ARSENAL**HOLDINGS**PLC
Statement of Accounts and Annual Report 2013/14

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FINANCIAL HIGHLIGHTS

	2014 £m	2013 £m
Revenue		
Football	298.7	242.8
Property	3.2	37.6
Group	301.9	280.4
Wage Costs	**166.4**	**154.5**
Operating Profit (excluding player trading and depreciation)		
Football	62.0	25.2
Property	0.4	4.4
Group	**62.4**	**29.6**
Profit on player sales	**6.9**	**47.0**
Group profit before tax	**4.7**	**6.7**
Financing		
Cash	207.9	153.5
Debt	(240.5)	(246.7)
Net Debt	(32.6)	(93.2)

CHAIRMAN'S REPORT

When I was appointed Chairman of this great Club I made it clear that I wanted to remain true to our philosophy and principles, whilst helping us move forwards and competing for trophies at home and in Europe.

With this in mind it was with considerable delight that I joined the team and many tens of thousands of fans on the open top bus parade of Islington following our FA Cup success in May. It was a very special day for all of us and one which will remain in the memory for some considerable time to come. I would like to thank Islington Council for their hospitality at the Town Hall and their support of the whole event, which helped it to run so smoothly.

The FA Cup Final victory over Hull City was the culmination of a dramatic season where we were consistently competing close to the top of the Premier League. We ultimately sealed qualification for the Champions League for a 17th successive season with a fourth place finish. With the intensity of competition increasing year on year this represents unprecedented consistency and huge credit must go to Arsène Wenger for this achievement.

Consequently, we were delighted to secure Arsène's signature on a renewed contract. This provides us with continued stability and direction on the football front, which we believe are vital ingredients in the recipe for further success.

Our improved financial position has also allowed us to supplement the squad with important new signings. Alexis Sanchez, Mathieu Debuchy and David Ospina enjoyed outstanding World Cup tournaments for Chile, France and Colombia respectively and Calum Chambers is a very talented young player. We have also continued to retain the core of our team on new contracts which means we can build on the unity and spirit that was so evident last season. Finally, on the closing day of the transfer window, we secured the signing of England international forward, Danny Welbeck.

Off the pitch you will read in the following pages that our revenues have exceeded £300 million and that we have reported a profit before tax of £4.7 million. This has been underpinned by both TV revenues and the significant progress made on our

CHAIRMAN'S REPORT

commercial agenda. Our popularity around the world continues to grow apace and is making us an attractive proposition to potential sponsors. As a result, we have brought in a number of new partners and, in particular, we have welcomed PUMA as our new kit provider from the start of the current campaign. Significant progress has also been made in our retail operations and our media business continues to spread the Club's name far and wide through digital and social media.

Our commitment to both our local and global communities has again made a difference for many thousands of people. The Arsenal Foundation goes from strength to strength, thanks in no small part to financial contributions from our players and fans, whilst the Arsenal in the Community team continues its sterling work in and around the Borough of Islington.

Once again we have enjoyed magnificent support from our loyal fans. Emirates Stadium was sold out for most of last season and the support we receive both home and away and from around the world is hugely gratifying and something we will never underestimate.

My thanks are due to our majority shareholder, 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 should also take this opportunity to publicly thank Liam Brady, who leaves us after 17 years of outstanding work with our Youth Academy, and our Chief Commercial Officer, Tom Fox, who has left us to become Chief Executive Officer at Aston Villa. I also fully recognise the support and contribution from our commercial partners.

In closing, we look forward with excitement and optimism. Mr Kroenke, myself and everyone at the Club are as one in our ambition to put Arsenal Football Club at the pinnacle of the game here and in Europe. We all want to savour a repeat of the joys of last May.

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

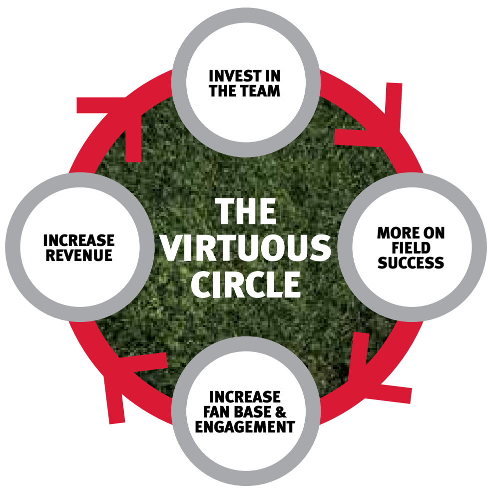
SIR CHIPS KESWICK
CHAIRMAN
19 September 2014

STRATEGIC REPORT

STRATEGY

The Board's long term strategy is to continue to develop Arsenal Football Club as a leading football club on both the domestic and global stage.

The Board are committed to a self-sustaining business model within which the funds generated by the business are available for further investment into the Club with the aim of achieving an increased level of on-field success which ultimately translates into the winning of trophies.



The Chief Executive's Report on page 10 and the Financial Review on page 15 are considered to be integral parts of the Group's Strategic Report for the 2013/14 year.

KEY PERFORMANCE INDICATORS

The Group has a range of financial and non-financial performance indicators.

ON-FIELD PERFORMANCE

- FA Cup Winners (for the 11th time)
- Finished Premier League 4th place
- Champions League Round of 16
- Qualified for 2014/15 Champions League – 17th successive season

REVENUE

- 2013/14 £301.9 million
- 2012/13 £280.4 million
- 2011/12 £243.0 million

MATCH ATTENDANCE

- 29 home fixtures (2013 - 26)
- Average ticket sales of 59,790 represents › 99% of capacity (2013 – 59,928)
- Match day revenue in excess of £100 million (2013 - £92.8 million)

COMMERCIAL REVENUE

- 2013/14 £77.1 million
- 2012/13 £62.4 million
- 2011/12 £52.5 million
- Emirates and PUMA secured as lead partners on a long-term basis

GLOBAL FAN BASE

- 40 million Arsenal.com unique visits
- Facebook fans - 28.2 million
- Twitter followers - 4.3 million
- 1.2 million Red and Digital Members
- 138,000 You Tube subscribers

WAGE COSTS

- Wage to football turnover ratio of 56% (2013 – 64%)
- Total wage costs of £166.4 million (2013 - £154.5 million)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CHIEF EXECUTIVE'S REPORT

OVERVIEW

Sitting on the open top bus taking in the scenes of jubilation as we toured Islington with the FA Cup in May was very special for everyone associated with Arsenal. The shared pride and unity was there for all to see. I know the scenes of joy were repeated in the Arsenal community around the world and it was a terrific re-affirmation of what this football club means to so many people.

The nerve-jangling victory over Hull City was also a triumph delivered by remaining true to our principles and beliefs. That has been our mantra on and off the pitch and the Wembley success showed that we are on the right path. In addition, we finished the League campaign just seven points short of the Premier League title and have since translated our fourth place finish into a 17th successive season of Champions League football.

Arsène Wenger has extended his contract for a further three years and is as hungry as ever for more success. We continue to drive forwards across every aspect of our activities.

We are making significant progress but there is plenty more to be done.

FOOTBALL

Our strong financial platform has allowed us to retain all of our key players whilst supplementing the squad with some high quality global talent.

Contracts have been renewed with Santi Cazorla, Serge Gnabry, Laurent Koscielny, Per Mertesacker, Aaron Ramsey, Thomas Rosicky and Wojciech Szczesny. This builds on the re-signing of several key players last year and gives the squad real stability for the future.

In addition, Alexis Sanchez joined us from Barcelona after a highly successful World Cup with Chile while Colombia's first choice keeper David Ospina has joined us from Lille where he has been one of the top performing goal keepers in French football. French right back Mathieu Debuchy joined us from Newcastle United, again after representing his country in Brazil. Calum Chambers, signed from Southampton, is showing huge promise with the ability to play in a number of positions and has already earned a first England cap. Finally, another England international, Danny Welbeck, was signed to further strengthen our attacking options.

This puts us in an excellent position but I must stress that our long held philosophy, to identify and develop young players, remains key to our future. With this in mind Andries Jonker has succeeded Liam Brady as our Head of the Youth Academy. Andries joins us from Vfl Wolfsburg and has an outstanding track record of developing young talent. He established the Dutch FA's world renowned youth

development programmes and he will bring this expertise to bear as we build on Liam's outstanding legacy of the past 17 years.

We are also putting significant financial investment into our youth development activities. The first phase of extensive refurbishment work has been completed to our facilities at Hale End and work on a second phase is well underway. We are investing in new staff and looking at the very latest techniques in sports science and physical development. We are also looking to strengthen our global scouting networks to ensure we find the very best young talent in the game. This is important to our long-term success and it is a policy we will continue to pursue vigorously.

Investments are also being made in people and infrastructure at our London Colney training centre. We are putting forward plans for improvements which will take us to the next level in terms of fitness and preparation facilities and I look forward to work getting underway in 2015.

THE ARSENAL LADIES

The Ladies won the Women's FA Cup for a remarkable 13th time after an outstanding 2-0 victory over Everton at MK Stadium. Prior to the victory, Manager Shelley Kerr had decided to move back to Scotland after 18 months with us. We are grateful for all her hard work and wish her every success in her new role as Manager of Stirling University in the Lowland League. We have recently appointed Pedro Losa from Western New York Flash as manager and wish him every success.

I would also like to pay tribute to Vic Akers who is stepping away from the day to day running of the Ladies' team after 27 years. Vic has been the driving force behind the team since its inception and has been named Founder and Honorary President. Former player Clare Wheatley moves into the position of General Manager, where she will oversee player transfers, contract renewals and certain aspects of coaching.

BUSINESS UPDATE

The financial results for the year, which are covered in more detail in the Financial Review section, show our turnover moved above £300 million. This was driven by the uplift in Premier League broadcasting revenues and the inclusion of a full year contribution from our extended partnership with Emirates.

COMMERCIAL PARTNERSHIPS

In January this year we announced our new partnership with PUMA, who become the Club's Official Kit Partner from 1 July 2014. The deal represents the biggest partnership agreement in both Arsenal and PUMA's history and the financial impact of this deal will begin to be realised in the next financial year. The partnership is testimony to the strength of the Arsenal name around the world. We continue to enjoy significant momentum in attracting new partners to the Arsenal family. During the course of the past year we have agreed partnerships with brands including Gatorade, Huawei, Cooper Tires, Lanvin, JEANRICHARD, Pru Health, Europcar, Hansa Pilsener and BT Sport as well as renewing our global deals with Citroen and Indesit. This represents strong achievement and demonstrates the progress we have made in transforming our commercial operation in recent years.

Following Tom Fox's departure to become Chief Executive Officer at Aston Villa, Vinai Venkatesham, who has led our partnership business since joining us four years ago from the London 2012 Organising ▶

CHIEF EXECUTIVE'S REPORT

Committee, has been appointed Chief Commercial Officer. Having worked closely with Vinai during this period I am confident he will continue to drive our commercial activities forward.

RETAIL

We continue to invest in our retail operations. Our flagship Armoury store underwent a transformation at the end of last season, as part of a joint project with PUMA, and trading has been very strong since we re-opened in July. Moving forward, we have plans to invest in our on-line retail systems to improve the experience for supporters, both in the UK and Internationally.

ARSENAL.COM

Our media group continued to drive strong reach and engagement with supporters around the world through digital and social media channels. www.Arsenal.com remains the first port of call for all Arsenal news, with very strong traffic numbers. We also now have 28 million followers on Facebook, more than 4 million on Twitter and our recently launched YouTube channel already has 135,000 subscribers. In addition, we continue to develop our usage of Instagram, Sound Cloud, Flickr and our social media presence in China.

We also recently renewed our partnership with MP & Silva, who will continue to distribute the club's international programming block (The Arsenal Media Channel) and will remain the Club's strategic media advisor. In the 2013/14 season, MP & Silva delivered a record distribution of the Arsenal Media Channel to 130 territories in five continents, covering a potential audience reach of 392 million households in Europe, Asia-Pacific, MENA, Latin America and North America.

PRE-SEASON 2014/15

We made a successful, albeit brief, trip to New York as part of our pre-season preparations. It was great to be reunited with our old friend Thierry Henry for the game against the New York Red Bulls and the reception we received from our fans in America was phenomenal. We were all struck by the depth of following for Arsenal and the increased interest and understanding for the game as a whole. Football continues its long-term growth in the US and increased television promotion and exposure will accelerate the game's growth across all demographics in the States.

The visit to New York was followed by another highly successful Emirates Cup. The weekend attracted 120,000 fans, many of whom were young families visiting us for the first time. They saw La Liga side Valencia take the trophy after an exciting weekend of football involving ourselves, Portuguese champions Benfica and French club AS Monaco.

ARSENAL FOUNDATION AND COMMUNITY ACTIVITIES

The Arsenal Foundation has continued to provide essential funding for a variety of local and global projects and our partnerships with Save the Children, the Willow Foundation and Islington Giving continue to flourish. In addition our Arsenal in the Community team continues to deliver hugely important programmes in Islington and surrounding boroughs, reaching more than 5,000 people through 350 sessions every week.

LOOKING AHEAD

The Club is in excellent shape, both on and off the pitch. We are proud of our 11th FA Cup success and the reward this represents to our fans in the Arsenal community around the world. There is always more to do and, whether investing in the team or in training facilities which will provide long-term benefit to the Club, our guiding principles are the same and our focus is clear, on delivering more on field success. This remains the shared ambition of our majority shareholder Stan Kroenke, the Board and everyone connected with the Club. We are well placed to deliver against those ambitions.

We look forward to the rest of the season with excitement.■

I E GAZIDIS
CHIEF EXECUTIVE OFFICER
19 September 2014


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FINANCIAL REVIEW

The Group recorded a profit before tax for the 2013/14 year of £4.7 million (2013 - £6.7 million).

Essentially, this result reflects a balance of two factors:

- Increased revenues from broadcasting and sponsorship, taking the Group's turnover above £300 million and resulting in an operating profit which was more than doubled at £62.4 million (2013 - £29.7 million)
- A quiet year in terms of outbound player transfers which meant an overall deficit on player trading of £32.6 million (2013 – profit of £1.6 million).

	2014 £m	2013 £m
Group turnover	301.9	280.4
Operating profit before amortisation, depreciation and player trading	62.4	29.7
Player trading (see table below)	(32.6)	1.6
Amortisation of goodwill and depreciation	(12.8)	(12.5)
Joint venture	0.7	0.9
Net finance charges	(13.0)	(13.0)
Profit before tax	4.7	6.7

The main drivers for the revenue increase were the significantly improved Premier League television contracts, recognition of a full year of the enhanced partnership arrangements with Emirates and our FA Cup success. These football revenue gains were partially offset by a lower level of activity in the property business.

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.

	2014 £m	2013 £m
Profit on disposal of player registrations	6.9	47.0
Amortisation of player registrations	(40.0)	(41.3)
Impairment of player registrations and related charges	-	(5.7)
Loan fees	0.5	1.6
Total Player Trading	(32.6)	1.6

The profit on sale of players for the year amounted to £6.9 million (2013 - £47.0 million) with only the sales of Gervinho and Mannone generating appreciable fees; this was a significant reduction as compared to the profits generated from the sales of van Persie and Song in the prior year. There was no requirement to book any impairment charges against the carrying values of the playing squad for the year under review.

During the period we invested strongly in the playing squad and £64 million was booked in relation to the acquisition of new players, including Mesut Özil, and, to a lesser extent, the extension of contract terms for certain existing players. The cash impact of these acquisitions was partially offset by the collection of receivables on previous player sales and by the credit terms agreed with the vendor clubs, which meant that overall the Group has maintained its strong cash position.

At the balance sheet date, the Group's total cash and bank balances amounted to £207.9 million (2013 - £153.5 million), inclusive of debt service reserve balances of £34.6 million (2013 - £33.8 million). The Group's overall net debt was £32.6 million (2013 - £93.2 million).

FOOTBALL SEGMENT

	2014 £m	2013 £m
Turnover	298.7	242.8
Operating profit before depreciation and player trading	62.1	25.2
Player trading	(32.6)	1.6
Profit before tax	3.8	1.6

There were three more home fixtures than in the prior year, with one more game in the UEFA Champions League and two more home FA Cup ties. Our 29 home fixtures (19 Barclays Premier League, five UEFA Champions League, four Budweiser FA Cup and one Capital One Cup) achieved an average tickets sold per game of 59,790 (2013 – 59,928). In addition, the Emirates Cup returned successfully to our pre-season schedule after its Olympic break in 2012. Overall match-day revenue rose to £100.2

FINANCIAL REVIEW

million (2013 - £92.8 million) – only the second time this has topped the £100 million mark. Despite achieving a near record high, match-day was replaced by Broadcasting as the Group's number one source of revenue.

Broadcasting revenues benefited from the Premier League's significantly improved deals with Sky and BT and in addition our League form meant we attracted a higher number of live game facility fees, 25 for the season (2013 – 22). Broadcasting fees for FA Cup coverage are paid at a much lower rate, but none the less our run to Wembley made a contribution as did the sale of the TV rights for the Emirates Cup. In total, broadcasting revenue rose by some 40 per cent to £120.8 million (2013 - £86.0 million). With BT's exclusive acquisition of the UK rights to the UEFA Champions League for season 2015/16 there is a further uplift in this revenue line on the horizon which only serves to further increase the financial significance of a top four Premier League placing.

Commercial revenue growth has been a key target over recent years and we have made excellent progress - in the five years since 2009 the Group's commercial revenues have risen by more than 70%.

Combined retail and commercial revenues for the year rose by some 24% to £77.1 million (2013 - £62.4 million). The main driver for this growth was the extended partnership contract with Emirates which made a full year contribution; in the prior year there was only a six month benefit from this contract. We also added to our roster of secondary partnerships with Cooper Tires, JEANRICHARD and Lanvin amongst the new business secured.

Our retail business made a strong start to the year but, as predicted, was held back in the second half by lower available stocks of replica kit as part of the planned transition from Nike to PUMA. The new five year kit partnership with PUMA did not come into force until after the financial year end and therefore no revenues or costs from this contract have been included in the profit and loss account for 2013/14.

Payroll was once again the largest and most important area of cost. Wage costs for the year rose by 7.7% (2013 – 7.7%) to £166.4 million (2013 - £154.5 million), which was mainly attributable to increases in the cost of our football playing and support staff. In light of the strong correlation which exists between player wage expenditure and on-field success we should be clear that having the resources to grow our wage bill in a rational and responsible manner actually represents a positive outcome. Given the greater financial resources of certain of our main competitors, it remains an imperative that the money we do commit to wages is spent as efficiently as possible.

Our average permanent headcount for the year was 548, only marginally increased over the prior year (2013 – 537). We will continue to invest prudently in people as and when there is an opportunity to grow or improve our business as a result.

As a consequence of our increased revenues, the ratio of total wage bill to football revenues was reduced to 55.7% (2013 – 63.6%). This ratio is widely used as a benchmark in analysis of football club finance. However, the Group does not set any particular wage ratio as a performance target but rather monitors its total player spend, a combination of 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 £69.9 million (2013 -£61.6 million). The reasons for this change were multi-faceted. Elements of our increased revenue inevitably carry an associated increased cost, for example the costs of staging an increased number of home games including the Emirates Cup and the costs of servicing our larger number of partnership deals. Our other operating costs expressed as a percentage of our football revenues were 23.4% (2013 – 25.4%).

PROPERTY SEGMENT

In contrast to last year, which included the sale of the major development site at Queensland Road north-east, sales activity in our property business was at a very low level and confined to the disposal of a small number of houses associated with the Highbury Square development. As a consequence the contribution from property to the Group's profit before tax was reduced to £0.9


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million (2013 - £5.1 million).

	2014 £m	2013 £m
Turnover	3.2	37.5
Operating profit	0.4	4.4
Profit before tax	0.9	5.1

We continue to investigate the opportunities for viable development schemes for our two remaining property sites on Hornsey Road and Holloway Road. The outcome of a judicial review process, decided earlier this year, meant we were unable to progress one possible scheme for Hornsey Road and that decision is itself now subject to an appeal. Planning consent for this site is proving to be a difficult process and until it is resolved we are unable to unlock the value of this site.

PROFIT AFTER TAX

Overall there is a tax credit of £2.6 million (2013 – charge of £0.8 million) on the pre-tax result for the period.

This meant that the retained profit for the year was increased to £7.3 million (2013 - £5.8 million).

There are two significant elements to the tax credit on the result. Firstly, the reduction in corporation tax rates to 20% from April 2015 means that the Group's deferred tax liabilities have been re-valued to this lower rate; this resulted in a £5.1 million credit. Secondly, the tax deductibility of the amortisation charge on player registrations is partially restricted as a result of previous roll-over reliefs claimed on player sales. This meant that our taxable profit was higher than our accounts pre-tax profit and resulted in corporation tax charge payable for the year of £3.7 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 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 ▸

FINANCIAL REVIEW

the relevant contract negotiations. 2013/14 was the first year of the Premier League's latest three year TV rights deal.

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 PUMA.

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 Club is subject to the Financial Fair Play regulations put in place by UEFA and the Premier League. Both sets of regulations have a rolling three year break-even test as their cornerstone, albeit with differing levels of allowable losses. The Premier League regulations also include a wage cap control on an initial short term (three year) basis of which 2013/14 was the first controlled year.

It remains to be seen exactly what impact these regulations will have on the financial landscape at the top of the game domestically and in Europe.

Arsenal continues to be in a strong financial position. We are fully compliant with the FFP requirements and well placed to continue to invest toward further on-field success.■

STUART WISELY
CHIEF FINANCIAL OFFICER
19 September 2014


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SEASON REVIEW

An exciting and successful 2013/14 season culminated with the first team bringing home the FA Cup by beating Hull City in a dramatic final at Wembley Stadium.

The Cup campaign started off in fine style with a comfortable third-round victory over Tottenham Hotspur at the Emirates. This laid the foundations for a successful run to Wembley, which also took in home victories over Coventry City, Liverpool and Everton.

Wigan Athletic were beaten in a dramatic semi-final penalty shoot-out and a memorable final followed, with Arsenal recovering from an early two goal deficit to beat Hull after extra-time. Santi Cazorla and Laurent Koscielny brought the Gunners level in normal time before Aaron Ramsey scored after 109 minutes to win the Cup for the club for the 11th time. In six FA Cup games the Gunners scored 16 goals and conceded just four.

In the Premier League the Gunners secured an 18th successive top-four finish.

September proved to be a pivotal month: Tottenham were beaten by Olivier Giroud's first-half strike and 24 hours later the Club broke its transfer record by securing the services of German playmaker and World Cup winner Mesut Özil from Real Madrid.

Arsenal won eight and drew one of the nine league games that followed the first weekend of the season, with Jack Wilshere's goal of the season against Norwich City a particular highlight, along with the outstanding form of Aaron Ramsey.

The run was eventually ended by a narrow defeat at Manchester United in November, though back-to-back wins over West Ham United and Newcastle United after Christmas meant Arsenal entered 2014 at the top of the league.

Thirteen points from the first five games of the New Year kept Arsène Wenger's team in pole position, where they remained until losing 5-1 at Liverpool in February. Nonetheless, the Gunners kept in contention, with Tomas Rosicky's brilliant strike at White Hart Lane sealing a third north London derby victory of the season.

Arsène Wenger passed 1,000 games in charge of the Club during March but, after a setback at Everton, a top four finish looked in some doubt. However, the team rallied strongly and regained much of their early term form for the back end of the campaign. The Gunners beat West Ham, Hull City, Newcastle, West Bromwich Albion and Norwich City to finally secure fourth place.

SEASON REVIEW

In Europe, the Gunners comfortably beat Fenerbahce in the Champions League play-off round and then progressed through a tough group featuring Borussia Dortmund, Napoli and Marseille. For the second year running, a last-16 clash against Bayern Munich followed. Arsenal lost 2-0 at the Emirates and exited the competition despite earning a spirited 1-1 draw in the return leg.

Arsenal's Capital One Cup campaign began with a young side beating West Bromwich Albion on penalties at the third-round stage and ended after a 2-0 defeat to an experienced Chelsea outfit in the following round.

The Club's under-21 side will play their football in Division Two of the Under-21 Premier League this season after finishing 14th in 2013/14. Wins over Norwich City, Fulham and Chelsea helped the young Gunners progress to the Under-21 League Cup semi-finals, where they were eventually beaten by Reading after extra-time. Chuba Akpom, who made his first-team debut in the league at Sunderland in September, was top goalscorer with six goals from ten appearances while Isaac Hayden, Hector Bellerin, Gedion Zelalem and Kristoffer Olsson also made first-team bows over the course of the season.

Arsenal progressed to the quarter-finals of the UEFA Youth League before losing a dramatic tie in Barcelona and also reached the last four of the FA Youth Cup, beating Everton 3-1 at Emirates Stadium in the quarter-finals along the way.

Carl Laraman's under-18 side showed glimpses of their potential en route to a ninth-place finish in the Under-18 Premier League.

The trophies continued to come for Arsenal Ladies, who won the Continental Cup in October 2013 thanks to a 2-0 victory over Lincoln. The Ladies reached the quarter-finals of the Champions League and came close to winning the Women's Super League for a third successive year, eventually finishing, six points behind champions Liverpool, in third position after being deducted three points for fielding an ineligible player.

There was better news in the FA Cup, where the Ladies won the competition for the 13th time. Having progressed to the final courtesy of a thrilling 5-3 win over Chelsea in the last four, Kelly Smith and Yukari Kinga scored as Arsenal beat Everton 2-0 in the final. The victory marked a fitting end to Shelley Kerr's time as manager at the club.■


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THE FA CUP
WINNERS
2014
-THANKS TO OUR FANS-
THE FA CUP
WINNERS
2014


Ford


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DORTMUND
EVONIK
NEW TOURNEO
SONY

THE ARSENAL FOUNDATION & ARSENAL IN THE COMMUNITY

The work of The Arsenal Foundation and Arsenal in the Community continues to go from strength to strength.

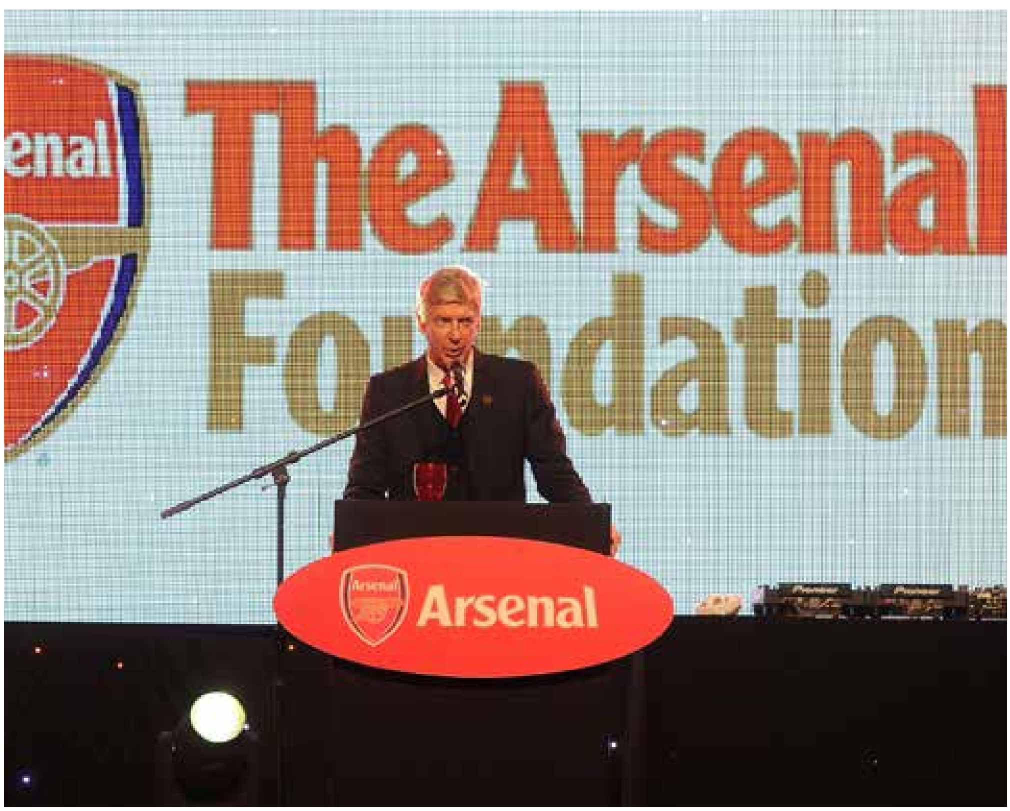
The Arsenal Foundation continues to identify and support projects which help young people develop their skill base and which make a unique difference to their lives. Through partnerships with Save the Children, the Willow Foundation and Islington Giving, young people from Islington to Beijing and Hertfordshire to Jakarta are supported by a variety of projects funded by the Foundation.

The Foundation's global partnership with Save the Children, now in its third year, has delivered significant education projects to children in China and Indonesia, aiming to reach as many as 19,000 children and giving them a better chance of accessing and staying in education leading to improved opportunities to develop skills and ultimately reach employment. The Foundation has also supported Save the Children's emergency work including in Syria and the Philippines reaching over 120,000 children with medical services, shelter and school kits as well as other essential emergency care.

The Arsenal Foundation has committed £100,000 to the Willow Foundation over three years to fulfil special days for seriously ill young adults. In addition, the Foundation has confirmed an annual donation of £50,000 for the next three years to Islington Giving; this will fund a youth engagement project delivering structured football activities on Friday evenings for young people at suitable venues across the Borough.

The Gunners Fund, set up to provide financial support to smaller organisations in and around Islington, annually donates £50,000 to local causes. Beneficiaries this year include Resources for Autism, Disability Athletics Activation and Chance UK who support young carers in Camden and Islington.

Arsenal's participation in the FA Community Shield at the start of the 2014/15 season allowed Friendship Works to benefit from a donation of £25,000. This charity, based three miles away from Emirates Stadium, offers mentoring support to help children and young people who are having problems growing up in their home and social environment. Tomas Rosicky met some of the young people and their mentors when they were special guests at Emirates Stadium for our 2014 Members Day in August.



THE ARSENAL FOUNDATION & ARSENAL IN THE COMMUNITY

100 YEARS OF COMMUNITY LIFE

Arsenal celebrated 100 years in the Borough of Islington last season and the Club continues to be as much a part of Islington life off the pitch as on it. The anniversary gave us an opportunity to look back on our relationship with our local community and trace our commitment to the Borough from the Club's earliest days in Islington.

Islington first benefited from Arsenal's move to Islington when, immediately following the First World War, the Club made a financial contribution to the Islington War Memorial Fund and donated one thousand guineas to the Great Northern Hospital on Holloway Road, for the endowment of a bed.

One hundred years on, supporters were able to find out more about how the Club has helped shape local history when the Islington Museum hosted a special '100 Years of Arsenal' exhibition, showcasing a range of rare and interesting artefacts that commemorate the Club's presence in the area.

The Club celebrated the 100-year milestone with a special event at Emirates Stadium for local dignitaries, businesses and organisations. Arsenal's Premier League match against Stoke City on 22 September 2013 – the nearest date to the first ever match at Highbury which saw the Gunners run out 2-1 winners over Leicester Fosse on September 6, 1913 – marked the centenary. Players wore special edition shirts for this game, which were auctioned off with funds raised going to the Foundation to support local projects through the Gunners Fund.

Arsenal's FA Cup win was the perfect way to round off its 100 years in Islington celebration and the Club shared the success with its local community. Following the FA Cup trophy parade through local street, the trophy went on its own tour of local projects and organisations including a local care home for the elderly.

Emirates Stadium played host to an Arsenal in the Community tournament which allowed 450 participants from a variety of projects to play on the famous pitch. Young people aged between 8 and 24 took part in two days of tournaments which helped to celebrate a season of success on and off the pitch.

ARSENAL IN THE COMMUNITY

Arsenal in the Community continues to develop and deliver projects which use football as a means to engage young people and inspire them to bigger and better things in life. Sometimes just knowing the Club is behind them is enough for many young people to make positive choices in life.

During any given week, more than 5,000 individuals are engaged in Arsenal in the Community initiatives across more than 40 different projects using 55 different venues. In the 29 years since Arsenal in the Community was formally established, it is estimated that more than six million hours have been delivered by the Club's dedicated community staff and more than one million people have been engaged in the Club's varied activities. These range from inclusive football sessions, to education programmes using Arsenal as a hook and to social inclusion projects and training and employability schemes which lead to employment opportunities.

A highlight from Arsenal in the Community's work this year was the opening of an all-weather 3G astro pitch at Torriano School, Camden. This is one of eight pitches which The Arsenal Foundation has contributed to since 2012. St Mark's School, Islington also benefitted from a pitch upgrade. Opened by Arsenal Legend Pat Rice, The Arsenal Foundation-funded facility now plays host to regular girls' football sessions and hockey coaching run by Arsenal in the Community coaches.■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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 May 2014.

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 Strategic Report and Financial Review sections of the Annual Report.

The directors do not recommend the payment of a dividend for the year (2013 - £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 unused 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, unless stated otherwise, are set out below:

- Sir Chips Keswick
- K.J. Friar OBE
- I.E. Gazidis
- Lord Harris of Peckham
- E.S. Kroenke
- J.W. Kroenke (appointed 5 December 2013)

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.

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
COMPANY SECRETARY
19 September 2014
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 four 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 four non-executive directors, Lord Harris of Peckham ([Chairman]), Sir Chips Keswick, E.S. Kroenke and J.W. 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
19 September 2014

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 2014 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 32. 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 of the parent company's affairs as at 31 May 2014 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 MATTER PRESCRIBED BY THE COMPANIES ACT 2006

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

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, United Kingdom
19 September 2014

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MAY 2014

	Note	2014 Operations excluding player trading £'000	2014 Player trading £'000	2014 Total £'000	2013 Operations excluding player trading £'000	2013 Player trading £'000	2013 Total £'000
Turnover of the Group including its share of joint ventures		303,754	513	304,267	281,176	1,598	282,774
Share of turnover of joint venture		(2,395)	-	(2,395)	(2,400)	-	(2,400)
Group turnover	3	301,359	513	301,872	278,776	1,598	280,374
Operating expenses	4	(251,736)	(40,072)	(291,808)	(261,634)	(47,021)	(308,655)
Operating profit/(loss)		49,623	(39,559)	10,064	17,142	(45,423)	(28,281)
Share of joint venture operating result		710	-	710	945	-	945
Profit on disposal of player registrations		-	6,912	6,912	-	46,986	46,986
Profit/(loss) on ordinary activities before net finance charges		50,333	(32,647)	17,686	18,087	1,563	19,650
Net finance charges	5			(13,018)			(12,996)
Profit on ordinary activities before taxation				4,668			6,654
Taxation credit/(charge)	8			2,603			(849)
Profit after taxation retained for the financial year				7,271			5,805
Earnings per share							
Basic and diluted	9			£116.87			£93.30

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 2014

	2014 £'000	2013 £'000
Profit after taxation	7,271	5,805
Exchange difference	(8)	2
Total recognised gains and losses relating to the year	7,263	5,807

BALANCE SHEET

AS AT 31 MAY 2014

	Note	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Fixed assets					
Goodwill	10	1,498	1,924	-	-
Tangible fixed assets	11	421,402	421,539	-	-
Intangible fixed assets	12	114,986	96,570	-	-
Investments	13	3,571	3,031	30,059	30,059
		541,457	523,064	30,059	30,059
Current assets					
Stock - development properties	14	9,849	12,987	-	-
Stock - retail merchandise		4,935	2,131	-	-
Debtors - due within one year	15	65,642	88,484	6	4
- due after one year	15	4,861	8,287	127,752	132,311
Cash and short-term deposits	16	207,878	153,457	9,492	7,561
		293,165	265,346	137,250	139,876
Creditors: amounts falling due within one year	17	(203,032)	(149,931)	(23)	(22)
Net current assets		90,133	115,415	137,227	139,854
Total assets less current liabilities		631,590	638,479	167,286	169,913
Creditors: amounts falling due after more than one year	18	(266,478)	(274,721)	(15,189)	(14,822)
Provisions for liabilities and charges	20	(54,494)	(60,403)	-	-
Net assets		310,618	303,355	152,097	155,091
Capital and reserves					
Called up share capital	21	62	62	62	62
Share premium	22	29,997	29,997	29,997	29,997
Merger reserve	23	26,699	26,699	-	-
Profit and loss account	24	253,860	246,597	122,038	125,032
Shareholders' funds		310,618	303,355	152,097	155,091

These financial statements of Arsenal Holdings Plc (registered number 4250459) were approved and authorised for issue by the Board of Directors on 19 September 2014.

Signed on behalf of the Board of Directors

Chips Keswick

SIR CHIPS KESWICK
DIRECTOR

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MAY 2014

	Note	2014 £'000	2013 £'000
Net cash inflow from operating activities	26a	96,169	53,359
Player registrations	26d	(11,121)	(25,915)
Returns on investment and servicing of finance	26d	(12,409)	(12,356)
Taxation		(2,445)	(47)
Capital expenditure	26d	(8,873)	(6,496)
Acquisition of subsidiary	26d	-	(2,164)
Net cash inflow before financing		61,321	6,381
Financing	26d	(6,900)	(6,549)
Management of liquid resources		(39,781)	36,811
Change in cash in the year		14,640	36,643
Change in short-term deposits		39,781	(36,811)
Increase/(decrease) in cash and short-term deposits		54,421	(168)

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

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MAY 2014

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 2014.

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 loss for the year was £2,994,000 (2013 – profit of £2,000).

(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) STOCK

Stock comprises retail merchandise and development property for onward sale and is stated at the lower of cost and net realisable value.
Where properties which are intended to be sold have been acquired they have been included in stock as development properties. Development property comprises freehold land inclusive of the direct cost of acquisition and other directly attributable property development costs including interest costs.

(J) GRANTS

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

(K) PLAYER COSTS

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

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 denominated 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 2014/15 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 2014

2. SEGMENTAL ANALYSIS

Class of business:	**Football**		**Property development**		**Group**	
	2014 £'000	**2013** £'000	**2014** £'000	**2013** £'000	**2014** £'000	**2013** £'000
Turnover	298,658	242,825	3,214	37,549	301,872	280,374
Segment operating profit/(loss)	9,650	(32,713)	414	4,432	10,064	(28,281)
Share of operating profit of joint venture	710	945	-	-	710	945
Profit on disposal of player registrations	6,912	46,986	-	-	6,912	46,986
Net finance charges	(13,455)	(13,614)	437	618	(13,018)	(12,996)
Profit on ordinary activities before taxation	3,817	1,604	851	5,050	4,668	6,654
Segment net assets	272,449	266,037	38,169	37,318	310,618	303,355

Operating profit from football before amortisation, depreciation and player trading amounted to £62.1 million (2013 - £25.2 million); being segment operating profit (as above) of £9.7 million (2013 – loss of £32.7 million), adding back depreciation (net of grant amortisation) of £12.4 million (2013 - £12.3 million), amortisation of goodwill of £0.4 million (2013 - £0.2 million) and operating loss from player trading of £39.6 million (2013 - £45.4 million).

3. TURNOVER

Turnover, all of which originates in the UK, comprises the following:	**2014** £'000	**2013** £'000
Gate and other match day revenues	100,229	92,780
Broadcasting	120,762	86,025
Retail and licensing	17,938	18,057
Commercial	59,216	44,365
Property development	3,214	37,549
Player trading	513	1,598
	301,872	280,374

4. OPERATING EXPENSES

Operating expenses comprise:	2014 £'000	2013 £'000
Amortisation of goodwill	426	213
Amortisation of player registrations	40,072	41,349
Impairment of player registrations and related costs	-	5,672
Depreciation and impairment charges (less amortisation of grants)	12,418	12,294
Total depreciation, amortisation and impairment	52,916	59,528
Staff costs (see note 6)	166,403	154,490
Cost of property sales	2,703	33,078
Other operating charges	69,786	61,559
Total operating expenses	291,808	308,655

There is no impairment charge relating to player registrations for the year. In the prior year, the total charge resulting from impairment of player registrations was £10.0 million comprising of the write down of the book value of intangible assets of £4.5 million, provisions for onerous player contracts (reported within staff costs – note 6) of £4.3 million and other related costs of £1.2 million.

Other operating charges include:	2014 £'000	2013 £'000
Auditor's remuneration		
- audit of the company's annual accounts	20	20
- audit of the subsidiaries pursuant to legislation	135	133
Total audit fees	155	153
- other services	39	74
- tax services	162	106
Total non-audit fees	201	180
Operating lease payments		
- plant and machinery	182	173
- other	1,235	1,017
Profit on disposal of tangible fixed assets	(140)	(53)

In the prior year, further non-audit fees of £22,500, relating to the acquisition of a subsidiary company, were included in the costs of acquisition.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MAY 2014

5. NET FINANCE CHARGES

Interest payable and similar charges:	**2014** £'000	**2013** £'000
Bank loans and overdrafts	1	2
Fixed/ floating rate bonds	12,755	12,999
Other	372	357
Costs of raising long term finance	777	762
Total interest payable and similar charges	13,905	14,120
Interest receivable	(887)	(1,124)
Net finance charges	13,018	12,996

6. EMPLOYEES

The average number of persons employed by the Group during the year was:	**2014 Number**	**2013 Number**
Playing staff	67	73
Training staff	80	64
Administrative staff	304	302
Ground staff	97	98
	548	537

In addition the Group used on average 860 temporary staff on match days (2013 – 817).

Staff costs:	£000's	£000's
Wages and salaries	145,839	135,483
Social security costs	18,724	17,630
Other pension costs	1,840	1,377
	166,403	154,490

Included in staff costs are £Nil (2013 - £4.3 million) of charges relating to the contracts of certain players whose registration value is impaired and whose contracts have been classified as onerous contacts.

7. DIRECTORS' EMOLUMENTS

	2014						2013
	Salary/fees £'000	Bonus £'000	Benefits £'000	Sub total £'000	Pension £'000	Total £'000	Total £'000
PD Hill Wood	11	-	-	11	-	11	65
KJ Friar OBE	303	154	27	484	-	484	416
Sir Chips Keswick	25	-	-	25	-	25	25
Lord Harris of Peckham	-	-	-	-	-	-	-
I Gazidis	1,390	692	9	2,091	100	2,191	1,925
ES Kroenke	25	-	-	25	-	25	25
JW Kroenke	12	-	-	12	-	12	-
	1,766	846	36	2,648	100	2,748	2,456

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.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MAY 2014

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2014 £'000	2013 £'000
UK corporation tax charge at 22.67% (2013 – 23.83%)	3,677	-
Overseas tax	4	-
Under provision in respect of prior years	2	184
Total current taxation	3,683	184
Deferred taxation (see note 20)		
Origination and reversal of timing differences	(1,410)	2,474
Impact of change in tax rate	(5,142)	(1,615)
Under/(over) provision in respect of prior years	266	(194)
Total tax (credit)/charge on profit on ordinary activities	(2,603)	849

From 1 April 2014 the rate of UK corporation tax was reduced from 23% to 21% and from 1 April 2015 the rate will further reduce to 20%. The Group's deferred tax liabilities have been revalued based on the 20% rate. The impact of the rate change is a deferred tax credit of £5.1 million.

	2014 £'000	2013 £'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	4,668	6,654
Tax on Group profit on ordinary activities before tax at standard UK corporation tax rate of 22.67% (2013 – 23.83%)	1,058	1,586
Effects of:		
Capital allowances in excess of depreciation	352	299
Roll-over relief on player registrations	1,553	(2,077)
Other timing differences	(306)	785
Non taxable income/expenses not deductible	1,020	977
Adjustments to tax charge in respect of prior years	2	184
Overseas tax	4	-
Group current tax for the year	3,683	184

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 20).

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.

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 (2013 - 62,217 shares).

10. INTANGIBLE FIXED ASSETS - GOODWILL

	£'000
Cost	
At 1 June 2013 and 31 May 2014	2,137
Amortisation	
At 1 June 2013	213
Charge for the year	426
At 31 May 2014	639
Net book value at 31 May 2014	1,498

11. TANGIBLE FIXED ASSETS

	Assets in course of construction £'000	Freehold properties £'000	Short Leasehold properties £'000	Plant and equipment £'000	Total £'000
Group					
Cost					
At 1 June 2013	-	402,414	6,819	97,487	506,720
Additions	-	4,302	-	5,269	9,571
Transfers	2,806	206	(206)	-	2,806
Disposals	-	-	-	(1,216)	(1,216)
At 31 May 2014	2,806	406,922	6,613	101,540	517,881
Depreciation					
At 1 June 2013	-	40,212	3,600	41,369	85,181
Charge for the year	-	5,721	244	6,543	12,508
Disposals	-	-	-	(1,210)	(1,210)
At 31 May 2014	-	45,933	3,844	46,702	96,479
Net book value					
At 31 May 2014	2,806	360,989	2,769	54,838	421,402
At 31 May 2013	-	362,202	3,219	56,118	421,539

Assets in the course of construction represent an indoor community and sports facility on Queensland Road which the Group is fitting out – the asset was previously included in development property stocks.

At 31 May 2014 the Group had contracted capital commitments of £9.5 million (2013 - £5.9 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 2013	235,307
Additions	64,250
Disposals	(50,292)
At 31 May 2014	249,265
Amortisation of player registrations	
At 1 June 2013	138,737
Charge for the year	40,072
Disposals	(44,530)
At 31 May 2014	134,279
Net book value	
At 31 May 2014	114,986
At 31 May 2013	96,570

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	
	2014 £'000	**2013** £'000
Investment in joint venture		
Investment at cost	20,000	20,000
Accumulated share of profit of joint venture	3,571	3,031
Adjustment to eliminate unrealised profit on sale of intangible assets	(20,000)	(20,000)
Share of joint venture	3,571	3,031

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 2014 is as follows:

	2014 £'000	2013 £'000
Fixed assets	398	510
Current assets	4,653	3,498
Liabilities	(1,480)	(977)
	3,571	3,031

Investments in subsidary undertakings	**Company £'000**
Balance at 1 June 2013 and 31 May 2014	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
AOH-USA, LLC*	USA	100%	Data management
Arsenal Overseas Limited*	Jersey	100%	Retail operations
Arsenal Securities plc*	Great Britain	100%	Financing
Arsenal Stadium Management Company Limited*	Great Britain	100%	Stadium operations
ATL (Holdings) Limited	Great Britain	100%	Share holding
Ashburton Trading Limited*	Great Britain	100%	Property development
HHL Holding Company Limited	Great Britain	100%	Share holding
Highbury Holdings Limited*	Great Britain	100%	Property holding
Ashburton Properties (Northern Triangle) Limited*	Great Britain	100%	Property development
Arsenal Ladies Limited*	Great Britain	100%	Ladies football

14. 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.

15. DEBTORS

	Group		Company	
	2014 £'000	**2013** £'000	**2014** £'000	**2013** £'000
Amounts recoverable within one year				
Trade debtors	33,415	48,076	-	-
Other debtors	8,984	22,597	-	-
Prepayments and accrued income	23,243	17,811	6	4
	65,642	88,484	6	4
Amounts recoverable in more than one year				
Other debtors	3,247	6,618	-	-
Amount due from group undertakings	-	-	127,752	132,311
Prepayments and accrued income	1,614	1,669	-	-
	4,861	8,287	127,752	132,311

Other debtors include £9.5 million in respect of player transfers (2013 - £26.1 million).

16. CASH AND SHORT-TERM DEPOSITS

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Debt service reserve accounts	34,557	33,835	-	-
Other accounts	173,321	119,622	9,492	7,561
	207,878	153,457	9,492	7,561

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 £0.3 million (2013 - £0.9 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	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Cash at bank and in hand	80,555	65,915	9,492	7,561
Short-term deposits	127,323	87,542	-	-
	207,878	153,457	9,492	7,561

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Fixed rate bonds - secured	6,704	6,310	-	-
Trade creditors	11,404	9,191	-	-
Corporation tax	1,155	96	-	-
Other tax and social security	20,233	15,719	-	-
Other creditors	30,977	19,773	-	-
Accruals and deferred income	132,559	98,842	23	22
	203,032	149,931	23	22

Other creditors, above and as disclosed in note 18, include £38.3 million (2013 - £20.5 million) in respect of player transfers.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MAY 2014

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

	Group		Company	
	2014 £'000	**2013** £'000	**2014** £'000	**2013** £'000
Fixed rate bonds - secured	153,351	160,192	-	-
Floating rate bonds - secured	52,570	52,713	-	-
Debenture loans	27,830	27,463	13,403	13,036
Amounts due to group undertakings	-	-	1,786	1,786
Other creditors	15,866	8,854	-	-
Grants	3,795	3,885	-	-
Deferred income	13,066	21,614	-	-
	266,478	274,721	15,189	14,822

Debenture loans comprise:				
Par value of debentures plus accumulated interest	28,141	27,774	13,714	13,347
Costs of raising finance	(311)	(311)	(311)	(311)
	27,830	27,463	13,403	13,036

Under the issue terms debentures with a par value of £14,427,000 are repayable at par after 129 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 14 years and carry cumulative compound interest at 2.75% per annum.

The fixed rate bonds above and disclosed in note 17 comprise:	**2014** £'000	**2013** £'000
Fixed rate bonds	163,774	170,674
Costs of raising finance	(3,719)	(4,172)
	160,055	166,502
Due within one year	6,704	6,310
Due after more than one year	153,351	160,192
	160,055	166,502

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

The floating rate bonds above comprise:	2014 £'000	2013 £'000
Floating rate bonds	50,000	50,000
Interest rate swap	4,805	5,085
Costs of raising finance	(2,235)	(2,372)
	52,570	52,713
Due within one year	-	-
Due after more than one year	52,570	52,713
	52,570	52,713

The floating rate bonds bear interest at LIBOR for three month deposits plus a margin of 0.55% (2013 – 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 £590,000 (2013 - £608,000).

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 £59.3 million (2013 - £54.2 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:	2014 £'000	2013 £'000
Between one and two years	7,668	7,274
Between two and five years	25,590	24,274
After five years	201,383	210,000
	234,641	241,548
Within one year	7,274	6,900
Total debt	241,915	248,448

19. 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 2014 was as follows:

	Fixed rate 2014 £'000	Floating rate 2014 £'000	Interest free 2014 £'000	Total 2014 £'000	Weighted average fixed rate %	Weighted average period for which rate is fixed yrs
Bonds - fixed rate	163,774	-	-	163,774	5.8	15
Bonds - floating rate	50,000	-	-	50,000	7.0	17
Debenture loans	13,714	-	14,427	28,141	2.8	14
	227,488	-	14,427	241,915		

The interest rate profile at 31 May 2013 for comparative purposes was:

	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 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 28, of £0.3 million (2013 - £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:

	2014 £'000	2013 £'000
Expiring in: One year or less	50,000	50,000

Fair values

The fair value of all financial instruments at 31 May 2014 and 2013, other than interest rate swaps and forward exchange contracts as disclosed below, was not materially different from their book value.

	Book value 2014 £'000	Fair value 2014 £'000	Book value 2013 £'000	Fair value 2013 £'000
Derivative financial instruments held to manage the Group's foreign exchange/interest rate profile:				
Interest rate swaps	-	(17,541)	-	(19,043)
Forward exchange contracts	-	11	-	(459)

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.

19. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Fair values (continued)

	Group	
	2014	**2013**
An analysis of these unrecognised gains and losses is as follows:	£'000	£'000
Unrecognised losses at start of year	(19,502)	(18,022)
Unrecognised gains/(losses) arising in year	1,972	(1,480)
Unrecognised losses at end of year	(17,530)	(19,502)
Of which:		
Gains/(losses) expected to be recognised in 2014/15	11	(459)
Losses expected to be recognised later than 2014/15	(17,541)	(19,043)
	(17,530)	(19,502)

Foreign currencies

Included in cash and short term deposits are amounts of £7.1 million (2013 - £2.1 million) denominated in Euros and £3.0 million (2013 - £Nil) denominated in US dollars.

The Group has entered into certain foreign currency contracts which hedge its exposure to exchange rate fluctuations and provide for (i) the future purchase of up to €19.3 million at rates ranging from £1: €1.18 to €1.27 and (ii) the future sale of up to €5.5 million at a rate of £1: €1.18. Gains and losses on these contracts are not recognised until the exposure being hedged is itself recognised.

Included in other debtors are amounts of £6.0 million (2013 - £3.9 million) denominated in Euros and £Nil million (2013 - £0.1 million) denominated in US dollars.

Included in prepayments and accrued income are amounts of £6.9 million (2013 - £9.2 million) denominated in Euros and £0.5 million (2013 - £0.5 million) denominated in US dollars.

Included in other creditors are amounts of £23.0 million (2013 - £6.2 million) denominated in Euros. Included in provisions are amounts of £6.1 million (2013 - £3.2 million) denominated in Euros and £0.1 million (2013 - £0.1 million) denominated in US dollars.

20. PROVISIONS FOR LIABILITIES AND CHARGES

	Group	
	2014	**2013**
	£'000	£'000
Pensions provision (see note 30 (b))	2,188	2,619
Deferred taxation	33,144	39,421
Transfers	17,473	11,195
Onerous contracts - players	207	5,456
Property	1,482	1,712
	54,494	60,403

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 £11.4 million were made during the year, £3.1 million of provisions were reclassified as creditors and £2.0 million of provisions were cancelled as no longer required.

The provision for onerous player contracts arose in the prior year and has been reduced as a result of payments made of £5.2 million.

The Property provision relates to the liabilities arising from certain surplus operational properties, where activity is to be discontinued. The movement in the provision reflects payments made in the year.

The deferred tax credit for the year was £6.3 million (see note 8) (2013 – charge of £0.7 million).

	Group	
Deferred tax provision	**2014** £'000	**2013** £'000
Accelerated capital allowances	10,657	12,576
Capitalised interest	7,128	8,341
Rollover relief on player registrations	16,096	20,234
Other timing differences	(737)	(1,730)
Total provision for deferred taxation	33,144	39,421

21. CALLED UP SHARE CAPITAL

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.

22. SHARE PREMIUM

	Group £'000	Company £'000
Balance at 1 June 2013 and 31 May 2014	29,997	29,997

23. OTHER RESERVES

Group	**Merger reserve** £'000
Balance at 1 June 2013 and 31 May 2014	26,699

24. PROFIT AND LOSS ACCOUNT

	Group Profit and loss account £'000	**Company Profit and loss account** £'000
Balance at 1 June 2013	246,597	125,032
Profit/(loss) for the year	7,271	(2,994)
Exchange difference	(8)	-
Balance at 31 May 2014	253,860	122,038

25. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2014 £000's	**2013** £000's
Profit for the year	7,271	5,805
Exchange difference	(8)	2
Opening shareholders' funds	303,355	297,548
Closing shareholders' funds	310,618	303,355

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2014 £'000	2013 £'000
Operating profit/(loss)	10,064	(28,281)
Amortisation of player registrations	40,072	41,349
Impairment of player registrations	-	4,740
Amortisation of goodwill	426	213
Profit on disposal of tangible fixed assets	(140)	(53)
Depreciation (net of grant amortisation)	12,418	12,294
(Increase)/Decrease in stock	(2,472)	24,158
Decrease/(Increase) in debtors	9,657	(29,659)
Increase in creditors	26,144	28,598
Net cash inflow from operating activities	96,169	53,359

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

	2014 £'000	2013 £'000
Increase in cash in the year	14,640	36,643
Increase/(decrease) in short-term deposits in the year	39,781	(36,811)
Increase/(decrease) in cash and short-term deposits in the year	54,421	(168)
Cash outflow from change in debt	6,900	6,549
Change in net debt resulting from cash flows	61,321	6,381
Change in debt resulting from non cash changes	(677)	(684)
Net debt at start of year	(93,221)	(98,918)
Net debt at end of year	(32,577)	(93,221)

As disclosed in note 16, a bank balance of £0.3 million (2013 - £0.9 million), included within net debt, is held in connection with Queensland Road site works.

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

(c) Analysis of changes in net debt

	At 1 June 2013 £'000	Non cash changes £'000	Cash flows £'000	At 31 May 2014 £'000
Cash at bank and in hand	65,915	-	14,640	80,555
Short-term deposits	87,542	-	39,781	127,323
	153,457	-	54,421	207,878
Debt due within one year (bonds)	(6,310)	(7,294)	6,900	(6,704)
Debt due after more than one year (bonds)	(212,905)	6,984	-	(205,921)
Debt due after more than one year (debentures)	(27,463)	(367)	-	(27,830)
Net debt	(93,221)	(677)	61,321	(32,577)

Non cash changes represent £590,000 in respect of the amortisation of costs of raising finance, £367,000 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

	2014 £'000	2013 £'000
Player registrations		
Payments for purchase of players	(40,419)	(65,041)
Receipts from sale of players	29,298	39,126
	(11,121)	(25,915)
Returns on investment and servicing of finance		
Interest received	862	1,162
Finance charges paid	(13,271)	(13,518)
	(12,409)	(12,356)
Capital expenditure		
Payments to acquire tangible fixed assets	(9,019)	(6,559)
Receipts from sale of tangible fixed assets	146	63
	(8,873)	(6,496)
Acquisition of subsidiary		
Payment for acquisition of subsidiary	-	(2,165)
Net cash acquired with subsidiary	-	1
	-	(2,164)
Financing		
Repayment of borrowings	(6,900)	(6,549)
Total debt financing	(6,900)	(6,549)

27. LEASING COMMITMENTS

Commitments due under operating leases for the period to 31 May 2015 are in respect of:

	2014		2013	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases expiring in:				
One year or less	39	6	18	18
Two to five years	1,080	244	953	156
Over five years	131	-	131	-
	1,250	250	1,102	174

28. 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 £5.5 million (2013 - £6.6 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 (2013 - £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.

29. RELATED PARTY TRANSACTIONS

The Group had the following related party transactions during the year:-

a) The Group had the following transactions with Arsenal Broadband Limited:-

	2014 Income/ (charge) £'000	2013 Income/ (charge) £'000
Provision of office services	208	208
Merchandising and advertising sales	(1,549)	(1,535)
Arsenal TV	(1,075)	(880)

At 31 May 2013 the balance owing from the Group to Arsenal Broadband Limited was £7,190,000 (2013 - £5,219,000).

b) The Group paid a fee of £3 million to Kroenke Sports & Entertainment LLC, for strategic and advisory services. Kroenke Sports & Entertainment LLC is a US company, which is ultimately wholly owned and controlled by Mr E.S. Kroenke.

30. PENSIONS

a) Defined contribution schemes

Total contributions charged to the profit and loss account during the year amounted to £1,786,000 (2013 - £1,323,000).

b) Defined benefit scheme

	2014 £'000	**2013** £'000
Provision at start of year	2,619	2,993
Payments in year	(431)	(374)
Provision at end of year	2,188	2,619

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 and, as part of this, a special contribution of £1.1 million has been paid after the balance sheet date to accelerate the Group's settlement of this deficit.

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 £431,000 (2013 - £374,000) and the profit and loss account charge was £54,000 (2013 - £54,000).

31. 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 £52.5 million (2013 – net payment of £34.3 million). These transfers will be accounted for in the year ending 31 May 2015.

32. 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.


RESPECT
16

FIVE YEAR SUMMARY

	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000
Profit and Loss Account					
Group Turnover	379,856	255,692	243,013	280,374	301,872
Operating profit before player trading and exceptional costs	60,124	38,046	23,094	17,142	49,623
Operating expenses - player registrations	(24,573)	(20,923)	(39,418)	(45,423)	(39,559)
Operating expenses - exceptional	-	4,783	-	-	-
Operating profit/(loss)	35,551	21,906	(16,324)	(28,281)	10,064
Share of results of joint venture	463	822	952	945	710
Profit on disposal of player registrations	38,137	6,256	65,456	46,986	6,912
Net interest	(18,183)	(14,208)	(13,496)	(12,996)	(13,018)
Profit before tax	55,968	14,776	36,588	6,654	4,668
Profit after tax	60,992	12,633	29,593	5,805	7,271
Earnings per share	£980.31	£203.05	£475.64	£93.30	£116.87
Earnings per share (excluding exceptional items)	£980.31	£161.13	£475.64	£93.30	£116.87
Balance Sheet					
Tangible fixed assets	435,547	433,076	429,483	424,570	424,973
Intangible fixed assets	60,661	55,717	85,708	98,494	116,484
Net current assets	85,631	93,348	105,275	115,415	90,133
Long term creditors and provisions	(326,517)	(314,186)	(322,918)	(335,124)	(320,972)
Net assets	255,322	267,955	297,548	303,355	310,618
Share capital	62	62	62	62	62
Share premium	29,997	29,997	29,997	29,997	29,997
Reserves	225,263	237,896	267,489	273,296	280,559
Shareholders' funds	255,322	267,955	297,548	303,355	310,618
Net assets per share	£4,103.73	£4,306.78	£4,782.42	£4,875.76	£4,992.49
Playing record					
FA Premier League	3rd	4th	3rd	4th	4th
FA Challenge Cup	4th round	6th round	5th round	5th round	Winners
Europe	Quarter finals Champions League	1st k/o round Champions League	1st k/o round Champions League	1st k/o round Champions League	1st k/o round Champions League

CLUB PARTNERS

LEAD

Emirates

OFFICIAL

CITROËN

COOPERTIRES

Europcar

GATORADE

HUAWEI

INDESIT

JR JEANRICHARD WATCHES

Vitality

REGIONAL

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