Company Registration No. 109244

ARSENAL FOOTBALL CLUB PLC

Annual Report and Financial Statements

Year ended 31 May 2019

ARSENAL FOOTBALL CLUB PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019
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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

E.S. Kroenke
J.W. Kroenke
R.C.L. Carr
K.J. Friar OBE
Lord Harris of Peckham
Sir Chips Keswick

COMPANY SECRETARY

D Miles

REGISTERED OFFICE

Highbury House
75 Drayton Park
London
N5 1BU

AUDITOR

Deloitte LLP
Statutory Auditor
London
United Kingdom

ARSENAL FOOTBALL CLUB PLC

STRATEGIC REPORT

The directors present their strategic report for the year ended 31 May 2019.

Principal Activity and Strategy

The principal activity of the Company is that of a professional football club playing in the Premier League.

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

Results for the year

The loss for the year before taxation was £23.5 million (2018 – a profit of £97.4 million).

Review of the business

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

	2019 £m	2018 £m
Operating profit before exceptional costs and player trading	53.9	84.1
Exceptional costs	(3.2)	(17.2)
Amortisation and impairment of player registrations	(90.9)	(91.7)
Sale of player registrations / Loan of players	16.8	122.3
Other	(0.1)	(0.1)
(Loss)/profit before tax	(23.5)	97.4

Revenue for the year was £367.5 million (2018 - £388.6 million), with the decrease being mainly attributable to lower receipts of appearance fees from a fellow subsidiary. Note that this is merely a consequence of the way certain inter-company revenues were impacted by the delay in renewal of season tickets until after the Europa League final at the end of May 2019. For a full picture of the Arsenal Group's match day revenues for 2018/19 please refer to the consolidated accounts of Arsenal Holdings Limited. The impact of the lower appearance fees was partially offset by higher broadcasting revenues, as the Club reached the final of the Europa League, and increased commercial revenue which included the Visit Rwanda sleeve partnership as a new category. Operating profits were also impacted by continued investment in player wages which meant that total staff costs, excluding exceptional costs, grew to £227.3 million (2018 - £218.9 million).

Exceptional costs incurred of £3.2 million (2018 - £17.2 million) were attributable to a number of changes in the First Team coaching and support personnel.

After a high level of activity in the prior year, player trading activity for 2019/20 was fairly limited. The total profit on sale of player registrations was £12.2 million (2018 - £120.0 million) and player loans amounted to £4.6 million (2018 - £2.3 million). Player trading profits have a significant impact on overall profitability particularly where other operating profits are adversely impacted by participation in the UEFA Europa League as opposed to the more lucrative UEFA Champions League. Average annual profits on sale of player registrations over the last five years including 2019/20, have been £34.0 million.

Balance Sheet

Following additions to player registrations at a cost of £98.8 million and amortisation charges, the book value of intangible fixed assets (player registrations) was increased to £240.1 million (2018 - £238.2 million).

The year end cash position was robust with balances of £107.1 million (2018 - £114.0 million). The levels of debtors and creditors were attributable to the Club's transfer activity, both inbound and outbound, with instalments of the transfer fees being payable and receivable over time and mainly over the next two years.

ARSENAL FOOTBALL CLUB PLC

STRATEGIC REPORT

Key performance indicators

Non- financial:

- Premier League 5th place (qualified for UEFA Europa League 2019/20) against a target of continued qualification for the UEFA Champions League;
- UEFA Europa League finalists;
- Ticket sales versus capacity (average ticket sales over 30 home games was 58,943 against 58,012 over 30 home fixtures in the previous season).

Financial

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

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Company'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 Company's Executive (the senior management team and executive directors).

The key business risks and uncertainties affecting the Company 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 Company's income is affected by the performance and popularity of the first team and significant sources of revenue are derived from strong performances in the Premier League and UEFA European competitions. The Company 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 Company 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 Company's main competitors can determine trends in the market rates for transfers and wages that the Company may be required to follow in order to maintain the strength of its first team squad.

The Club is regulated by the rules of the FA, Premier League, UEFA and FIFA. Any change to FA, Premier League, UEFA and FIFA regulations in the future could have an impact on the Company as the regulations cover areas such as: the format of competitions, FFP, the division of broadcasting income, the eligibility of players and the operation of the transfer market. The Company monitors its compliance with all applicable rules and regulations on a continuous basis and also monitors and considers the impact of any potential changes.

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STRATEGIC REPORT

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 Company does not have any direct influence, alone, on the outcome of the relevant contract negotiations. The Premier League has secured TV rights sales for the three year cycle, ending season 2020/21, with certain overseas rights already secured for a longer term.

The Company derives a material amount of revenue from sponsorship and other commercial relationships. The underlying commercial agreements have finite terms and, whilst the Company 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.

The Company is monitoring the impact of the UK's decision to leave the European Union and the possible associated consequences. This has seen the value of sterling weaken against the Euro; on the one hand increasing the cost of player transfers from the EU and, on the other, increasing the sterling value of European competition distributions paid out to clubs by UEFA in Euros. The most significant risk to the Company would appear to be a downturn to the UK or wider economy impacting ticket revenues and / or the value of broadcasting and / or sponsorship rights. Any potential impact on the recruitment and/or retention of players is also being monitored closely.

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

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

Future developments

The Club will participate in the UEFA Europa League for season 2019/20 and has continued to invest in transfers over the 2019 summer window making a number of key player acquisitions. The Club has also invested further in its player wage bill.

The Club's renewed partnership with Emirates commences for season 2019/20 as does the new kit supplier partnership with Adidas and this means the Club will report increased commercial revenues.

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

D Miles
Company Secretary
27 November 2019

ARSENAL FOOTBALL CLUB PLC

DIRECTORS' REPORT

The directors present their Annual Report and the audited financial statements for the year ended 31 May 2019.

Principal activities

The principal activity of the Company is that of a professional football club playing in the Premier League.

Profits and dividends

The results for the year are set out on page 11. The directors do not recommend the payment of a dividend for the year (2018 - £Nil).

Financial risk management

The Company'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 Company uses financial derivatives, in line with policies approved by the Board, to manage these risks. The Company does not use financial derivatives for speculative purposes.

The Company 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 Company monitors this foreign exchange exposure on a continuous basis and will usually hedge any significant exposure in its currency receivables and payables.

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

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

The Club continues to be fully compliant with the Financial Fair Play regulations put in place by UEFA and the Premier League.

Future developments

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

Events after the Balance Sheet Date

Details of significant events since the balance sheet date are included in note 21 to the financial statements.

Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

DIRECTORS

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

E.S. Kroenke
J.W. Kroenke
R.C.L. Carr
K.J. Friar OBE
Lord Harris of Peckham
Sir Chips Keswick

In addition, I.E. Gazidis served as a director until the date of his resignation on 31 October 2018.

DIRECTORS INDEMNITIES

The Company 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 Company endeavours to keep staff at all levels informed of matters that affect the progress of the Company and are of interest to them as employees.

The Company 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 Company become disabled whilst in employment, every step, where appropriate will be taken to assist with rehabilitation and suitable re-training.

The Company 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 Company is responsive to the needs of the employees and the environment.

AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

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

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

D Miles
Company Secretary
27 November 2019

ARSENAL FOOTBALL CLUB PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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's transactions and disclose with reasonable accuracy at any time the financial position of the Company 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARSENAL FOOTBALL CLUB PLC

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Arsenal Football Club plc (the "company"):

- give a true and fair view of the state of the company's affairs as at 31 May 2019 and its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 22.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARSENAL FOOTBALL CLUB PLC (continued)

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARSENAL FOOTBALL CLUB PLC (continued)

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

Paul Schofield

Paul Schofield FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 November 2019

ARSENAL FOOTBALL CLUB PLC

PROFIT AND LOSS ACCOUNT
Year ended 31 May 2019

	Note	2019 Operations excluding player trading £'000	2019 Player trading £'000	2019 Total £'000	2018 Operations excluding player trading £'000	2018 Player Trading £'000	2018 Total £'000
Turnover	1,2	362,877	4,582	367,459	386,288	2,311	388,599
Operating expenses	3	(312,184)	(90,876)	(403,060)	(319,343)	(91,711)	(411,054)
Operating profit/(loss)		50,693	(86,294)	(35,601)	66,945	(89,400)	(22,455)
Profit on disposal of tangible fixed assets		15	-	15	7	-	7
Profit on disposal of player registrations		-	12,241	12,241	-	120,047	120,047
Profit(Loss) before interest		50,708	(74,053)	(23,345)	66,952	30,647	97,599
Net interest payable	4			(134)			(229)
(Loss)/profit before taxation				(23,479)			97,370
Tax on (loss)/profit	7			4,468			(13,483)
(Loss)/profit for the financial year				(19,011)			83,887

All trading resulted from continuing operations.

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.

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 May 2019

	2019 £'000	2018 £'000
(Loss)/profit after taxation	(19,011)	83,887
Total comprehensive (expense)/income	(19,011)	83,887

ARSENAL FOOTBALL CLUB PLC

BALANCE SHEET
As at 31 May 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Tangible assets	8	62,232	63,740
Intangible assets	9	240,148	238,153
Investments	10	6,545	6,520
		308,925	308,413
Current assets			
Stock - retail merchandise	11	1,802	5,501
Debtors - due within one year	12	571,148	569,814
- due after one year	12	4,258	13,554
Cash at bank and in hand		107,074	114,028
		684,282	702,897
Creditors: amounts falling due within one year	13	(411,363)	(339,062)
Net current assets		272,919	363,835
Total assets less current liabilities		581,844	672,248
Creditors : amounts falling due after more than one year	14	(24,574)	(98,088)
Provisions for liabilities	15	(45,866)	(43,745)
Net assets		511,404	530,415
Capital and reserves			
Called up share capital	16	62	62
Share premium account		56,696	56,696
Joint venture reserve		1,470	1,470
Profit and loss account		453,176	472,187
Shareholders' funds		511,404	530,415

These financial statements of Arsenal Football Club plc (registered number 109244) were approved and authorised for issue by the Board of Directors on 27 November 2019.

Signed on behalf of the Board of Directors

K.J. Friar

K.J. Friar OBE
Director

ARSENAL FOOTBALL CLUB PLC

STATEMENT OF CHANGES IN EQUITY
Year ended 31 May 2019

	Share Capital £'000	Share Premium £'000	Joint Venture £'000	Profit and Loss £'000	Total £'000
At 1 June 2017	62	56,696	1,470	388,300	446,528
Total comprehensive income for year ended 31 May 2018	-	-	-	83,887	83,887
At 31 May 2018	62	56,696	1,470	472,187	530,415
Total comprehensive expense for the year ended 31 May 2019	-	-	-	(19,011)	(19,011)
As at 31 May 2019	62	56,696	1,470	453,176	511,404

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2019

1. **Accounting policies**

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

General Information and Basis of Accounting

Arsenal Football Club Plc is a private company, limited by shares and registered in England and Wales under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report on page 2.

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

The Company has not produced consolidated financial statements as it qualifies for exemption under section 400 of Companies Act 2006 as a wholly owned subsidiary of a United Kingdom parent company, Arsenal Holdings Limited, which publishes consolidated financial statements. The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements in relation to intra group transactions and remuneration of key management personnel.

Going concern

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its available financial resources and bank facilities. The Company's unused bank facilities are not currently due for renewal, however, the Company has held 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 directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Cash flow statement

As a wholly owned subsidiary of a parent company which publishes a consolidated cash flow statement, the Company is exempt from the requirement to present a cash flow statement under FRS 102 Section 1 Paragraph 12 (b).

Investment in joint venture and subsidiaries

The joint venture is an undertaking in which the Company holds an interest on a long-term basis and which is jointly controlled by the Company (which holds 50% of the voting rights) and Kroenke Sports Enterprises under a contractual arrangement.

Investments are stated at cost less provisions for impairment. Impairment charges on investments are reported as exceptional items after operating profits.

Turnover and income recognition

Turnover represents income receivable, net of VAT, from football and related commercial activities. The Company has one class of business which is the principal activity of operating a professional football club.

Certain special purpose arrangements have been established in connection with the Arsenal Holdings Limited group's financing arrangements for Emirates Stadium and, with effect from the start of the 2006/07 football season, ticket revenues for Emirates Stadium are received and accounted for by a fellow subsidiary company,

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2019

1. **Accounting policies** (continued)

Turnover and income recognition (continued)

Arsenal Stadium Management Company Limited. Under the terms of the related financial and legal agreements, the Company receives appearance fees from Arsenal Stadium Management Company Limited which are accounted for as part of match day revenue. Match 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 Europa League are spread over the matches played in the competition whilst distributions relating to match performance are taken when earned; these distributions are classified as broadcasting revenues. Fees receivable in respect of the loan of players are included in turnover over the period of the loan.

Depreciation
Tangible assets are stated at cost less accumulated depreciation. Depreciation is calculated to reduce the cost of plant, equipment, motor vehicles and land and buildings 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
Motor vehicles	25% per annum

Freehold land is not depreciated.

Stocks
Stocks comprise retail merchandise and are stated at the lower of cost and net realisable value.

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 transfer 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.

Impairment

The Company 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 Arsenal Holdings plc 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 Company's best estimate of the player's fair value less any costs to sell and, if necessary, a provision would be made.

1. **Accounting policies** (continued)

Impairment

The Company'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 Company's insurers; or
- in the cast 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 Company's best estimation of disposal value taking into account recent player disposals by both the Company and other clubs.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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.

Financial Liabilities

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

Foreign currencies

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

Deferred income

Deferred income represents income from sponsorship agreements and other contractual agreements which is credited to the profit and loss account over the period of the agreements.

Leases

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

Pensions

The Company makes contributions on behalf of employees and directors to a number of independently controlled defined contribution and money purchase schemes, the principal one of which is 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 Company 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 Company'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 retired or who have left the Company has been charged to the profit and loss account.

Under FRS 102 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 Section 28.

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2019

1. Accounting policies (continued)

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 Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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

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

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

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

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

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

2. Turnover

Turnover, all of which originates in the UK, comprises the following:

	2019 £'000	2018 £'000
Match day revenues	69,341	99,825
Broadcasting	182,902	179,955
Commercial	110,634	106,508
Player trading	4,582	2,311
	367,459	388,599

Match day revenues include staging appearance fees receivable from a fellow subsidiary, Arsenal Stadium Management Company Limited.

The amounts for staging appearance fee are receivable in accordance with the financial and legal agreements put in place in connection with the Arsenal Holdings Limited group's financing arrangements for Emirates Stadium and, in particular, in connection with the fixed interest bonds issued by Arsenal Securities plc, a fellow subsidiary.

The special purpose nature of these legal and financial arrangements means that the amounts of staging appearance fees receivable by the company are determined purely by reference to the levels of cash banked by Arsenal Stadium Management Company Limited from ticket sales. Consequently the staging appearance fees may vary as a result of timing differences which arise between the collection of ticket revenues and the group's accounting policies for income recognition and deferred income.

Of the Company's broadcasting revenues, £36.6 million (2018 - £34.4 million) was derived from participation in the UEFA Europa League (2018 – UEFA Europa League).

3. Operating expenses

Operating expenses comprise:

	2019 £'000	2018 £'000
Amortisation of player registrations	89,596	85,763
Impairment of player registrations and related costs	1,280	5,948
Depreciation and impairment charges	5,388	6,004
Total depreciation, amortisation and impairment	96,264	97,715
Staff costs (see note 6) (including exceptional costs)	230,463	235,703
Other operating charges (including exceptional costs)	76,333	77,636
	403,060	411,054

Exceptional costs of £3.16 million (2018 – £17.15 million) were attributable to the changes in the First Team coaching and support staff.

3. Operating expenses (continued)

		2019 £'000	2018 £'000
Other operating charges are stated after charging:			
Auditor's remuneration	- audit of the company's financial statements	63	69
	- other services	30	31
	- tax services (compliance)	-	-
	- tax services (advisory)	5	45
Operating lease rentals		549	841

4. Net interest payable

	2019 £'000	2018 £'000
Interest payable and similar charges:-		
Bank loans and overdrafts	-	-
Other	(495)	(384)
Total interest payable and similar charges	(495)	(384)
Interest receivable	361	155
Net interest payable	(134)	(229)

5. Directors' emoluments

	2019 £'000	2018 £'000
Emoluments	1,528	3,459
Pension contributions – money purchase	-	10
Pension contributions – defined benefits	-	872
	1,528	4,341
The number of directors who were:-		
Members of a defined benefit pension scheme	1	1
Members of a money purchase pension scheme	1	1
Remuneration of the highest paid director:-	**£'000**	**£'000**
Emoluments	846	2,658
Pension contributions – money purchase	-	10
Remuneration of key management personnel	4,008	4,341

The Company's key management personnel comprise of the Board of Directors and, subsequent to the date of I.E. Gazidis resignation as a director on 31 October 2018, the Head of Football and the Managing Director.

6. Employees (including directors)

	2019 Number	2018 Number
The average monthly number of persons employed during the year was:		
Playing staff	73	77
Training staff	87	106
Administrative staff	424	414
Ground staff	123	120
	707	717

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2019

6. Employees (including directors) (continued)	2019 £'000	2018 £'000
Staff costs:		
Wages and salaries	200,811	204,875
Social security costs	27,082	26,611
Other pension costs	2,570	4,217
	230,463	235,703

Exceptional costs (see note 3) included within staff costs amounted to £3.2 million (2018 – £16.8 million).

7. Tax on (loss)/profit	2019 £'000	2018 £'000
Current tax		
UK corporation tax (credit)/charge at 19% (2018 – 19%)	(3,495)	8,058
(Over)/under provision in respect of prior years	(12)	237
Total current taxation (credit)/charge	(3,507)	8,295
Deferred taxation (see note 15)		
Origination and reversal of timing differences	(979)	5,188
Impact of change in tax rate	-	-
Under/(over) provision in respect of prior years	18	-
Total deferred tax (credit)/charge	(961)	5,188
Total tax on profit – (credit)/charge	(4,468)	13,483

The enacted rate of corporation tax will reduce to 17% from April 2020. The Company's deferred tax liabilities have been valued based on the tax rates that are expected to apply in the periods in which the underlying timing differences are predicted to reverse.

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the (loss)/profit before tax is as follows:

	2019 £'000	2018 £'000
(Loss)/profit before tax	(23,479)	97,370
Tax on (loss)/profit at standard UK corporation tax rate of 19% (2018 – 19%)	(4,461)	18,500
Effects of:		
Impact of change in corporation tax rate on deferred tax balances	(470)	(1,027)
Expenses not deductible	457	466
Group relief surrendered for nil consideration and intra-group adjustments	-	(4,693)
Adjustments to tax charge in respect of prior years	6	237
Total taxation (credit)/charge for the year	(4,468)	13,483

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

Tax losses have been claimed from other group companies for nil consideration and at rates ranging from nil% up to the full rate of UK corporation tax.

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 15). There is no expiry date on any timing differences.

8. Tangible assets

Company	Freehold properties £'000	Leasehold properties £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 June 2018	55,411	20,995	33,178	79	109,663
Additions	2,613	-	4,264	-	6,877
Transfers	(2,890)	-	(107)	-	(2,997)
Disposals	-	-	(39)	-	(39)
At 31 May 2019	55,134	20,995	37,296	79	113,504
Depreciation					
At 1 June 2018	19,271	6,580	20,000	72	45,923
Charge for the year	1,615	744	3,026	3	5,388
Disposals	-	-	(39)	-	(39)
At 31 May 2019	20,886	7,324	22,987	75	51,272
Net book amount					
At 31 May 2019	34,248	13,671	14,309	4	62,232
At 31 May 2018	36,140	14,415	13,178	7	63,740

At 31 May 2019 the Company had contracted capital commitments of £- million (2018 - £3.7 million).

Transfers represent the reallocation of certain fixed asset expenditure to a fellow subsidiary company, at historic cost, where project costs were originally incurred on behalf of that fellow subsidiary company.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2019

9. Intangible assets

	£'000
Cost of player registrations	
At 1 June 2018	479,838
Additions	98,821
Disposals	(59,108)
At 31 May 2019	519,551
Amortisation of player registrations	
At 1 June 2018	241,685
Charge for the year	89,596
Impairment	1,180
Disposals	(53,058)
At 31 May 2019	279,403
Net book amount	
At 31 May 2019	240,148
At 31 May 2018	238,153

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

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

10. Investments

	2019 £'000	2018 £'000
Cost of investments	25,050	25,050
Being:		
Investment in joint venture	20,000	20,000
Investments in subsidiary companies	5,050	5,050
Other investments	25	-
	25,075	25,050

	2019 £'000	2018 £'000
Investment in joint venture		
Investments at cost	20,000	20,000
Provision for impairment	(18,530)	(18,530)
Investment in subsidiary companies and other investments		
Investments at cost	5,075	5,050
	6,545	6,520

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2019

10. Investments (continued)

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

Investments in subsidiary undertakings

At 31 May 2019 the Company had the following subsidiary companies (of which those marked * are indirectly held):

	Country of incorporation	Proportion of ordinary share capital owned	Principal Activity
Arsenal (Emirates Stadium) Limited	United Kingdom	100%	Property development
Arsenal Stadium Management Company Limited*	United Kingdom	100%	Stadium operations
Arsenal Securities plc	United Kingdom	100%	Financing
Arsenal Overseas Holdings Limited	United Kingdom	100%	Shareholding
AOH-USA LLC*	USA	100%	Sports analytics
Arsenal Overseas Limited	Jersey	100%	Retail operations
Arsenal Football Club Asia PTE Limited	Singapore	100%	Commercial operations
Arsenal Ladies Limited	United Kingdom	100%	Ladies football

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

11. Stocks

	2019 £'000	2018 £'000
Retail merchandise	1,802	5,501

12. Debtors

	2019 £'000	2018 £'000
Amounts receivable within one year:		
Trade debtors	10,132	29,064
Amounts due from group undertakings	509,605	476,434
Other debtors	21,030	50,152
Prepayments and accrued income	30,381	14,164
	571,148	569,814
Amounts recoverable after more than one year:		
Other debtors	3,232	12,353
Prepayments and accrued income	1,026	1,201
	4,258	13,554

Other debtors include £23.5 million in respect of player transfers (2018 - £61.5 million).

13. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	7,630	7,809
Amount due to group undertakings	236,020	185,965
Corporation tax	563	4,044
Other tax and social security	11,794	20,716
Other creditors and loans	54,612	37,361
Accruals and deferred income	(100,774)	83,167
	(411,363)	339,062

Other creditors, above and as disclosed in note 14, include £76.7 million (2018 - £100.2 million) in respect of player transfers and directly related costs.

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

	2019 £'000	2018 £'000
Debenture subscriptions (A and B debentures)	35	34
Other creditors	23,259	64,320
Deferred income	1,280	33,734
	24,574	98,088

Under the issue terms the debentures are repayable at their par value of £14.4 million after 124 years. The debentures are interest free.

Borrowing facilities

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

	2019 £'000	2018 £'000
Expiring in: One year or less	30,000	30,000

Foreign currency management

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

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

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

Included in cash and cash equivalents are amounts of £6.0 million (2018 - £19.8 million) denominated in Euros and £1.4 million (2018 - £2.6 million) denominated in US dollars.

Included in trade debtors are amounts of £0.5 million (2018 - £Nil million) denominated in Euros and £0.1 million (2018 - £0.2 million) denominated in US dollars. Included in other debtors are amounts of £8.8 million (2018 - £23.1 million) denominated in Euros.

Included in prepayments and accrued income are amounts of £14.5 million (2018 - £Nil million) denominated in Euros.

Foreign currency management (continued)

Included in trade creditors are amounts of £0.3 million (2018 - £-) denominated in US dollars and £0.2 million (2018 - £-) denominated in Euros.

Included in other creditors are amounts of £44.6 million (2018 - £70.4 million) denominated in Euros. Included in provisions are amounts of £10.6 million (2018 - £11.1 million) denominated in Euros.

15. Provision for liabilities

	2019 £'000	2018 £'000
Pensions provision (Note 20 (b))	1,756	2,203
Transfers	27,585	24,056
Deferred taxation	16,525	17,486
	45,866	43,745

The transfers provision relates to the probable additional fees payable based on the players concerned achieving a specified number of appearances or the occurrence of certain other specified events. In this respect, new provisions of £11.3 million were made during the year, £5.3 million of provisions were reclassified as creditors and £2.5 million of provisions were cancelled as no longer required.

Deferred tax

	2019 £'000	2018 £'000
Deferred tax provision in respect of:-		
Corporation tax deferred by accelerated capital allowances	442	387
Roll-over relief on player registrations	14,918	15,726
A and B debentures	1,493	1,766
Other timing differences	(328)	(393)
Total deferred taxation provision	16,525	17,486

The deferred tax credit for the year was £1.0 million (2018 - charge of £5.2 million).

16. Called-up share capital

	2019 £'000	2018 £'000
Called-up, allotted and fully paid		
61,947 Ordinary shares of £1 each	62	62

17. Leasing commitments

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

	2019 £'000	2018 £'000
One year or less	538	608
Between two and five years	1,505	2,094
After five years	356	1,021
	2,399	3,723

18. 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 Company's accounting policy for transfer fees, any additional fees which may be payable under these agreements, will be accounted for in the year that it becomes probable that the number of appearances will be achieved or the specified future events will occur. The maximum potential liability not provided for in respect of contracts in force at the year end date, amounts to £8.0 million (2018 - £7.6 million).

19. Related party transactions

The Company has the following transaction with Arsenal Broadband Limited in the year:	2019 Income/ (charge) £'000	2018 Income/ (charge) £'000
Provision of office services	297	304
Merchandising and advertising sales	(2,385)	(2,416)
Arsenal digital fee	(1,276)	(1,276)

At 31 May 2019 the balance owing from the Company to Arsenal Broadband Limited was £12,619,000 (2018 - £12,929,000).

As a wholly owned subsidiary of Arsenal Holdings Limited, a company which publishes consolidated financial statements, the Company is exempt from disclosing details of transactions with members of the Arsenal Holdings Group.

20. Pensions

a) *Defined contribution schemes*

Total contributions charged to the profit and loss account during the year amounted to £2,510,000 (2018 - £2,392,000).

b) *Defined benefit scheme*

	2019 £'000	2018 £'000
Provision at start of year	2,203	710
Payments in year	(447)	(431)
Increase in provision	-	1,924
Provision at end of year	1,756	2,203

The Company is advised of its share of the deficit in the Scheme (see Note 1, Pensions). The most recent actuarial valuation of the Scheme was as at 31 August 2017 and indicated that the contribution required from the Company towards making good the deficit was £2.5 million at 1 September 2017 (the total deficit in the Scheme at this date was £30.4 million). The Company's share of the deficit is being paid off over a period of five and a half years commencing September 2017.

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

Payments for the year amounted to £447,000 (2018 - £431,000) and the profit and loss account charge was £60,000 (2018 - £1,825,000).

21. Post balance sheet events

Since the end of the financial year the Company has contracted for the purchase and sale of various players. The net payment resulting from these transfers, taking into account the applicable levies, is £92.7 million (2018 – net receipt of £61.4 million). These transfers will be accounted for in the year ended 31 May 2020.

22. Ultimate parent company and controlling party

The Company is a wholly owned subsidiary of Arsenal (AFC Holdings) Limited, a company incorporated in the United Kingdom. The largest and smallest group in which the Company's results are included is the consolidated financial statements of Arsenal Holdings Limited, a company incorporated in the United Kingdom. These consolidated financial statements are available to the public and may be obtained from Arsenal Holdings Limited, Highbury House, 75 Drayton Park, London, N5 1BU.

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