'000	2012 £'000
Interest payable and similar charges:		
Bank loans and overdrafts	2	16
Fixed/ floating rate bonds	12,999	13,265
Other	357	385
Costs of raising long term finance	762	785
Total interest payable and similar charges	14,120	14,451
Interest receivable	(1,124)	(955)
Net finance charges	12,996	13,496

6. EMPLOYEES

The average number of persons employed by the Group during the year was:	2013 Number	2012 Number
Playing staff	73	70
Training staff	64	55
Administrative staff	302	271
Ground staff	98	100
	537	496

In addition the Group used on average 817 temporary staff on match days (2012 – 845).

	£000's	£000's
Staff costs:		
Wages and salaries	135,483	123,298
Social security costs	17,630	16,321
Other pension costs	1,377	3,829
	154,490	143,448

Included in staff costs are £4.3 million (2012: £Nil) of charges relating to the contracts of certain players whose registration value is impaired and whose contracts have been classified as onerous contracts.

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MAY 2013

7. DIRECTORS' EMOLUMENTS

	2013						2012
	Salary/fees £'000	Bonus £'000	Benefits £'000	Sub total £'000	Pension £'000	Total £'000	Total £'000
PD Hill Wood	65	-	-	65	-	65	67
KJ Friar OBE	290	100	26	416	-	416	571
Sir Chips Keswick	25	-	-	25	-	25	25
Lord Harris of Peckham	-	-	-	-	-	-	-
I Gazidis	1,367	450	8	1,825	100	1,925	2,150
ES Kroenke	25	-	-	25	-	25	25
	1,772	550	34	2,356	100	2,456	2,838

In both the current and prior year, Lord Harris of Peckham waived director's fees of £25,000 and the Group donated this amount to appropriate charities.

In addition, the pension charge for the prior year (see note 6) included £1.02 million in relation to K.J.Friar OBE, being part of the deficit in the defined benefit section of the Football League Pension and Life Assurance Scheme.

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MAY 2013

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2013 £'000	20121 £'000
UK corporation tax charge at 23.83% (2012 – 25.67%)	-	451
Under provision in respect of prior years	184	32
Total current taxation	184	483
Deferred taxation (see note 21)		
Origination and reversal of timing differences	2,474	9,218
Impact of change in tax rate	(1,615)	(2,480)
Over provision in respect of prior years	(194)	(226)
Total tax charge on profit on ordinary activities	849	6,995

From 1 April 2013 the rate of UK corporation tax was reduced from 24% to 23%. The Group's deferred tax liabilities have been revalued based on the 23% rate. The impact of the rate change is a deferred tax credit of £1.6 million.

	2013 £'000	2012 £'000
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 are as follows:		
Group profit on ordinary activities before tax	6,654	36,588
Tax on Group profit on ordinary activities before tax at standard UK corporation tax rate of 23.83% (2012 – 25.67%)	1,586	9,392
Effects of:		
Capital allowances in excess of depreciation	299	(48)
Roll-over relief on player registrations	(2,077)	(10,867)
Other timing differences	(785)	1,062
Non taxable income/expenses not deductible	977	912
Adjustments to tax charge in respect of prior years	184	32
Group current tax for the year	184	483

Full provision has been made for the deferred tax liabilities related to the roll-over of profits on sale of player registrations into the tax cost of new qualifying player registrations (see note 21).

The Group tax charge in future years may be affected by the legislation relating to taxation of profits on disposal of intangible assets, including player registrations, and rollover relief thereon.

The Finance Act 2013, which provides for a reduction in the main rate of corporation tax to 21% effective from 1 April 2014 and 20% effective from 1 April 2015, was substantively enacted in July 2013. 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 FRS 21, 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 at 31 May 2013 by £5.1 million.

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 (2012 - 62,217 shares).

10. INTANGIBLE FIXED ASSETS - GOODWILL

	£'000
Cost	
Additions	2,137
At 31 May 2013	2,317
Amortisation	
Charge for the year	213
At 31 May 2013	213
Net book value at 31 May 2013	1,924

Goodwill arises on the acquisition during the year of Arsenal Overseas LLC, more details are given in note 14.

11. TANGIBLE FIXED ASSETS

	Freehold properties £'000	Short Leasehold properties £'000	Plant and equipment £'000	Total £'000
Group				
Cost				
At 1 June 2012	400,956	6,608	92,498	500,062
Additions	1,458	211	5,051	6,720
Acquisitions	-	-	70	70
Disposals	-	-	(132)	(132)
At 31 May 2013	402,414	6,819	97,487	506,720
Depreciation				
At 1 June 2012	34,565	3,087	35,253	72,905
Charge for the year	5,647	309	5,745	11,701
Impairment	-	204	493	697
Disposals	-	-	(122)	(122)
At 31 May 2013	40,212	3,600	41,369	85,181
Net book value				
At 31 May 2013	362,202	3,219	56,118	421,539
At 31 May 2012	366,391	3,521	57,245	427,157

At 31 May 2013 the Group had contracted capital commitments of £5.9 million (2012 - £6.2 million). The cost of fixed assets includes £38.6 million of interest costs which were incurred on the stadium financing bank facilities during the periods when Emirates Stadium was under construction. The capitalisation of interest ceased in 2006 when Emirates Stadium came into use.

12. INTANGIBLE FIXED ASSETS

	£'000 £'000
Cost of player registrations	
At 1 June 2012	189,685
Additions	58,693
Disposals	(13,071)
At 31 May 2013	235,307
Amortisation of player registrations	
At 1 June 2012	103,977
Charge for the year	41,349
Impairment	4,740
Disposals	(11,329)
At 31 May 2013	138,737
Net book value	
At 31 May 2013	96,570
At 31 May 2012	85,708

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.

13. INVESTMENTS

	Group	
	2013 £'000	**2012** £'000
Investment in joint venture		
Investment at cost	20,000	20,000
Accumulated share of profit of joint venture	3,031	2,326
Adjustment to eliminate unrealised profit on sale of intangible assets	(20,000)	(20,000)
Share of joint venture	3,031	2,326

The joint venture represents an interest in Arsenal Broadband Limited, a company incorporated in Great Britain and engaged in running the official Arsenal Football Club internet portal. The Group owns all of the 20,000,001 Ordinary "A" shares of £1 each and the one "C" share of £1 issued by Arsenal Broadband Limited and controls 50 percent of the voting rights.

The Group's share of the net assets included in the audited balance sheet of Arsenal Broadband Limited for the year ended 31 May 2013 is as follows:

	2013 £'000	2012 £'000
Fixed assets	510	417
Current assets	3,498	3,292
Liabilities	(977)	(1,383)
	3,031	2,326

Investments in subsidary undertakings	**Company** **£'000**
Balance at 1 June 2012 and 31 May 2013	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
The Arsenal Football Club plc*	Great Britain	100%	Professional football club
Arsenal (Emirates Stadium) Limited*	Great Britain	100%	Property development
Arsenal Overseas Holdings Limited*	Great Britain	100%	Share holding
Arsenal Overseas LLC*	USA	100%	Data management
Arsenal Overseas Limited*	Jersey	100%	Retail operations
Arsenal Securities plc*	Great Britain	100%	Financing
Arsenal Stadium Management Company Limited*	Great Britain	100%	Stadium operations
ATL (Holdings) Limited	Great Britain	100%	Share holding
Ashburton Trading Limited*	Great Britain	100%	Property development
HHL Holding Company Limited	Great Britain	100%	Share holding
Highbury Holdings Limited*	Great Britain	100%	Property holding
Ashburton Properties (Northern Triangle) Limited*	Great Britain	100%	Property development
Arsenal Ladies Limited*	Great Britain	100%	Ladies football

14. ACQUISITION OF SUBSIDIARY UNDERTAKING

On 12 December 2012 the Group acquired 100 percent of the issued share capital of Arsenal Overseas LLC, a company involved in data management, for a cash only consideration of £2,165,000.

The following table sets out the book value of the identifiable assets and liabilities acquired and their fair value to the Group.

	Book Value £'000	Book Value £'000
Fixed assets	70	70
Current assets	25	25
Cash	(1)	(1)
Current liabilities	(66)	(66)
	28	28
Goodwill		2,137
		2,165
Satisfied by cash		2,165

15. STOCK - DEVELOPMENT PROPERTIES

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

16. DEBTORS

	Group		Company	
	2013 £'000	**2012** £'000	**2013** £'000	**2012** £'000
Amounts recoverable within one year				
Trade debtors	48,076	20,394	-	-
Other debtors	22,597	14,347	-	-
Prepayments and accrued income	17,811	17,591	4	-
	88,484	52,332	4	-
Amounts recoverable in more than one year				
Other debtors	6,618	3,570	-	-
Amount due from group undertakings	-	-	132,311	133,001
Prepayments and accrued income	1,669	1,631	-	-
	8,287	5,201	132,311	133,001

Other debtors include £26.1 million in respect of player transfers (2012 - £16.5 million).

17. CASH AND SHORT-TERM DEPOSITS

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Debt service reserve accounts	33,835	33,538	-	-
Other accounts	119,622	120,087	7,561	6,517
	153,457	153,625	7,561	6,517

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 £0.9 million (2012 - £1.0 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	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Cash at bank and in hand	65,915	29,272	7,561	17
Short-term deposits	87,542	124,353	-	6,500
	153,457	153,625	7,561	6,517

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Fixed rate bonds - secured	6,310	5,937	-	-
Trade creditors	9,191	10,983	-	-
Corporation tax	96	200	-	-
Other tax and social security	15,719	17,312	-	-
Other creditors	19,773	23,915	-	-
Accruals and deferred income	98,842	86,812	22	22
	149,931	145,159	22	22

Other creditors, above and as disclosed in note 19, include £20.5 million (2012 - £23.6 million) in respect of player transfers.

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MAY 2013

19. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2013 £'000	**2012** £'000	**2013** £'000	**2012** £'000
Fixed rate bonds - secured	160,192	166,640	-	-
Floating rate bonds - secured	52,713	52,856	-	-
Debenture loans	27,463	27,110	13,036	12,680
Amounts due to group undertakings	-	-	1,786	1,786
Other creditors	8,854	4,772	-	-
Grants	3,885	3,989	-	-
Deferred income	21,614	12,699	-	-
	274,721	268,066	14,822	14,466

Debenture loans comprise:

Par value of debentures plus accumulated interest	27,774	27,421	13,347	12,991
Costs of raising finance	(311)	(311)	(311)	(311)
	27,463	27,110	13,036	12,680

Under the issue terms debentures with a par value of £14,430,000 are repayable at par after 130 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 15 years and carry cumulative compound interest at 2.75% per annum.

The fixed rate bonds above and disclosed in note 18 comprise:	**2013** £'000	**2012** £'000
Fixed rate bonds	170,674	177,220
Costs of raising finance	(4,172)	(4,643)
	166,502	172,577
Due within one year	6,310	5,937
Due after more than one year	160,192	166,640
	166,502	172,577

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

The floating rate bonds above comprise:	2013 £'000	2012 £'000
Floating rate bonds	50,000	50,000
Interest rate swap	5,085	5,365
Costs of raising finance	(2,372)	(2,509)
	52,713	52,856
Due within one year	-	-
Due after more than one year	52,713	52,856
	52,713	52,856

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 £608,000 (2012 - £626,000).

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 0.65% 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 £54.2 million (2012 - £49.6 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:	2013 £'000	2012 £'000
Between one and two years	7,274	6,900
Between two and five years	24,274	23,026
After five years	210,000	218,170
	241,548	248,096
Within one year	6,900	6,545
Total debt	248,448	254,641

20. DERIVATIVE FINANCIAL INSTRUMENTS

The Group is mainly exposed to the foreign currencies of the Euro and US dollar. 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 2013 was as follows:

	Fixed rate 2013 £'000	Floating rate 2013 £'000	Interest free 2013 £'000	Total 2013 £'000	Weighted average fixed rate %	Weighted average period for which rate is fixed yrs
Bonds - fixed rate	170,674	-	-	170,674	5.8	16
Bonds - floating rate	50,000	-	-	50,000	6.6	18
Debenture loans	13,347	-	14,427	27,774	2.8	15
	234,021	-	14,427	248,448		

The interest rate profile at 31 May 2012 for comparative purposes was:

	Fixed rate 2012 £'000	Floating rate 2012 £'000	Interest free 2012 £'000	Total 2012 £'000	Weighted average fixed rate %	Weighted average period for which rate is fixed yrs
Bonds - fixed rate	177,220	-	-	177,220	5.6	17
Bonds - floating rate	50,000	-	-	50,000	6.6	19
Debenture loans	12,991	-	14,430	27,421	2.8	16
	240,211	-	14,430	254,641		

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 29, of £0.3 million (2012 - £0.3 million) on which interest is currently paid at a fixed rate of 1%.

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:

	2013 £'000	**2012** £'000
Expiring in: One year or less	50,000	50,000

Fair values

The fair value of all financial instruments at 31 May 2013 and 2012 other than interest rate swaps and forward exchange contracts as disclosed below, was not materially different from their book value.

Derivative financial instruments held to manage the Group's foreign exchange/interest rate profile:	**Book value 2013** £'000	**Fair value 2013** £'000	**Book value 2012** £'000	**Fair value 2012** £'000
Interest rate swaps	-	(19,043)	-	(18,127)
Forward exchange contracts	-	(459)	-	105

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. The Group makes a credit risk adjustment by considering its own credit worthiness when determining the fair value of the swaps.

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.

20. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	Group	
An analysis of these unrecognised gains and losses is as follows:	2013 £'000	2012 £'000
Unrecognised losses at start of year	(18,022)	(15,114)
Unrecognised losses arising in year	(1,480)	(2,908)
Unrecognised losses at end of year	(19,502)	(18,022)
Of which:		
(Losses)/gains expected to be recognised in 2013/14	(459)	105
Losses expected to be recognised later than 2013/14	(19,043)	(18,127)
	(19,502)	(18,022)

Foreign currencies

Included in cash and short term deposits are amounts of £2.1 million (2012 - £6.6 million) denominated in Euros. The Group has entered into certain foreign currency contracts which hedge its exposure to exchange rate fluctuations and provide for the future conversion of up to €12.1 million at rates ranging from £1: €1.17 to €1.27. Gains and losses on these contracts are not recognised until the exposure being hedged is itself recognised.

Included in other debtors are amounts of £3.9 million (2012 - £4.6 million) denominated in Euros and £0.1 million (2012 - £Nil) denominated in US dollars.

Included in prepayments and accrued income are amounts of £9.2 million (2012 - £8.8 million) denominated in Euros and £0.5 million (2012 - £Nil) denominated in US dollars

Included in other creditors are amounts of £6.2 million (2012 - £8.9 million) denominated in Euros. Included in provisions are amounts of £3.2 million (2012 - £4.1 million) denominated in Euros and £0.1 million (2012 - £0.5 million) denominated in US dollars.

21. PROVISIONS FOR LIABILITIES AND CHARGES

	Group	
	2013 £'000	2012 £'000
Pensions provision (see note 31 (b))	2,619	2,993
Deferred taxation	39,421	38,756
Transfers	11,195	13,103
Onerous contracts - players	5,456	-
Property	1,712	-
	60,403	54,852

The Transfers provision relates mainly to the probable additional transfer fees payable based on the players concerned achieving a specified number of appearances. In this respect, new provisions of £4.7 million were made during the year, £4.9 million of provisions were reclassified as creditors and £0.6 million of provisions were cancelled as no longer required.

The provision for onerous player contracts arose in the year and has been referred to in notes 4 and 6.

The Property provision relates to the liabilities arising from certain surplus operational properties, where activity is to be discontinued.

The deferred tax charge for the year was £0.7 million (see note 8) (2012 – charge of £6.5 million).

	Group	
Deferred tax provision	**2013** £'000	**2012** £'000
Accelerated capital allowances	12,576	13,451
Capitalised interest	8,341	8,854
Rollover relief on player registrations	20,234	18,157
Other timing differences	(1,730)	(1,706)
Total provision for deferred taxation	39,421	38,756

22. CALLED UP SHARE CAPITAL

Authorised	**2013** Number	**2012** 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

Alloted, 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.

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MAY 2013

23. SHARE PREMIUM

	Group £'000	Company £'000
Balance at 1 June 2012 and 31 May 2013	29,997	29,997

24. OTHER RESERVES

Group	**Merger reserve** £'000
Balance at 1 June 2012 and 31 May 2013	26,699

25. PROFIT AND LOSS ACCOUNT

	Group Profit and loss account £'000	**Company Profit and loss account** £'000
Balance at 1 June 2012	240,790	125,030
Profit for the year	5,805	2
Exchange difference	2	-
Balance at 31 May 2013	246,597	125,032

26. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2013 £000's	**2012** £000's
Profit for the year	5,805	29,593
Exchange difference	2	-
Opening shareholders' funds	297,548	267,955
Closing shareholders' funds	303,355	297,548

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2013 £'000	2012 £'000
Operating loss	(28,281)	(16,324)
Amortisation of player registrations	41,349	36,802
Impairment of player registrations	4,740	5,517
Amortisation of goodwill	213	-
Profit on disposal of tangible fixed assets	(53)	(12)
Depreciation (net of grant amortisation)	12,294	11,391
Decrease/(increase) in stock	24,158	(4,702)
(Increase) in debtors	(29,659)	(11,894)
Increase in creditors	28,598	6,916
Net cash inflow from operating activities	53,359	27,694

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

	2013 £'000	2012 £'000
Increase/(decrease) in cash in the year	36,643	(86,237)
(Decrease)/increase in short-term deposits in the year	(36,811)	79,633
Decrease in cash and short-term deposits in the year	(168)	(6,604)
Cash outflow from change in debt	6,549	6,208
Change in net debt resulting from cash flows	6,381	(396)
Change in debt resulting from non cash flows	(684)	(695)
Net debt at start of year	(98,918)	(97,827)
Net debt at end of year	(93,221)	(98,918)

As disclosed in note 17, a bank balance of £0.9 million (2012 - £1.0 million), included within net debt, is held in connection with Queensland Road site works.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(c) Analysis of changes in net debt

	At 1 June 2012 £'000	Non cash changes £'000	Cash flows £'000	At 31 May 2013 £'000
Cash at bank and in hand	29,272	-	36,643	65,915
Short-term deposits	124,353	-	(36,811)	87,542
	153,625	-	(168)	153,457
Debt due within one year (bonds)	(5,937)	-	(373)	(6,310)
Debt due after more than one year (bonds)	(219,496)	(328)	6,919	(212,905)
Debt due after more than one year (debentures)	(27,110)	(356)	3	(27,463)
Net debt	(98,918)	(684)	6,381	(93,221)

Non cash changes represent £608,000 in respect of the amortisation of costs of raising finance, £356,000 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.

(d) Gross cash flows

	2013 £'000	2012 £'000
Player registrations		
Payments for purchase of players	(65,041)	(57,406)
Receipts from sale of players	39,126	55,621
	(25,915)	(1,785)
Returns on investment and servicing of finance		
Interest received	1,162	832
Finance charges paid	(13,518)	(13,903)
	(12,356)	(13,071)
Capital expenditure		
Payments to acquire tangible fixed assets	(6,559)	(8,629)
Receipts from sale of tangible fixed assets	63	19
	(6,496)	(8,610)
Acquisition of subsidiary		
Payment for acquisition of subsidiary	(2,165)	-
Net cash acquired with subsidiary	1	-
	(2,164)	-
Financing		
Repayment of borrowings	(6,549)	(6,208)
Total debt financing	(6,549)	(6,208)

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MAY 2013

28. LEASING COMMITMENTS

Commitments due under operating leases for the period to 31 May 2014 are in respect of:

	2013		2012	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases expiring in:				
One year or less	18	18	-	14
Two to five years	953	156	54	155
Over five years	131	-	937	-
	1,102	174	991	169

29. 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, in respect of contracts in force at the year end date, is £6.6 million (2012 - £7.8 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 £0.3 million (2012 - £0.3 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.

30. RELATED PARTY TRANSACTIONS

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

	2013 Income/ (charge) £'000	2012 Income/ (charge) £'000
Provision of office services	208	160
Merchandising and advertising sales	(1,535)	(1,358)
Arsenal TV	(880)	(735)

At 31 May 2013 the balance owing from the Group to Arsenal Broadband Limited was £5,685,000 (2012 - £3,602,000).

31. PENSIONS

a) Defined contribution schemes

Total contributions charged to the profit and loss account during the year amounted to £1,323,000 (2012 - £1,207,000).

b) Defined benefit scheme

	2013 £'000	2012 £'000
Provision at start of year	2,933	970
Payments in year	(374)	(206)
Increase in provision	-	2,229
Provision at end of year	2,619	2,993

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 2011 and indicated that the contribution required from the Group towards making good this deficit was £2.9 million at 1 September 2012 (the total deficit in the Scheme at this date was £25.7 million). The Group's share of the deficit is being paid off over a period of ten years commencing September 2012.

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

Payments for the year amounted to £374,000 and the profit and loss account charge was £54,000 (2012 - £2,622,000).

32. POST BALANCE SHEET EVENTS

Player transactions

Since the end of the financial year a subsidiary company, Arsenal Football Club plc, has contracted for the purchase and sale of various players. The net payment resulting from these transfers, taking into account the applicable levies, is £34.3 million (2012 – net receipt of £11.3 million). These transfers will be accounted for in the year ending 31 May 2014.

33. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The ultimate parent undertaking and controlling party is KSE UK Inc., which owns 66.8% of the share capital of the Company. KSE UK Inc. is incorporated in the State of Delaware, USA, and is wholly-owned and controlled by Mr E.S. Kroenke.


Arsenal
Fly
Emirates

FIVE YEAR SUMMARY

	2009	2010	2011	2012	2013
Profit and Loss Account	£'000	£'000	£'000	£'000	£'000
Group Turnover	313,339	379,856	255,692	243,013	280,374
Operating profit before player trading and exceptional costs	58,800	60,124	38,046	23,094	17,142
Operating expenses - player registrations	(20,287)	(24,573)	(20,923)	(39,418)	(45,423)
Operating expenses - exceptional	-	-	4,783	-	-
Operating profit/(loss)	38,513	35,551	21,906	(16,324)	(28,281)
Share of results of joint venture	455	463	822	952	945
Profit on disposal of player registrations	23,177	38,137	6,256	65,456	46,986
Net interest	(16,633)	(18,183)	(14,208)	(13,496)	(12,996)
Profit before tax	45,512	55,968	14,776	36,588	6,654
Profit after tax	35,230	60,992	12,633	29,593	5,805
Earnings per share	£566.24	£980.31	£203.05	£475.64	£93.30
Earnings per share (excluding exceptional items)	£566.24	£980.31	£161.13	£475.64	£93.30
Balance Sheet					
Tangible fixed assets	441,099	435,547	433,076	429,483	424,570
Intangible fixed assets	68,446	60,661	55,717	85,708	98,494
Net current assets	9,768	85,631	93,348	105,275	115,415
Long term creditors and provisions	(324,983)	(326,517)	(314,186)	(322,918)	(335,124)
Net assets	194,330	255,322	267,955	297,548	303,355
Share capital	62	62	62	62	62
Share premium	29,997	29,997	29,997	29,997	29,997
Reserves	164,271	225,263	237,896	267,489	273,296
Shareholders' funds	194,330	255,322	267,955	297,548	303,355
Net assets per share	£3,123.42	£4,103.73	£4,306.78	£4,782.42	£4,875.76
Playing record					
FA Premier League	4th	3rd	4th	3rd	4th
FA Challenge Cup	Semi final	4th round	6th round	5th round	5th round
Europe	Semi final Champions League	Quarter finals Champions League	1st k/o round Champions League	1st k/o round Champions League	1st k/o round Champions League