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2006 Planning Awards - 'Best Built Project Contributing to London's Future'

2006 Planning Awards - 'Mayor's Award for Planning Excellence'

International Securitisation Report - 'Corporate Deal of the Year 2006 - Europe'

Treasurer Magazine Deals of the Year awards 2006 - 'Winner of Securitisation and Structured Finance category'

Building Design - Regeneration Awards 2006 - 'Best Mixed-use Regeneration Project'

Quality in Construction Awards 2007 - 'Winner of Major Project Award'

Building Awards 2007 - 'Building Project of the Year'

Building Awards 2007 - 'Constructing Excellence Award'.

Building Awards 2007 - 'Major Contractor of the Year - Sir Robert McAlpine'

Building Awards 2007 - 'Engineering Consultant of the Year - Buro Happold'

Building Awards 2007 - 'Specialist Contractor of the Year Award - Keltbray'

Beaumont Safety Trophy 2006 - 'Won for the Design of a specialist rig for drilling the holes used to fix the seating in Emirates Stadium'.

2007 RICS Awards - 'Winner of the London region RICS Regeneration Award category'

2007 National Association of Shop-fitters Design Partnerships Awards - 'Won for the Diamond Club project'

2007 Retail and Leisure Property Awards - 'Best Commercial Leisure Scheme'

CONTENTS

DIRECTORS, OFFICERS AND ADVISERS

LIFE VICE PRESIDENT
C E B L Carr

DIRECTORS

P D Hill-Wood

K G. Edelman

Sir Chips Keswick

Lady Nina Bracewell-Smith

D D Fiszman

K J Friar OBE

R C.L Carr

Lord Harris of Peckham

MANAGER
A Wenger OBE

SECRETARY
D Miles

GROUP CHIEF ACCOUNTANT
S W Wisely ACA

REGISTERED OFFICE
Highbury House
75 Drayton Park
London
N5 1BU

SOLICITORS
Slaughter & May
One Bunhill Row
London
EC1Y 8YY

AUDITORS
Deloitte & Touche LLP
Chartered Accountants
London
EC4A 3TR

FINANCIAL ADVISERS
N M Rothschild
New Court
St. Swithin's Lane
London
EC4P 4DU

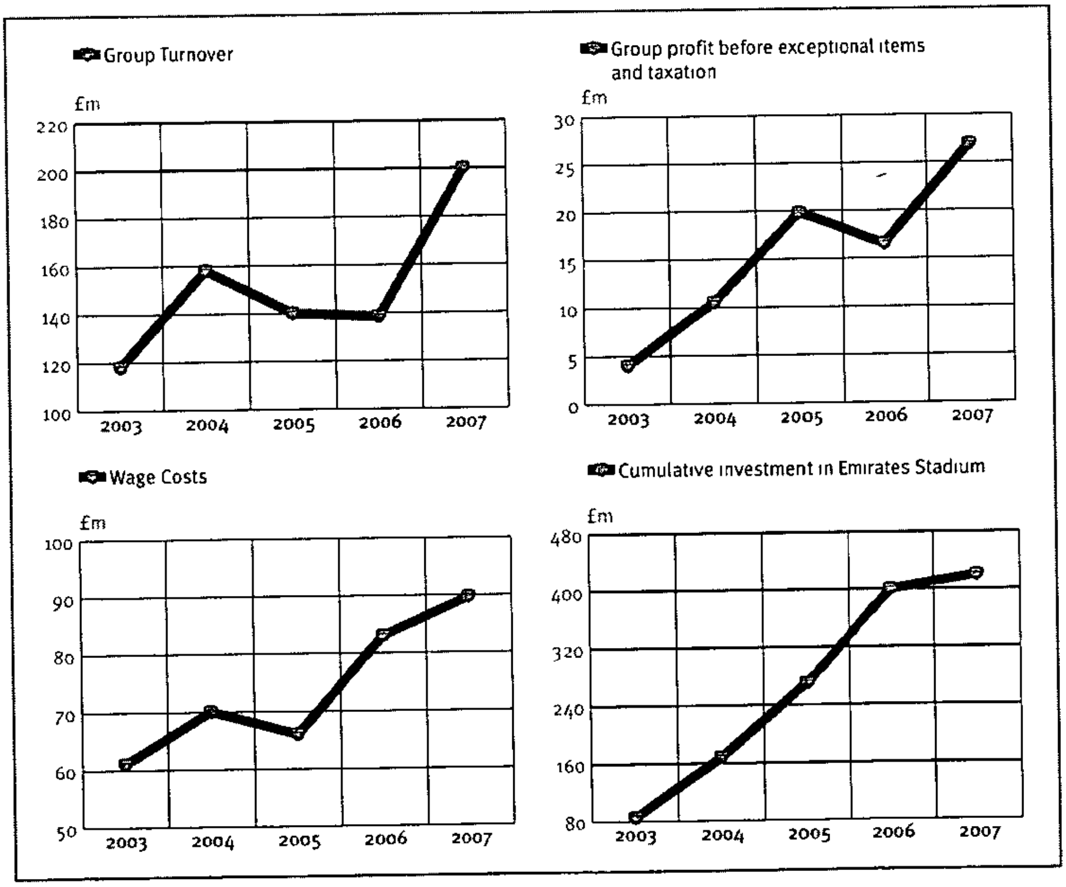
REGISTRARS
Capita IRG plc
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

BANKERS
Barclays Bank plc
1 Churchill Place
London
E14 5HP

COMPANY REG
NO 4250459 ENGLAND

FINANCIAL HIGHLIGHTS

	2007	2006
Group turnover £m	**200 8**	137 2
Group operating profit before player trading and depreciation £m	**51.2**	13 7
Profit before taxation £m	**5 6**	15 9
Earnings per share £	**45.26**	127 01
Earnings per share (adjusted to exclude exceptional costs) £	**286.05**	127 01



CHAIRMAN'S REPORT

I am proud to open this year's report with a look back at what has been an historic year for the Arsenal Group with our move from Highbury to Emirates Stadium

Last season's respectable fourth place in the Barclays Premiership resulted in the Club gaining a place in the UEFA Champions League third qualification round for the 2007/08 season Following two victories over Sparta Prague, we have now qualified for the group stage of the UEFA Champions League for the tenth consecutive year, which is a remarkable performance

Earlier this month we were delighted to announce that Arsène Wenger had extended his contract with Arsenal through to 2011 He will, as a result of this contract extension, become the longest serving manager in the Club's history Arsène has guided Arsenal teams to seven major trophies since his arrival in 1996 and he has revolutionised the Club, not only through the brand of stylish and successful football which the teams play, but through his detailed and insightful input into the development of the playing areas and facilities at Emirates Stadium and training centre at London Colney In 2004, Arsène guided the team to the FA Premier League title without losing a single game, a record that may never be matched again Arsène also has a unique ability for developing world class players and I am sure we can look forward to more exciting football and success on the pitch over the next four years

The 2006/07 season was our first at Emirates Stadium and, whilst leaving Highbury was emotional for everyone, the move has been a huge success

Completed on time and on budget by our main contractor, Sir Robert McAlpine, the new stadium is testament to the vision and dedication of Danny Fiszman, Keith Edelman and Ken Friar who worked tirelessly with our project team to ensure Arsenal has a home which will be worthy of the Club long into the future We were honoured to welcome HRH Duke of Edinburgh for the official opening of Emirates Stadium last October and, subsequently, to accept an invitation from HM Queen Elizabeth II for the team, Club officials and key members of the project team to visit Buckingham Palace

With a capacity of 60,355 seats, we are now able to accommodate some 22,000 more fans for every game in state-of-the-art facilities The average attendendance at Emirates Stadium was more than 59,900 producing match day revenue of some £3 1 million per game This is not just great news for our loyal supporters, but also for the Club as a whole, as total match day revenues have more than doubled to in excess of £90 million, helping Group turnover to grow from £137 million in 2006 to £201 million this year

We have always pursued, and intend to continue with, a policy of re-investing profits and surplus cash into team development Emirates Stadium now provides the Club with the firm financial foundations from which we will continue to build trophy winning Arsenal teams for many years to come

The construction of Emirates Stadium resulted in the Group incurring an initial debt of £260 million through a project finance loan However, following the refinancing exercise completed in July 2006, the £260 million loan was replaced by a credit wrapped bond which has a fixed interest rate The interest rates achieved in the refinancing were excellent, 5 14% on £210 million of bonds with a 23 year term and 5 97% on £50 million of bonds with a 25 year term, and reduced our annual debt service cost from some £32 million to £20 million per annum

During last year we began repayment of the bonds so that the outstanding balance as at May 2007 was £255 million The result of the refinancing is that Emirates Stadium produced an increase in revenue in this financial year of

CHAIRMAN'S REPORT

some £55 million against the funding cost of £18 million, an overall surplus of £37 million before additional operating costs of some £7 million

It is important to note that Emirates Stadium is in effect a replacement asset for Highbury and although some monies have already been transferred to the football club, more funds will be made available when the development of Highbury Square is completed This development is being managed within the Group and, following new planning permissions, encompasses 724 units I am pleased to be able to report that over 91% of all units have already been sold It is expected that the development of Highbury Square will be completed in the fourth calendar quarter of 2009, making further funds available to the Group to either increase investment in the squad or to reduce borrowings

The Group owns two further development sites, in Queensland Road and in Hornsey Street It is envisaged that the former site will be sold in 2008, dependent on the successful progression of our revised planning proposals later this year and again this will release further funds to the football club for future investment in the squad It should be noted that overall we are not expecting to make a profit, after attributable interest costs, from this development as it was part of our arrangements with the council in gaining approval for Emirates Stadium The completion of Queensland Road will, in the main, bring to a close the major regeneration benefits we have delivered to the Borough alongside the development of Emirates Stadium We believe these improvements have had a very positive impact on this area of Islington

The completion of Emirates Stadium brings to a close almost a decade of significant investment in our physical assets The training ground at London Colney was completed in 1999 and we have recently added an indoor centre to provide world leading facilities for the training and development of our players This facility is always the first choice of many visiting international football teams We invested in our academy at Hale End in 2001 to provide our youth development with some of the finest facilities available and our new head office, Highbury House, built beside Emirates Stadium was completed in time for the opening of the new stadium In total we have invested over £460 million in the development of these assets to provide the very best of facilities for all our supporters, players and staff

Significant funds were available to the manager during the summer transfer window, as evidenced by the cash balance at the end of May of some £73 9 million, but in fact we were able to secure all of his main targets for a total outlay well below the maximum budget available Everyone at the Club is very excited by the enormous potential which exists in the current playing squad and we are confident that Arsène Wenger is building a team of which we will be very proud

Such is the appeal of the Arsenal brand that we have two new major shareholders Their arrival has, unfortunately, brought some degree of speculation about the future of the Club

I think it worthwhile, therefore, to once again lay out our philosophy as a Board as to the guiding principles which underpin our management of the Club Firstly, I would like to emphasise our dual role both as fans and custodians of the Club, but to note that we never allow our support of the Club as fans to put at risk the long term health of Arsenal Football Club We believe in being bold in the development of the Club and in taking managed risks, this is best evidenced by the development of Emirates Stadium At the same time we remain committed to the principle of developing the long-term stability of the Club through maintaining a business that pays its own way This financial prudence has been a hallmark of the way in which the Club has been run over many years and has sown the seeds of the success we enjoy today

CHAIRMAN'S REPORT

We believe it is important to continue this philosophy so that future generations of Arsenal shareholders and supporters can continue to enjoy the success of the Club long into the future

The year saw the departure of vice chairman, David Dein and, once again, I would like to express our thanks to him for his many years of service

On the Field

The team ended the 2006/07 season finishing in fourth place in the Premiership for the second successive season Although, of course, we aim to win the Premiership every season, a fourth place finish has earned qualification into the UEFA Champions League for the tenth consecutive season, which is a remarkable achievement

Progress into the Group Stages of the UEFA Champions League was confirmed in August with victory over Sparta Prague in the Third Qualifying Round

The quality of football played in 2006/07 was once again at a very high level but there was a lack of consistency The Premiership campaign yielded a number of very good results and the home and away victories over Manchester United, together with the strong victories over Liverpool, Tottenham Hotspur, Blackburn Rovers and Reading were particular highlights

A promising start was made in the UEFA Champions League, where the team beat Dinamo Zagreb in the Third Qualifying Round This was followed by a top place finish from a closely contested group containing Hamburg, CSKA Moscow and Porto Unfortunately, this early form was not continued, and the team lost the first knockout round 1-2 on aggregate to PSV Eindhoven

In the FA Cup, after victories over Liverpool and Bolton Wanderers in the previous two rounds, the Club was eliminated by Blackburn Rovers late goal in a Fifth Round replay at Ewood Park

A highlight of the season was the Club's performances in the Carling Cup Once again Arsène Wenger used this competition to provide many of the Club's younger players with valuable first team experience The future potential of our youngsters was shown by the team progressing through to the competition's final, recording on the way victories over West Bromwich Albion, Everton, a memorable 6-3 victory over Liverpool at Anfield and a 5-3 aggregate win over Tottenham Hotspur in the semi-final In the Cardiff final, after going a goal ahead through Theo Walcott, the team was narrowly beaten 1-2 by Chelsea

The potential of the Club's younger players has rightly caused great excitement amongst our supporters and this was clearly demonstrated by a FA Youth Cup record attendance of 38,187 for the Arsenal youth team's semi-final first leg at Emirates Stadium against Manchester United

Special mention must go to the Arsenal Ladies and their manager Vic Akers, who completed a 'clean sweep' of available honours in the 2006/07 season A perfect season in the FA Women's Premier League saw the Arsenal Ladies winning all 22 fixtures and this was followed with victories in the League Cup and FA Women's Cup The tremendous season was completed when the Arsenal Ladies became the first British side to win the UEFA Women's Cup by virtue of a 1-0 aggregate victory over Swedish side UMEA

Pages 18 to 21 give a full review of the 2006/07 season for Arsenal's first team, reserves, youth and ladies teams

Player Transfers

During the close season Croatian international striker Eduardo Da Silva joined the Club on a four year contract from Dinamo Zagreb Eduardo has made 12 appearances for the Croatian national team, scoring seven

CHAIRMAN'S REPORT

goals, and notably scoring 73 goals in 104 appearances for Dinamo Zagreb In addition, he was voted Croatian Player of the Year in 2004 and 2006, and was the Croatian League's top scorer in both 2006 and 2007 Also during the summer, the Club completed the signing of Bacary Sagna from Auxerre Sagna plays mainly at right back, but can also play in other defensive roles or in midfield and he was recently called up into the French national squad for the first time We also signed the young, Polish international goalkeeper Lukasz Fabianski Fabianski was voted best goalkeeper in the Polish League for both 2006 and 2007 and won the Polish League Championship with Legia Warsaw in 2005/06 He was a regular Under-21 international and already has four full caps

Just before the transfer window closed we signed Lassana Diarra from Chelsea Diarra is a multi-functional player, comfortable playing in midfield or defence and this makes him a great addition to our squad

Other players joining the Club include young prospects Havard Nordveit who joins us from FK Haguesund, Kyle Bartley from Bolton Wanderers and Gilles Sunu from French club Chateauroux

The Club extends a warm welcome to Eduardo, Bacary, Lassana, Havard, Kyle and Gilles, together with all other 'First Year Scholars' joining our Youth Development programme this year We wish them all good luck in their Arsenal careers

The close season saw the departure of Thierry Henry to FC Barcelona Thierry made a substantial contribution to the Club since joining in August 1999, excelling both as part of the team and individually He mixed skill and style together with an appetite for winning and became a true Arsenal legend

During his time at Arsenal, Thierry established himself as the Club's all-time leading goal scorer with 226, often spectacular and memorable, goals from his 370 appearances He was an integral part of the team in the 2003/04 'unbeaten' League season, won the Premiership twice, the FA Cup twice, the Premiership 'Golden Boot' four times, was voted the PFA Player of the Year twice and won the FWA Player of the Year on three occasions He led the Club as captain for its first season at Emirates Stadium

Everyone at Arsenal wishes Thierry well for his future in Spain

Another leaver in the summer was Freddie Ljungberg Freddie made an outstanding contribution to the Club in his nine seasons at Arsenal

Freddie's Arsenal career deservedly included winning two Premiership titles, three FA Cups and one Community Shield He became the first player for 40 years to score in consecutive FA Cup Finals by netting against Liverpool in 2001 and then Chelsea the following year

Freddie was named Premiership Player of the Season in 2001/02 – a campaign in which he scored 17 goals from midfield, helping Arsenal to win the 'double' Throughout his Arsenal career, Freddie was a major part of the Sweden national squad and is currently captain of his country

We wish Freddie every success in his future at West Ham United

Other first team players to leave the Club in the summer transfer window were Jose Antonio Reyes who joined Atletico Madrid having spent last season on loan at Real Madrid, Jeremie Aliadiere who moved to Middlesbrough, Arturo Lupoli who returned to Italy to play for Fiorentina, Fabrice Muamba who secured a permanent move to Birmingham City after a successful season on loan and Mart Poom who joined Watford We thank them all for their contributions during their time at Arsenal

CHAIRMAN'S REPORT

Commercial Partners

Arsenal has a large range of commercial partners and this will develop further in 2007/08 Our new major commercial partnerships with Emirates Airlines (shirt sponsor), LG Mobile, EDF Energy and Scottish & Newcastle were successfully introduced in the first season at Emirates Stadium, joining Nike, O2, Coca-Cola, Thomas Cook, Ladbrokes and Lucozade who moved with us from Highbury Paddy Power continued to provide an on-line betting service to Arsenal customers, while BT provided the official broadband service Sony, with a leading edge high definition technology, provided significant support to our enhanced broadcasting services at Emirates Stadium, and complemented the highly professional production services of Input Media

Delaware North quickly settled in to the new stadium, providing a range of quality food and beverage to the wide diversity of customers at Emirates It took a significant operational effort and considerable skill to learn how our new home works - we thank them for all their hard work In conjunction with Delaware, Arsenal has also built a significant conference and banqueting business, hosting a range of different events at the stadium and generating new revenue streams

Looking forward, our commercial partnership with Emirates will be extended to incorporate the promotion of a variety of tourist destinations around the world Thomas Cook are also taking a higher profile within our roster of partners as we look to develop a range of travel based services for Arsenal fans Electronic Arts will continue as our electronic games partner and we welcome Ebel as our timing partner

Internationally, Arsenal will work further with BEC-Tero on developing a football business in Thailand and also build on the relationship established in March 2007 with Hoang Ang gia Lai in Vietnam Tiger Beer continues to be our beer partner in South East Asia and we look forward to a three year agreement with Star ESPN for the promotion and delivery of Arsenal Mobile across a wide range of territories in Asia

The most exciting project to look forward to is the launch of Arsenal TV in the UK As part of the Setanta Sports Package, Arsenal TV will broadcast for six hours a day from Monday to Friday from the start of 2008 Setanta will become a commercial partner of the Club as part of our agreement and Input Media will provide production expertise As part of the project, we will make use of our relationship with Sony to further upgrade our facilities at Emirates Stadium to provide a fully functioning TV production studio

Charity of the Season

The Willow Foundation became Arsenal's nominated Charity of the Season for 2006/07, replacing The David Rocastle Trust The Willow Foundation was established by ex-Arsenal goalkeeper Bob Wilson and his wife, Megs, following the loss of their daughter, Anna, to cancer and it provides "special days" to seriously ill young adults More than £250,000 was raised for the charity during the season and page 22 of this report gives some more information on the Club's successful partnership with the Willow Foundation

Prospects

On the field the Club has made a very promising start to the new season At the end of July we staged our own pre-season tournament which proved to be a great success both commercially, with near capacity attendances, and on the pitch, where the Club emerged from the competition as the winners of the inaugural Emirates Cup

More significantly we confirmed our qualification for the group phase of the UEFA Champions League with a 5-0 aggregate win over Sparta Prague This is our tenth consecutive season of Champions League participation

CHAIRMAN'S REPORT

We are delighted that Arsène Wenger has renewed his contract until 2011 He has transformed the Club during this time with us and, as he continues to manage the team, I am sure we can look forward to more exciting football and success on the pitch

We look forward to supporting the team, as it challenges for silverware, throughout the course of the season

Our second season at Emirates Stadium will mean new challenges as we seek to improve further on the high level of operational efficiency achieved in the opening season and we will continue to look at all opportunities such as the staging of international fixtures and other activities We are also at the early stage of a project to look at ways in which we can improve the interaction and level of customer service which we want to provide to all of the Club's supporters

The move to Emirates Stadium is an immensely significant achievement in the history of Arsenal and the relocation project is one that has delivered against all of its objectives – providing high quality match day facilities which allow a far greater number of the Club's supporters to attend matches and providing the Club with the sound financial base and level of financial resources from which it can build the strongest possible future

In closing, I would like to thank our Emirates Stadium and Highbury Square project teams for the support they have provided over the last year I would also like to pay tribute to my fellow directors, our management team and our entire staff for all of their hard work and dedication The success of the move to Emirates Stadium and the first season in the Club's new home would not have been achieved without their commitment and all concerned can take great satisfaction from having made their individual contribution to such an important step in this great Club's history

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

P D Hill-Wood
Chairman
21 September 2007

FINANCIAL REVIEW

One of the principal objectives of the Emirates Stadium project was to provide the Group with the increased income, profitability, cash generation and financial strength which would allow the Club to compete at the very highest level of domestic and European football

The results for the year clearly demonstrate that this objective has been achieved

- Group turnover has exceeded £200 million, an increase of 46% on the prior year,
- Match day revenues at £90 6 million, representing an average of some £3 1 million per match played at the Emirates Stadium, have replaced broadcasting revenues as the Club's main source of income and were comfortably more than double the £44 1 million achieved in the last season at Highbury,
- Group operating profits before player trading and depreciation were increased to £51 2 million for the year from £13 7 million, and
- At the balance sheet date the Group had cash and bank reserves of £73 9 million, representing an increase of £38 3 million on the prior year

The final cost of delivering all aspects of the Emirates Stadium project has amounted to some £430 million, which is in line with our original forecasts Part of this long-term investment has been financed by borrowings and during the year the group successfully completed the refinancing of these borrowings into £260 million of long term fixed rate debt The refinancing is strongly beneficial and provides a stable financial base for the long term We were delighted with the interest rates achieved in the refinancing – 5 14% on £210 million of fixed rate bonds with a 23 year term and 5 97% on £50 million of floating rate bonds with a 25 year term – and the refinancing transaction now looks even more beneficial, given subsequent increases in bank base rates and the turmoil in the debt markets The annual cash requirement for the debt service cost of the bonds is £20 million and whilst this is a significant sum of money it must, of course, be measured in the context of the long term benefits and increased revenues from the Club playing at Emirates Stadium as compared to Highbury

Following the opening of the new stadium, the Group's accounting for the interest charges on the stadium funding debt balances has changed such that interest and other finance charges are now expensed to the profit and loss account whereas previously, in the construction phase, these costs were capitalised. The finance cost for the year of £36 7 million has two distinct elements Firstly, there were £21 4 million of exceptional finance costs as a consequence of the refinancing of the stadium funding debt, relating mainly to the write off of previously incurred costs of the initial funding It should be noted that this is in the main an accounting entry and had little impact on our cash reserves The one-off exceptional nature of these costs means that they should be set to one side in any analysis of the Group's results for the year The net ordinary finance costs for the year were £15 3 million (2006 - £0 2 net income)

The impact of the above on the overall results for the Group is set out in the following table

	2007 £m	2006 £m
Group Turnover	200 8	137 2
Operating profit before depreciation and player trading	51 2	13 7
Player trading	0 2	3 9
Depreciation	(9 6)	(2 4)
Joint venture	0 4	0 5
Ordinary finance charges	(15 3)	0 2
Profit before tax and exceptional items	26 9	15 9
Profit before tax after exceptional items	5 6	15 9

FINANCIAL REVIEW

Both of the Group's business segments made a strong contribution to the overall results

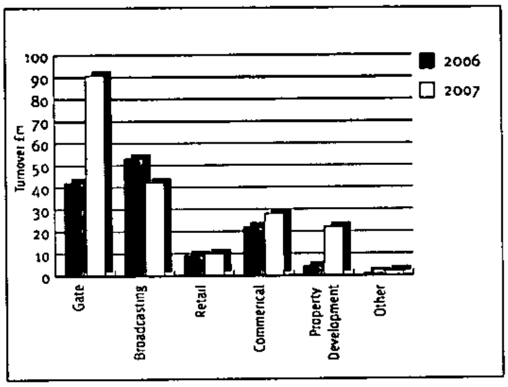
	2007 £m	2006 £m
Football		
Turnover	177 0	132 1
Operating profit *	42 2	13 4
Profit before tax and exceptional items	20 8	16 8
Property development		
Turnover	23 8	5 1
Operating profit *	9 0	0 3
Profit before tax and exceptional items	6 1	(0 9)
Group		
Turnover	200 8	137 2
Operating profit *	51 2	13 7
Profit before tax and exceptional items	26 9	15 9

* = operating profit stated before depreciation and player trading costs

The property development business recorded the sale of the development site at Drayton Park for some £23 5 million We continue to progress and invest in two further major property development sites The larger of these is Highbury Square where the construction and development work on the conversion of Highbury into apartments and penthouses is being financed through a separate bank facility arranged specifically for that purpose Assembly of the smaller development site at Queensland Road is very close to being complete and we are currently preparing a revised comprehensive planning application The combined sales value of these two development sites is expected to be comfortably in excess of £300 million and we expect the Group's property activities to contribute positive net cash of some £90 million over the next three years

Income

Group turnover for the year was £200 8 million (2006 - £137 2 million)



The increase in turnover was driven mainly by the higher ticket revenues at Emirates Stadium, where the average attendance for the 27 first team games played (19 Premier League / 5 Champions League / 2 FA Cup and 1 Carling Cup) was approximately 59,850 In addition to the Club's own fixtures, Emirates Stadium also played host to two international friendly fixtures There was also strong growth in the secondary layer of match day revenues such as programme sales, where almost one million programmes were sold over the course of the season

Broadcasting revenues fell to £44 3 million (2006 - £54 9 million) This is attributable to reduced broadcasting distributions from UEFA, as a result of exiting the Champions League at the first knock-out stage as compared to reaching the final in the previous season

The revenue in our retail business grew to £12 1 million (2006 - £10 2 million) boosted by the two new stores on the Emirates Stadium site – The Armoury and All Arsenal – and by increased match attendances

FINANCIAL REVIEW

The principal reason for the growth in commercial revenue to £29 5 million (2006 - £22 8 million) was the income from Emirates Airlines as the Club's shirt and stadium naming rights sponsor The new stadium has also allowed us to develop enhanced relationships within our second tier of commercial partners such as EDF Energy, Coca-Cola and Scottish & Newcastle As our fan base continues to grow, along with recognition of the Arsenal brand on a worldwide basis, we are continually developing additional commercial revenue derived from the Club's international appeal, for example we now have agreements with BEC-Tero in Thailand and Hoang Ang gia Lai in Vietnam which allow us to share in the commercial revenues these football clubs develop from their links with Arsenal The development and launch of an Arsenal TV channel is another significant commercial project which is nearing completion

Operating expenses (excluding player trading)

The Group's operating costs increased to £177 5 million from £141 2 million for the prior year and there were four main reasons for this increase

Payroll costs increased to £89 7 million (2006 - £83 0 million) This reflects a policy of securing the key members of a young and exciting playing squad to long term contracts with the Club and an increase in the operational staff required by the move to Emirates Stadium,

Property development costs, essentially the costs of assembling the Drayton Park site for sale, were £14 7 million (2006 £2 7 million) and this is simply a reflection of the sales activity in the period,

Depreciation, which is the accounting adjustment which charges the cost of fixed assets to the profit and loss account over the economic life of the assets concerned, increased by some £7 2 million reflecting a first time charge of depreciation on Emirates Stadium now that it is operational, and

The remainder of the change in costs reflects the increased scale of our operations at Emirates Stadium

Player trading

A profit of £18 5 million from the sale of player registrations (2006 - £19 2 million) means that overall player trading produced a small surplus of £0 2 million for the year (2006 - £3 9 million)

The most significant sale was that of Ashley Cole to Chelsea, but the figures also benefit from amounts relating to the sales of Anthony Stokes and Fabrice Muamba as well as appearance fees deriving from sales of players in prior years

Cash flow and treasury

Net cash inflow from operations amounted to £77 3 million as compared to £41 1 million for the previous year The following table adjusts these figures to show cash generated by the Group before deduction of its investment in property development stocks (including the Highbury Square development) during the year

	2007 £m	2006 £m
Cash from operations before stock	112 1	59 3
Investment in stock	(34 8)	(18 2)
Net cash from operations	77 3	41 1

The strongly positive cash flow for the year means that the Group had total cash balances at 31 May 2007 of £73 9 million (2006 - £35 6 million) This is clearly very healthy for the Group although it does, of course, reflect the seasonality of the Group's operational cash flow which peaks through the year end period

FINANCIAL REVIEW

The following table shows how the cash inflow from operations was used in the year

	£m
Cash from operations	77 3
Net cash from new debt	296 6
Repayment of debt	(265 1)
Net spend on player registrations	(8 0)
Net interest payments	(24 6)
Investment in fixed assets	(37 9)
Increase in year end cash reserves	38 3

Net debt at 31 May 2007 has increased to £268 2 million (2006 £262 1 million) with the most significant changes being the cash flow from operations referred to above, borrowings on the Highbury Square facility and the completion of the first scheduled repayments of fixed rate bonds The Group's policy has always been to incur debt only in relation to projects which will deliver a real benefit to the Group, such as the Club's relocation to Emirates Stadium and the Highbury Square development This policy is reflected in the Group's debt financing structure at 31 May 2007, an overall picture of which is given in the table below

In accordance with the Group's policy of minimising its exposure to interest rate movements, interest rate swaps are in place which fix the rate of interest payable on the entire £50 million of floating rate notes issued and approximately 80% of the Highbury Square development bank facility

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's long term performance These risks and uncertainties are monitored by the Board on a regular basis

Football

The Group's income is affected by the performance and popularity of the first team Significant sources of revenue are derived from strong performances in the Premier League, FA Cup and UEFA Champions League (or UEFA Cup) and the level of income will vary dependent upon the team's participation and performance in these competitions A significant amount of the Group's income is derived from ticket sales to individual and corporate supporters who attend matches involving the first team at Emirates Stadium and elsewhere The level of attendance may be influenced by a number of factors, including the success of the team, admission prices, broadcasting coverage and general economic conditions Demand for tickets is currently very high and all of the season tickets, including approximately 7,000 premium Club Level seats and 150 executive boxes have been sold out for the 2007/08 season It is important to note

	Emirates Stadium Financing £m	Property Development Financing £m	Debenture Loans £m	Cash Reserves £m
Start of year	(254 3)	(29 7)	(25 5)	35 6
Movement in year	(0 9)	(34 8)	(0 3)	38 3
End of year	(255 2)	(64 5)	(25 8)	73 9
Term	23-25 yrs	3 years	21-135 yrs	N/A
Weighted average rate	5 3%	6 6%	0-2 75%	N/A
Guarantee fee	0 65%	-	-	N/A

FINANCIAL REVIEW

that the season ticket waiting list has grown, despite the allocation of some 10,000 new season tickets at Emirates Stadium, from 32,000 at Highbury to 41,000 as at May 2007

The first team's success is significantly influenced by the performance of members of the playing staff and the football management team and, accordingly, the ability to attract and retain the highest quality coaching and playing staff is important to the Group's business prospects The Club insures the members of its first team squad The Club enters into employment contracts with each of its key personnel However, the Club 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 Club's main competitors can determine trends for market rates for transfers and wages that the Club may be required to follow in order to maintain the strength of its first team squad

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

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

Commercial relationships

The Group derives a significant amount of revenue from sponsorship and other commercial relationships The Group aims to enter into long term arrangements with its key commercial partners, thus securing certainty over the main components of its commercial income in the medium term The Group's most important commercial contracts are naming rights and shirt sponsorship contracts with Emirates Airline which expire in 2021 and 2014 respectively, a kit sponsorship contract with Nike which expires in 2011 and a catering contract with Delaware North which expires in 2026

Broadcasting and certain other revenues are derived from contracts which are currently centrally negotiated by the Premier League and, in respect of European competition, by UEFA, the Group does not have any direct influence on the outcome of the relevant contract negotiations The Premier League currently sells its TV rights on a three year contract basis and 2007/08 is the first year of a new contract

Foreign exchange and treasury

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

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

The financing arrangements for the Group's football and property business segments

FINANCIAL REVIEW

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

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

Outlook

Transfer activity over the summer months saw a number of high profile players leave the Club and this will have a beneficial impact on the financial results for 2007/08, both in terms of payroll costs and the profits to be reported on sale of player registrations

The 2007/08 financial results will also include increased distributions from the new Premier League domestic and overseas TV contracts which, as widely reported, will be at a significantly higher level than those for the previous three years

On the property development side of the business, the construction of Highbury Square will continue The level of bank debt associated with the Highbury Square project will rise over 2007/08, as construction and development work is undertaken The first phase of apartment sale completions is scheduled for summer 2008, but it is not yet clear whether these sales will complete in time for inclusion in the 2007/08 accounts We will also be progressing with the revised planning application for Queensland Road

Despite the income and profits which we can expect to derive from the new Premier League TV contracts and from the Club's operations at Emirates Stadium, shareholders should not necessarily expect future years' accounts to report growing profits and ever increasing cash balances This is because the Board continues to believe that the best long term policy for the Club is to re invest profits and cash back into the development of the team Accordingly, our business plans and budgets are prepared with a clear objective of making available to the manager the maximum possible funds for the development of the playing squad We strongly believe that pursuing this policy of continual investment in the Club's playing staff will provide the best platform for a virtuous circle of continued on-field success at the highest level and, consequently, growth in the Club's support and revenues in the long term

K G Edelman
Managing Director
21 September 2007

- A total of 1,615,591 supporters visited Emirates Stadium for Arsenal's 27 matches in the 2006/07 season This is a 54% increase on the 1,044,266 who visited Highbury in 2005/06

- The Group's total investment in Emirates Stadium and the associated infrastructure amounts to some £430 million

- The average match day revenue at Emirates Stadium is £3 1 million, an increase of 97% compared to Highbury

- The naming rights deal with Emirates Airline is worth £42 million over the contract term

- Approximately 968,000 match day programmes were sold during season 2006/07, an increase of more than 400,000 over the final salute season at Highbury

- Match day catering sales included on average per match 3,500 seated meals, 2,200 pies, 4,500 hot dogs, 2,300 pizza slices, 1,200 burgers and 18,000 pints of lager

- Emirates Stadium generated additional match day revenues by hosting two international friendly matches and, subsequently, the Emirates Cup

- Conference and banqueting operations at Emirates Stadium hosted over 300 events This included auditions for the TV show X Factor and two wedding ceremonies

- Since the stadium opened 70,000 fans have been on Emirates Stadium tours

REVIEW OF THE 2006/2007 SEASON

FIRST TEAM

The first season at Emirates Stadium was completed with the team only losing one of the 27 matches it played at the Club's new home However, seven defeats away from home and 11 draws meant that the team finished fourth in the Premiership, albeit missing out on third place only by goal difference on the last day of the season However, this league placing ensured qualification for the UEFA Champions League for a tenth consecutive season

The Club narrowly missed out on silverware, being beaten in the Carling Cup final against Chelsea A good start to the match was rewarded by an opening goal from Theo Walcott, his first for the Club, but the young team could not hold on to this lead and eventually lost a close game by 1-2 The Club's young players showed their potential throughout the Carling Cup campaign with fine away victories over West Bromwich Albion and Everton, before the memorable 6-3 win over Liverpool at Anfield and the two-legged victory over Tottenham Hotspur in the semi-final

After a comfortable victory over Dinamo Zagreb in the UEFA Champions League Third Qualifying Round, the team went on to finish top, ahead of Porto, CSKA Moscow and Hamburg, in a tight Group Stage In the knockout round, the Club was drawn against PSV Eindhoven, where a 0-1 defeat in the away leg was followed, disappointingly, by a 1-1 draw at Emirates Stadium resulting in elimination from the competition

The Club began the FA Cup competition very well with a fine 3-1 away win at Liverpool and this was followed by an excellent victory over Bolton Wanderers However, the Club was knocked out 0-1 in a Fifth Round replay by a late Blackburn Rovers goal at Ewood Park

BARCLAYS PREMIERSHIP 2006/2007 FINAL TABLE

		HOME					AWAY						
	P	W	D	L	F	A	W	D	L	F	A	Pts	GD
Manchester United	38	15	2	2	46	12	13	3	3	37	15	89	+56
Chelsea	38	12	7	0	37	11	12	4	3	27	13	83	+40
Liverpool	38	14	4	1	39	7	6	4	9	18	20	68	+30
Arsenal	38	12	6	1	43	16	7	5	7	20	19	68	+28
Tottenham Hotspur	38	12	3	4	34	22	5	6	8	23	32	60	+3
Everton	38	11	4	4	33	17	4	9	6	19	19	58	+16
Bolton Wanderers	38	9	5	5	26	20	7	3	9	21	32	56	5
Reading	38	11	2	6	29	20	5	5	9	23	27	55	+5
Portsmouth	38	11	5	3	28	15	3	7	9	17	27	54	+3
Blackburn Rovers	38	9	3	7	31	25	6	4	9	21	29	52	-2
Aston Villa	38	7	8	4	20	14	4	9	6	23	27	50	+2
Middlesbrough	38	10	3	6	31	24	2	7	10	13	25	46	5
Newcastle United	38	7	7	5	23	20	4	3	12	15	27	43	-9
Manchester City	38	5	6	8	10	16	6	3	10	19	28	42	15
West Ham United	38	8	2	9	24	26	4	3	12	11	33	41	24
Fulham	38	7	7	5	18	18	1	8	10	20	42	39	-22
Wigan Athletic	38	5	4	10	18	30	5	4	10	19	29	38	22
Sheffield United	38	7	6	6	24	21	3	2	14	8	34	38	23
Charlton Athletic	38	7	5	7	19	20	1	5	13	15	40	34	26
Watford	38	3	9	7	19	25	2	4	13	10	34	28	30

REVIEW OF THE 2006/2007 SEASON

Reserves

The 2006/07 season was a challenging campaign for Neil Banfield's team Although the team did not finish as high as the third place they had achieved in 2005/06, there were still many positives to be taken from the season

Due to injuries and first team call-ups, Neil Banfield could never rely on a consistent starting eleven and players from the Under-16 level were regularly required to appear for the team Of course, this provided good experience for many of the Club's younger players and, at reserve team level, performances and experience for young players are just as important as results

FA BARCLAYCARD PREMIERSHIP RESERVE LEAGUE SOUTH 2006/2007 FINAL TABLE

		HOME					AWAY						
	P	W	D	L	F	A	W	D	L	F	A	GD	Pts
Reading	18	5	1	3	20	7	7	1	1	25	8	+30	38
Watford	18	4	2	3	12	13	7	0	2	14	7	+6	35
Chelsea	18	3	2	4	12	8	7	1	1	14	3	+15	33
Aston Villa	18	5	1	3	22	11	4	2	3	16	15	+12	30
Tottenham Hotspur	18	3	2	4	9	12	5	4	0	13	6	+4	30
Charlton Athletic	18	4	3	2	18	10	3	1	5	10	14	+4	25
West Ham United	18	1	2	6	7	15	4	1	4	11	13	-10	18
Fulham	18	1	2	6	7	13	3	3	3	9	17	-14	17
Arsenal	18	2	1	6	10	13	2	3	4	5	16	14	16
Portsmouth	18	0	2	7	4	23	2	2	5	8	22	-33	10

Last year several young players made the step-up from Under-18 and Reserve football to being involved at first team level for the Club Mark Randall, Henri Lansbury, Fran Merida and Jay Simpson all featured in first team squads during the Carling Cup campaign in which the team advanced to the final of the competition

REVIEW OF THE 2006/2007 SEASON

Youth

Steve Bould's Under-18s had a successful 2006/2007 campaign, with the highlights being winning their Academy League section and also reaching the FA Youth Cup semi-final

The Arsenal Under-18s won 20 of their 28 matches in Group A of the Under-18 Academy League and finished as winners of their group, which consisted of ten teams from the south of the country As a result, the team progressed into the Academy League Play-Offs, which included all the top placed teams from around the country, where they lost 2-3 to competition winners Leicester City in the Play-Off semi-final

FA PREMIER ACADEMY LEAGUE U18 GROUP A 2006/2007 FINAL TABLE

	P	W	D	L	F	A	Pts
Arsenal	28	20	5	3	75	38	65
West Ham United	28	17	6	5	50	36	57
Chelsea	28	16	5	7	46	30	53
Southampton	28	16	2	10	66	44	50
Crystal Palace	28	14	8	6	60	45	50
Ipswich Town	28	10	8	10	48	47	38
Charlton Athletic	28	9	7	12	47	50	34
Millwall	28	7	8	13	38	56	29
Norwich City	28	7	1	20	26	51	22
Fulham	28	4	7	17	32	62	19

The young players produced a very good run in the FA Youth Cup, where they beat Wycombe Wanderers, Hull City, Bristol City and Cardiff City before being knocked out by Manchester United in the semi-final The competition was extremely well supported by the Club's fans at Emirates Stadium, with over 12,000 fans watching the quarter-final victory over Cardiff City and an impressive 38,187 supporters watching Steve Bould's team beat Manchester United 1-0 in the first leg of the semi-final

REVIEW OF THE 2006/2007 SEASON

Ladies

The Arsenal Ladies dominated women's football and recorded an unprecedented clean sweep by winning all four major trophies in the 2006/2007 season

Arsenal Ladies won the FA Women's Premier League, winning all their 22 fixtures and scoring 119 goals In addition, Vic Akers' side became the first British team to win the UEFA Women's Cup and also collected the FA Cup and League Cup

The quadruple, won in the Arsenal Ladies' 20th year as a Club, was completed with an emphatic 4-1 victory over Charlton Athletic in The Women's FA Cup Final at Nottingham Forest's City Ground Two goals from Kelly Smith and further efforts from Alex Scott and Katie Chapman ensured that Vic Akers' team won the FA Cup for the eighth time in the past 14 seasons

The historic UEFA Women's Cup success was completed following a 0-0 draw at a packed Boreham Wood FC ground against Swedish champions and UEFA Women's Cup holders, UMEA Following a dramatic 1-0 victory in the first leg in Sweden, thanks to a late goal from Alex Scott, Vic Akers' team completed the task in the home leg as a result of sterling defensive work The victory was the first time a British team had won Europe's elite competition for Women's football

The fourth victory to make up the quadruple was the League Cup success in March, when the team triumphed over Leeds United 1-0, courtesy of a Jayne Ludlow strike in the 90th minute of a final played at Scunthorpe United's Glanford Park

The Ladies were named Club of the Year at the FA Women's Awards, Akers was named Manager of the Year, England striker Kelly Smith won the Players' Player of the Year and Lianne Sanderson was honoured as top scorer in the FA Women's Premier League with 28 goals Sanderson scored 40 goals in all competitions during the season To cap an incredible season, the entire Arsenal Ladies first team squad were also handed the Freedom of the Borough

The Ladies actually won a fifth trophy during the 2006/2007 season Although not considered as a 'major' trophy, the team also won the London County Cup by beating Millwall 2-0 in the final of a competition where Vic Akers played many of the younger squad members

FA WOMEN'S PREMIER LEAGUE 2006/2007 FINAL TABLE

	P	W	D	L	F	A	GD	Pts
Arsenal	22	22	0	0	119	10	109	66
Everton	22	17	1	4	56	15	41	52
Charlton Athletic	22	16	2	4	63	32	31	50
Bristol Academy	22	13	1	8	53	41	12	40
Leeds United	22	12	1	9	50	44	6	37
Blackburn Rovers	22	10	2	10	37	36	1	32
Birmingham City	22	8	4	10	34	29	5	28
Chelsea	22	8	4	10	33	34	-1	28
Doncaster Belles	22	7	2	13	29	54	-25	23
Cardiff City	22	3	3	16	26	64	-38	12
Sunderland	22	3	2	17	15	72	-57	11
Fulham	22	1	2	19	12	96	-84	5

CHARITY OF THE SEASON 2006/07

The Willow Foundation

The Willow Foundation became Arsenal's nominated charity of the year replacing the David Rocastle Trust The partnership proved to be hugely successful and raised more than £250,000 for the charity during the year

The Willow Foundation was established in 1999 by ex-Arsenal goalkeeper, Bob Wilson, and his wife, Megs, following the loss of their daughter, Anna, to cancer The Willow Foundation offers quality of life and quality time to seriously ill young adults aged 16-40 through the provision of 'special days'.

In 2005 the Willow Foundation became a national organisation – a move that dramatically increased awareness of and demand for its service In 2006 alone the charity fulfilled 890 'special days' In 2007, with the help of the partnership with Arsenal Football Club, the Willow Foundation will reach out to many more seriously ill young adults and fulfil more than 1,000 'special days' experiences

Speaking on the partnership, Arsenal Manager Arsène Wenger said "We are delighted that, through the partnership, so much money and awareness has been raised for this wonderful charity It is clear what a great charity this is and how hard everyone works to create precious memories for so many seriously ill young adults The supporters have been fantastic in their support and, through their generosity, have made a real difference to the lives of many deserving young people "

Bob Wilson said "It has been an enormous honour to be Arsenal's Charity of the Season in the Club's first season at the Emirates Stadium The association has opened up a host of opportunities for the Willow Foundation With the tremendous support of the Club and its wonderful fans, we have been able to reach out to more seriously ill young adults throughout the UK, significantly increase awareness of our service and ultimately fulfil more 'special days' wishes "

The partnership helped create many exciting awareness and fund raising events during Arsenal's first season at Emirates Stadium, including Impact Art, a colourful arts initiative which saw Arsenal stars and other sports personalities using their sport to create a piece of conceptual art, and Sportography, an exhibition of one hundred signed photographs of past and present Arsenal heroes

Arsenal's match against West Ham on 7th April 2007 was the Club's 'Charity of the Season day' dedicated to the Willow Foundation, which included a donation of fifty pence from each match day programme, various raffles and bucket collections in and around the stadium All the players warmed up in Willow Foundation t-shirts and the Junior Gunners created a 'Willow Foundation Guard of Honour' as both teams came onto the pitch In May the Arsenal Charity Ball was held at Emirates Stadium and raised funds through ticket sales and an auction

After the successful partnership with the Willow Foundation, the Club welcomes TreeHouse, which is the national charity for autism education, as its new Charity of the Season partner for the 2007/08 season

ARSENAL IN THE COMMUNITY

Arsenal in the Community initiatives continue to expand and the department has been at the forefront of innovative community sports development in the local, regional and global Arsenal community for 22 years The department is committed to offering a diverse range of sporting, social inclusion, educational and charitable projects In addition, the development of Emirates Stadium has delivered a wide range of regenerative and community benefits for Islington residents

Arsenal Double Club

The award winning Arsenal 'Double Club' is an innovative education and football programme which combines the popularity of football with education Primary and Secondary school pupils are given the opportunity to participate in classroom activities using football, and specifically Arsenal-related resources, followed by a practical coaching session The programme provides a novel framework for after-school, holiday or curriculum time classes through the development of literacy and numeracy exercises and uses football as the conduit to create stimulating and fun educative materials for use in schools in London and the surrounding counties

The curriculum-time Double Club, which sees a full time 'Arsenal Teacher' working in the school, now operates in four London schools Since September 2006 Arsenal has been working with other football clubs to help them establish their own Double Clubs in Secondary schools The Double Club after-school programme now operates in more than 50 primary schools, including a new ten school project in Barnet, North London, which is funded by the Football Foundation

Following a successful German scheme, the Double Club has recently added Spanish and a new French module to its extensive learning programme and first-team stars Jens Lehmann, Cesc Fabregas and Gael Clichy have assisted with the DVDs for the language modules

Nationality Week

Arsenal Football Club kicked off a week-long event in January 2007 to celebrate the diverse cultures and nationalities in the local area The initiative, known as 'Arsenal - The World on our Doorstep', saw Arsenal in the Community staff giving morning assemblies at local primary schools where over 40 per cent of children speak a second language Arsenal in the Community also delivered innovative lesson plans for the schools participating in the initiative

In addition, the Club ran an exciting competition to celebrate the event which invited youngsters to design their own 'squad card' which gave details of their place of birth, nationality, flag, favourite food and hobbies and Arsenal players selected the winners from a very high standard of entries The week culminated with the winners of the competition joining Arsenal players at a special event at Emirates Stadium, meeting other children from Islington, asking questions about the players' cultures and history and celebrating the lessons learnt during the scheme

We hope that this will become a permanent fixture for Arsenal in the Community to work in partnership with Islington Primary Schools, with each year celebrating a different theme

Kickz

The Arsenal Kickz project began at Elthorne Park in September 2006 The concept was developed through discussions between the Metropolitan Police and members of the football industry including the Premier League, the FA and the Football Foundation Using the power of football and the appeal of professional football clubs, the purpose of Kickz is to engage young people in the local area and create safer, stronger more respectful communities through the development of the potential of young people

The Government's support for the programme, through the Respect Task Force, has led to

ARSENAL IN THE COMMUNITY

involvement from the Association of Chief Police Officers and Association of Police Authorities Locally there are a wide range of partners involved in the project who together form a steering group that is chaired by The Police Borough Liaison Officer

The scheme is designed to·

- engage young people in a range of constructive activities which link to the "Every Child Matters" framework
- increase the playing, coaching and officiating opportunities for participants
- break down barriers between the police and young people
- reduce crime and anti-social behaviour in the targeted neighbourhoods
- create routes into education, training and employment
- encourage volunteering within projects and throughout the target neighbourhoods
- increase young people's interest in and connections with the professional game

Arsenal Soccer Schools

The Soccer Schools programme offers organised football courses for boys and girls at more than 100 venues across the south of England and overseas Over the course of one year our Soccer School coaches, in association with our partners, have worked with over 20,000 young footballers of all abilities More than 150 coaches received training in the Club's modular coaching programme Arsenal Soccer Schools now have partnerships with 14 clubs and associations overseas, providing coaching for local coaches who in turn train local players - reaching more than 10,000 young people worldwide Arsenal Soccer Schools now have a permanent presence in Egypt, Hong Kong, Singapore, Malaysia, Portugal, Finland, Australia, Israel, Canada, Greece and China, with Mexico, France, Spain and Indonesia all starting in autumn 2007

The Arsenal International Soccer Festival, which is in its 17th year, attracts over 150 teams from the UK and abroad and was recently voted the second best youth soccer event in the world

Disability Football Programme

The Club continues to run monthly coaching sessions for visually impaired children and adults with learning difficulties Arsenal's Under 16 visually impaired football team recently won the 'London VI Cup' beating Tottenham Hotspur 3-1 in the final and the under 12s team were runners up in their age group The Ability Counts junior team, with players from Samuel Rhodes Special School, represented Arsenal in the regional festival held at Regents Park and our adult team, Arsenal Barnet Mencap, represented the club in the STEP Football league

A new initiative last season has seen the department working in partnership with The National Deaf Children's Society (NDCS) A tournament was held for deaf children aged 6 – 16 at our Hale End Sports Ground Over 60 children took part in the fun filled event that was part of a NDCS project designed to make football more accessible to all deaf children Arsenal in the Community has committed to the project and over the course of the next three years, with the support of the NDCS, will be holding regular weekly coaching sessions for deaf footballers as well as providing deaf children with the chance to join the St John's Arsenal Deaf FC and play in competitions St John's Arsenal Deaf FC beat Glasgow Athletic Deaf FC 4-1 in the BDSC (British Deaf Sports Council) Cup

Arsenal Positive Futures

Arsenal Positive Futures is a sports-based social inclusion programme that works with young people from local Islington estates and various referral organisations such as Islington Youth Offending Team, Islington Children's Services, Youth Inclusion Programme, Islington Drug & Alcohol Action Team and Homes for Islington Sport is used as a route to engage participants, with the longer term aim of widening the horizons of the project's 10 to 19

ARSENAL IN THE COMMUNITY

year-old participants The initiative has a strong element of volunteering, education and training and offers participants pathways to employment

Arsenal Sport and Learning

Arsenal Sport and Learning is a project that offers Year 11 students a full-time alternative to mainstream education It is aimed at young people who have become disengaged with the traditional school setting, mainly due to poor or non-attendance, and uses sport as an initial route for engagement Once this has been established, pupils are then introduced to a range of academic and sporting qualifications including GCSEs, Sports Leaders Awards, ICT, and Citizenship The Club's partners in the project are CEA@Islington and Springboard Islington Trust

Youth Training

For the past 17 years the Arsenal Youth Training Scheme has offered 16 to 18 year-old school leavers a pathway into training, education and employment within the sports industry The scheme, working together with Springboard Islington, has benefited nearly 350 young people and has made a significant contribution to the development and employment prospects of its participants

Arsenal International Gap Year Programme

The Arsenal Gap Year programme gives individuals the opportunity to combine their passion for football with the chance to live, work and play in London and exciting destinations around the world Open to anyone aged 18 and over with some football coaching and/or volunteering experience, the programme offers the chance to spend three to four months gaining qualifications and experience coaching football, assisting with English and computer Double Club sessions as part of the local programme and then going abroad to replicate the same programme of work but in a different environment

The Arsenal Gap Year will run two programmes per year from 2007

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 May 2007

Principal activities

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

Profits and dividends

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

The directors do not recommend the payment of a dividend (2006 - £Nil)

Directors and their interests

The directors of the company, all of whom served throughout the year, together with details of their interests in the company's share capital are set out below

	Ordinary shares of £1 each	
	2007	**2006**
P D Hill-Wood	500	348
Lady Nina Bracewell-Smith	9,893	9,893
R C L Carr	2,722	2,722
K G Edelman	25	25
D D Fiszman	15,000	15,659
K J Friar OBE	47	199
Lord Harris of Peckham	53	53
Sir Chips Keswick	40	20

In addition, Sir Roger Gibbs served as a director until 22 June 2006 and D B Dein served as a director until 18 April 2007
The shares held by K G Edelman are as nominee for D D Fiszman In addition to the above K G Edelman holds 1 Subscriber Ordinary share of £1
In accordance with the provisions of Article 88 of the Articles of Association K G Edelman and D D Fiszman retire by rotation and, being eligible, offer themselves for re-election at the company's Annual General Meeting

Substantial shareholdings

In addition to the directors' interests set out above, the Company has been notified of the following interests in over 3 per cent of its issued share capital at 18 September 2007

	Shares	%
Red and White Securities Limited	13,076	21 0
KSE UK Inc	7,584	12 2

Political and charitable contributions

During the year the Group made donations for charitable purposes amounting to £55,985 (2006 - £26,795) and £Nil political contributions (2006 - £Nil)

Creditor payment policy

The Group's policy is to pay all creditors in accordance with contractual and other legal obligations Advantage is taken of available discounts for prompt payment whenever possible
The rate, expressed in days, between the amounts invoiced to the Group by its suppliers in the year and the amount owing to trade and other creditors at the year end was 46 days (2006 - 30 days)

DIRECTORS' REPORT

Employees

Within the bounds of commercial confidentiality, the Group endeavours to keep staff at all levels informed of matters that affect the progress of the Group and are of interest to them as employees

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

Disabled persons are given full and fair consideration for all types of vacancy in as much as the opportunities available are constrained by the practical limitations of the disability Should, for whatever reason, an employee of the Group become disabled whilst in employment, every step, where appropriate, will be taken to assist with rehabilitation and suitable re-training

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 the employees and the environment

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements The directors have chosen to prepare the financial statements for the Company and the Group in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) Company law requires the directors to prepare financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period and which comply with UK GAAP and the Companies Act 1985 In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Disclosure of information to auditors

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

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware, and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information

Auditors

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditors will be proposed at the forthcoming Annual General Meeting

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

D Miles
Secretary
21 September 2007

Registered office
Highbury House
75 Drayton Park
London
N5 1BU

CORPORATE GOVERNANCE

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

Going concern

The directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements continue to be prepared on the going concern basis

Directors

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

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

Internal control

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

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

Audit Committee

The Audit Committee consists of four non-executive directors, Sir Chips Keswick (Chairman), D D Fiszman, Lord Harris of Peckham and Lady Nina Bracewell-Smith

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

Remuneration Committee

The Remuneration Report is set out on page 29

THE REMUNERATION REPORT

The Remuneration Committee

The Committee consists of three non-executive directors, P D Hill-Wood (Chairman), Lord Harris of Peckham, and Lady Nina Bracewell-Smith

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 contributions the aggregate of which is intended to reflect market conditions and the performance of the Group and of the individual

Policy on remuneration of the non-executive directors

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

Directors' remuneration

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

P D Hill-Wood

P.D. Hill-Wood
Chairman of the Remuneration Committee
21 September 2007

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARSENAL HOLDINGS PLC

We have audited the group and individual company financial statements (the "financial statements") of Arsenal Holdings Plc for the year ended 31 May 2007 which comprise the consolidated profit and loss account, the consolidated and individual company balance sheets, the consolidated cash flow statement and the related notes 1 to 29 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any further information outside the Annual Report

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the individual company's affairs as at 31 May 2007 and of the group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors, London
21 September 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 May 2007

	Note	2007 Operations excluding player trading £000's	2007 Player trading £000's	2007 Total £000's	2006 Operations excluding player trading £000's	2006 Player trading £000's	2006 Total £000's
Turnover of the group including its share of joint ventures		201,443	544	201,987	138,105	139	138,244
Share of turnover of joint venture		(1,144)	-	(1,144)	(1,007)	-	(1,007)
Group turnover	3	200,299	544	200,843	137,098	139	137,237
Operating expenses	4	(158,685)	(18,782)	(177,467)	(125,775)	(15,401)	(141,176)
Operating profit/(loss)		41,614	(18,238)	23,376	11,323	(15,262)	(3,939)
Share of joint venture operating result		435	-	435	499	-	499
Profit on disposal of player registrations		-	18,467	18,467	-	19,150	19,150
Profit on ordinary activities before finance charges		42,049	229	42,278	11,822	3,888	15,710
Net finance (charges) - ordinary	5			(15,304)			175
Net finance (charges) - exceptional	5			(21,401)			-
Net finance (charges)/income				(36,705)			175
Profit on ordinary activities before taxation				5,573			15,885
Taxation	8			(2,757)			(7,983)
Profit after taxation retained for the financial year				2,816			7,902
Earnings per share							
From operations excluding exceptional charges							
Basic and diluted	9			£286 05			£127 01
From operations after exceptional charges							
Basic and diluted	9			£45 26			£127 01

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

All trading resulted from continuing operations

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

BALANCE SHEET

At 31 May 2007

	Note	Group 2007 £000's	Group 2006 £000's	Company 2007 £000's	Company 2006 £000's
Fixed assets					
Tangible fixed assets	10	455,300	451,501	-	-
Intangible fixed assets	11	64,671	66,555	-	-
Investments	12	76	-	30,059	30,059
		520,047	518,056	30,059	30,059
Current assets					
Stock – development properties	13	100,080	44,446	-	-
Stock – retail merchandise		1,166	504	-	-
Debtors - due within one year	14	31,028	44,736	-	-
- due after one year	14	5,117	4,253	114,904	114,649
Cash at bank and in hand		73,857	35,598	433	-
		211,248	129,537	115,337	114,649
Creditors: amounts falling due within one year	15	(150,017)	(167,703)	(439)	(437)
Net current assets/(liabilities)		61,231	(38,166)	114,898	114,212
Total assets less current liabilities		581,278	479,890	144,957	144,271
Creditors. amounts falling due after more than one year	16	(416,120)	(321,240)	(11,031)	(10,728)
Provisions for liabilities and charges	18	(31,784)	(28,092)	-	-
Net assets		133,374	130,558	133,926	133,543
Equity capital and reserves					
Called up share capital	19	62	62	62	62
Share premium	20	29,997	29,997	29,997	29,997
Merger reserve	21	26,699	26,699	-	-
Profit and loss account	22	76,616	73,800	103,867	103,484
Equity shareholders' funds		133,374	130,558	133,926	133,543

These financial statements were approved and authorised for issue by the Board of Directors on 21 September 2007

Signed on behalf of the Board of Directors

P D Hill Wood
Director

K G Edelman
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 May 2007

	Note	2007 £000's	2006 £000's
Net cash inflow from operating activities	24a	77,332	41,074
Player registrations	24d	(8,009)	(11,793)
Returns on investment and servicing of finance	24d	(24,603)	(14,627)
Taxation		(54)	(3,365)
Capital expenditure	24d	(37,949)	(117,693)
Net cash inflow/(outflow) before financing		6,717	(106,404)
Financing	24d	31,542	70,373
Increase/(decrease) in cash in the year		38,259	(36,031)

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

1. Principal accounting policies

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards 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 2007

Assets and liabilities held in the Group's employee benefit trusts are included in the consolidation in accordance with the requirements of UITF 32 Long term receivables included in the trust's balance sheet have been discounted to their net present value by applying a discount rate of 5%

As permitted by Section 230 of the Companies Act 1985 the profit and loss account of the parent company is not presented as part of these financial statements The parent company's retained profit for the year was £0 4 million (2006 - £42 7 million) All of the Company's operating costs are borne by a subsidiary company

(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 another party under a contractual arrangement

The Group's share of the results of its joint venture is included in the consolidated profit and loss account on the basis of unaudited management accounts 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 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 and other match day revenue is recognised over the period of the football season as games are played Sponsorship and similar commercial income is recognised over the duration of the respective contracts The fixed element of broadcasting revenues is recognised over the duration of the football season whilst facility fees for live coverage or highlights are taken when earned Merit awards are accounted for only when known at the end of the financial period UEFA pool distributions relating to participation in the Champions League are spread over the matches played in the competition whilst distributions relating to match performance are taken when earned, these distributions are classified as broadcasting revenues Fees receivable in respect of the loan of players are included in turnover over the period of the loan

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

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Depreciation

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

Freehold buildings	2% per annum	Plant and equipment	5% to 20% per annum
Leasehold properties	Over the period of the lease	Motor vehicles	25% per annum

Freehold land is not depreciated Depreciation of Emirates Stadium has been charged from the date that the new stadium became ready for use in the Group's business

(f) Emirates Stadium project

Directly attributable costs incurred in the period relating to the Emirates Stadium development have been capitalised Certain construction and related costs, which ultimately represented consideration for freehold land at the Emirates Stadium site, were recorded as Assets in the Course of Construction until completion of the land acquisition when they were transferred to Freehold Property

(g) 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

(h) 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

Up to the date of completion of the construction works on Emirates Stadium, finance costs directly attributable to the funding of the project were capitalised

(i) 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

(j) Stocks

Stocks comprise retail merchandise and development property for onward sale and are stated at the lower of cost and net realisable value

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

(k) Grants

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

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Player costs

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

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

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

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

(m) 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

(n) 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 2007/08 season and advance income from executive boxes and Club Tier seats at Emirates Stadium Deferred income also includes income from the pre-sale of residential properties at Highbury Square which will be credited to the profit and loss account on completion of the sale contracts

(o) Leases

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

(p) Pensions

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

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

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Pensions (continued)

Under the provisions of FRS 17 - Retirement Benefits - the Scheme would be treated as a defined benefit multi-employer scheme The Scheme's actuary has advised that the participating employers' share of the underlying assets and liabilities cannot be identified on a reasonable and consistent basis and accordingly no disclosures are made under the provisions of FRS 17

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

(q) 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 substantially enacted by the balance sheet date

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

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

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

2. Segmental analysis

Class of business:	**Football**		**Property development**		**Group**	
	2007 £000's	**2006** £000's	**2007** £000's	**2006** £000's	**2007** £000's	**2006** £000's
Turnover	177,051	132,122	23,792	5,115	200,843	137,237
Segment operating profit /(loss)	14,408	(4,209)	8,968	270	23,376	(3,939)
Share of operating profit of joint venture	435	499	-	-	435	499
Profit on disposal of player registrations	18,467	19,150	-	-	18,467	19,150
Net finance (charges)/income	(33,854)	1,330	(2,851)	(1,155)	(36,705)	175
Profit/(Loss) on ordinary activities before taxation	(544)	16,770	6,117	(885)	5,573	15,885
Segment net assets/(liabilities)	135,065	136,498	(1,691)	(5,940)	133,374	130,558

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

3. Turnover

Turnover, all of which originates in the UK, comprises the following	2007 £000's	2006 £000's
Gate and other match day revenues	90,613	44,099
Broadcasting	44,312	54,870
Retail	12,064	10,218
Commercial	29,518	22,796
Property development	23,792	5,115
Player trading	544	139
	200,843	137,237

4. Operating expenses

Operating expenses comprise	2007 £000's	2006 £000's
Amortisation of player registrations	18,782	15,401
Depreciation (less amortisation of grants)	9,623	2,384
Total depreciation and amortisation	28,405	17,785
Staff costs (see note 6)	89,703	82,965
Cost of property sales	14,682	2,701
Other operating charges	44,677	37,725
Total operating expenses	177,467	141,176

Other operating charges include		
Auditors' remuneration		
- audit	142	115
- non-audit services	415	791
Operating lease payments		
- plant and machinery	158	232
- other	737	777
Profit on disposal of subsidiary company	(200)	-
Profit on disposal of tangible fixed assets	(836)	(19)

Included in the above are audit fees of £15,500 (2006 - £15,000) in respect of the company

The fees for non-audit services in the table above relate to advice for corporate and employee taxation In addition to the amounts disclosed above the Group incurred non-audit services fees payable to the company's auditors in relation to its ongoing property developments of £1,900 (2006 - £2,097) (included in development property stocks) Further non-audit fees of £75,100 (2006 - £15,100), relating to the refinancing of the Group's bank debts, are included in costs of raising finance

The subsidiary company disposed of was Ashburton Trading (Sales) Limited which held a residual interest in freehold land at one of the Group's previously sold development sites At the date of its disposal for £200,000 Ashburton Trading (Sales) Limited had net assets of £1

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

5. Net finance charges

Interest payable and similar charges	2007 £000's	2006 £000's
Bank loans and overdrafts	(5,723)	(17,220)
Fixed/floating rate bonds	(12,761)	-
Other	(505)	(560)
Costs of raising long term finance	(2,816)	(2,047)
	(21,805)	(19,827)
Finance costs capitalised	3,813	17,696
Total interest payable and similar charges	(17,992)	(2,131)
Interest receivable	2,688	2,306
Net finance (charges)/income – ordinary	(15,304)	175
Finance charges – exceptional	(21,401)	-
	(36,705)	175

The exceptional charges relate to the refinancing of the project finance bank loans which the Group had used to fund the development of Emirates Stadium As a result of the refinancing the un-amortised costs of raising the project finance bank loans (which costs were being amortised over the term of the loans) are written off immediately, in full, giving rise to an exceptional charge of £11 0 million In addition, the interest rate swaps taken out to fix the rate of interest applicable to the project finance bank loans have been terminated at a cost of £7 8 million Finally, fees of £2 6 million were paid to the project finance lenders on cancellation and repayment of the project finance bank loans

Of the interest capitalised £2,960,000 (2006 - £17,696,000) is included in tangible fixed assets and £853,000 (2006 - £Nil) is included in stock development properties

6. Employees

The average number of persons employed by the Group during the year was	2007 Number	2006 Number
Playing staff	52	49
Training staff	31	32
Administrative staff	206	190
Ground staff	85	41
	374	312

In addition the Group employs on average 879 temporary staff on match days (2006 – 685)

	£000's	£000's
Staff costs.		
Wages and salaries	77,650	68,929
Social security costs	9,501	7,382
Other pension costs	2,552	6,654
	89,703	82,965

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

7. Directors' emoluments

	Salary/fees	Bonus	2007 Benefits	Sub total	Pension	Total	2006 Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
PD Hill Wood	66	-	10	76	-	76	61
DB Dein	315	-	-	315	-	315	500
Sir Roger Gibbs	-	-	-	-	-	-	15
RCL Carr	25	-	-	25	-	25	15
Lady Nina Bracewell-Smith	25	-	-	25	-	25	15
KJ Friar OBE	254	300	22	576	-	576	703
DD Fiszman	25	-	-	25	-	25	15
KG Edelman	652	500	5	1,157	5	1,162	1,038
Sir Chips Keswick	25	-	-	25	-	25	15
Lord Harris of Peckham	-	-	-	-	-	-	-
	1,387	800	37	2,224	5	2,229	2,377

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

As at the time of signing these accounts, no amount had been determined in respect of any potential ex-gratia termination payment for D B Dein and accordingly no amount has been disclosed in the accounts

8. Tax on profit on ordinary activities

	2007	2006
	£000's	£000's
UK Corporation tax charge at 30% (2006 – 30%)	151	701
(Over)/under provision in respect of prior years	-	(2,018)
Total current taxation	151	(1,317)
Deferred taxation (see note 18)		
Origination and reversal of timing differences	2,707	8,333
(Over)/under provision in respect of prior years	(101)	967
Total tax on profit on ordinary activities	2,757	7,983

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

8. Tax on profit on ordinary activities (continued)

	2007 £000's	2006 £000's
The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows		
Group profit on ordinary activities before tax	5,573	15,885
Tax on Group profit on ordinary activities before tax at standard UK corporation tax rate of 30% (2006 – 30%)	1,672	4,765
Effects of		
Capital allowances in excess of depreciation	(1,823)	(2,085)
Other timing differences	(884)	(6,249)
Expenses not deductible for tax purposes	1,186	4,420
Tax losses utilised	-	(150)
Adjustments to tax charge in respect of prior years	-	(2,018)
Group current tax for the year	151	(1,317)

The Group tax charge in future years may be affected by

- the change in the standard rate of UK taxation (currently 30%) to 28% in 2008,
- the amount of capital investment which is expected to be maintained at a level such that in the short term the Group expects to be able to claim capital allowances in excess of depreciation, and
- 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 - 62,217 shares (2006 - 62,217 shares)

The calculation of earnings per share (basic and diluted) is based on the following data -

	2007 £000's	2006 £000's
Earnings attributable to equity shareholders (retained profit)	2,816	7,902
Adjustment to exclude exceptional charges net of tax relief	14,981	-
Earnings for the purpose of earnings per share excluding exceptional charges	17,797	7,902

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

10. Tangible fixed assets

	Assets in course of construction £000's	Freehold properties £000's	Leasehold properties £000's	Plant and equipment £000's	Total £000's
Group					
Cost					
At 1 June 2006	300,006	154,857	6,082	10,414	471,359
Additions	27,478	3,413	201	3,065	34,157
Disposals	-	(4,996)	-	(6,319)	(11,315)
Transfers	(327,484)	232,682	173	71,818	(22,811)
At 31 May 2007	-	385,956	6,456	78,978	471,390
Depreciation					
At 1 June 2006	-	9,660	1,553	8,645	19,858
Charge for the year	-	4,448	397	4,853	9,698
Disposals	-	(4,996)	-	(6,319)	(11,315)
Transfers	-	(2,151)	-	-	(2,151)
At 31 May 2007	-	6,961	1,950	7,179	16,090
Net book value					
At 31 May 2007	-	378,995	4,506	71,799	455,300
At 31 May 2006	300,006	145,197	4,529	1,769	451,501

At 31 May 2007 the Group had contracted capital commitments of £6 3 million (2006 - £30 8 million)

Freehold property with a cost of £2 43 million was transferred from development property stocks during the year and freehold property with a book value of £23 09 million was transferred to development property stocks

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

11. Intangible fixed assets

Cost of player registrations	£000's
At 1 June 2006	133,162
Additions	17,585
Disposals	(28,532)
At 31 May 2007	122,215
Amortisation of player registrations	
At 1 June 2005	66,607
Charge for the year	18,782
Disposals	(27,845)
At 31 May 2007	57,544
Net book value	
At 31 May 2007	64,671
At 31 May 2006	66,555

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

12. Investments

	Group	
Investment in joint venture	**2007**	**2006**
	£000's	£000's
Investments at cost	20,000	20,000
Accumulated share of profit / (loss) of joint venture	76	(209)
Adjustment to eliminate unrealised profit on sale of intangible assets	(20,000)	(20,000)
Share of joint venture (note 18)	76	(209)

The joint venture represents an interest in Arsenal Broadband Limited, a company incorporated in Great Britain and engaged in running the official Arsenal Football Club internet portal The Group owns all of the 20,000,001 Ordinary "A" shares of £1 each and the one "C" share of £1 issued by Arsenal Broadband and controls 50 per cent of the voting rights The Group's share of the assets included in the unaudited balance sheet of Arsenal Broadband Limited for the year ended 31 May 2007 is as follows

	2007	**2006**
	£000's	£000's
Fixed assets	17	52
Current assets	1,232	1,124
Liabilities	(1,173)	(1,385)
	76	(209)

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

12. Investments (continued)

Investments in subsidiary undertakings

	Company £000's
Balance at 1 June 2006 and 31 May 2007	30,059

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

	Country of incorporation	Proportion of shares owned	Principal activity
Arsenal (AFC Holdings) Limited	Great Britain	100%	Share holding
Arsenal Football Club plc*	Great Britain	100%	Professional football club
Arsenal (Emirates Stadium) Limited*	Great Britain	100%	Property development
Arsenal Overseas Limited*	Jersey	100%	Retail operations
Arsenal Securities plc*	Great Britain	100%	Financing
Arsenal Stadium Management Company Limited*	Great Britain	100%	Stadium operations
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
Gillespie (Jersey) Limited*	Jersey	100%	Property holding
Gillespie Holding Company (Jersey) Limited*	Jersey	100%	Property holding

13. 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 significantly greater than their book value

14. Debtors

	Group		Company	
	2007 £000's	2006 £000's	2007 £000's	2006 £000's
Amounts recoverable within one year.				
Trade debtors	10,115	14,366	-	-
Other debtors	7,642	5,780	-	-
Prepayments and accrued income	13,271	24,590	-	-
	31,028	44,736	-	-
Amounts recoverable in more than one year:				
Trade debtors	2,500	-	-	-
Amount due from group undertakings	-	-	114,904	114,649
Other debtors	1,778	3,561	-	-
Prepayments and accrued income	839	692	-	-
	5,117	4,253	114,904	114,649

Other debtors, of 9 42 million, include £9 0 million in respect of player transfers (2006 - £8 7 million) of which £1 7 million is recoverable in more than one year and £3 4 million is covered by bank guarantees

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

15. Creditors: amounts falling due within one year

	Group		Company	
	2007 £000's	**2006** £000's	**2007** £000's	**2006** £000's
Fixed rate bonds – secured	4,122	-	-	-
Bank loans and overdrafts – secured	-	22,816	-	-
Trade creditors	15,723	15,747	-	-
Amounts due to group undertakings	-	-	2	-
Corporation tax	4,629	4,681	437	437
Other tax and social security	12,425	3,191	-	-
Other creditors and loans	12,185	21,237	-	-
Accruals and deferred income	100,933	100,031	-	-
	150,017	167,703	439	437

Other creditors, above and as disclosed in note 16, include £16 5 million (2006 - £27 2 million) in respect of player transfers

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

	Group		Company	
	2007 £000's	**2006** £000's	**2007** £000's	**2006** £000's
Fixed rate bonds – secured	191,569	-	-	-
Floating rate bonds – secured	56,179	-	-	-
Bank loans – secured	62,879	249,761	-	-
Debenture loans	25,463	25,165	11,031	10,728
Other creditors	6,638	6,343	-	-
Grants	4,712	4,500	-	-
Deferred income	68,680	35,471	-	-
	416,120	321,240	11,031	10,728
Debenture loans comprise				
Par value of debentures plus accumulated interest	25,774	25,476	11,342	11,039
Costs of raising finance	(311)	(311)	(311)	(311)
	25,463	25,165	11,031	10,728

Under the issue terms debentures with a par value of £14,438,000 are repayable at par after 135 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 21 years and carry cumulative compound interest at 2 75% per annum

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

	Group	
	2007	2006
Bank loans comprise	£000's	£000's
Bank loans	64,469	284,035
Costs of raising finance	(1,590)	(11,458)
	62,879	272,577
Due within one year	-	22,816
Due after more than one year	62,879	249,761
	62,879	272,577

The costs of raising bank loan finance are amortised to the profit and loss account over the term of the loan The amortisation charge for the year was £959,000 (2006 - £2,114,000) and, in addition, costs of £10,956,000 were written off as an exceptional charge on repayment of the related loans (see note 5)

	Group	
	2007	2006
The fixed rate bonds above and disclosed in note 15 comprise	£000's	£000's
Fixed rate bonds	205,231	-
Costs of raising finance	(9,540)	-
	195,691	-
Due within one year	4,122	-
Due after more than one year	191,569	-
	195,691	-

The fixed rate bonds bear interest at 5 1418% per annum

	2007	2006
The floating rate bonds above comprise	£000's	£000's
Floating rate bonds	50,000	-
Interest rate swap	6,765	-
Costs of raising finance	(586)	-
	56,179	-
Due within one year	-	-
Due after more than one year	56,179	-
	56,179	-

The floating rate bonds bear interest at LIBOR for three month deposits plus a margin of 0 22% and the Group has entered into interest rate swaps which fix the LIBOR element of this cost at 5 75%

The costs of raising debt finance, in the form of fixed and floating rate bonds, are amortised to the profit and loss account over the term of the bonds The amortisation charge for the year was £785,000 (2006 - £Nil)

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 the bond principal outstanding

The Group's fixed rate bonds, floating rate bonds and bank loans 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

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

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

charges over certain of the Group's trade debtors and the related bank guarantees, by fixed charges over £45 5 million (2006 £8 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

	Group	
	2007	2006
The Group's financial liabilities/debt is repayable as follows	£000's	£000's
Between one and two years	5,300	32,463
Between two and five years	82,155	53,488
After five years	252,992	198,853
	340,447	284,804
Within one year	5,027	24,707
Total bank loans	345,474	309,511

17. Derivative financial instruments

The Group's financial instruments comprise mainly of cash and bank balances, fixed and floating rate bonds, bank loans, 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 interest rate risk in relation to certain € 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 2007 was as follows.

	Fixed rate 2007	Floating rate 2007	Interest free 2007	Total 2007	Weighted average fixed rate	Weighted average period for which rate is fixed
	£000's	£000's	£000's	£000's	%	yrs
Bonds – fixed rate	205,231	-	-	205,231	5 8	23
Bonds – floating rate	50,000	-	-	50,000	6 6	25
Bank loans	50,156	14,313	-	64,469	6 6	3
Debenture loans	11,342	-	14,432	25,774	2 8	21
	316,729	14,313	14,432	345,474		

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

17. Derivative financial instruments (continued)

The interest rate profile at 31 May 2006 for comparative purposes was -

	Fixed rate 2006 £000's	Floating rate 2006 £000's	Interest free 2006 £000's	Total 2006 £000's	Weighted average fixed rate %	Weighted average period for which rate is fixed yrs
Bank loans	280,305	3,730	-	284,035	8 0	10
Debenture loans	11,038	-	14,438	25,476	2 8	22
	291,343	3,730	14,438	309,511		

The interest rate on the floating rate element of bank loans is currently set at LIBOR plus 1 4% (2006 - 1 95%) 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 26, of £7 7 million (2006 - £5 7 million) on which interest is currently paid at a fixed rate of 2%

Borrowing facilities

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

	2007 £000's	2006 £000's
Expiring in		
One year or less	50,000	41,073
Over two years	72,531	-

Fair values

The fair value of all financial instruments at 31 May 2006 and 2007, other than interest rate swaps as disclosed below, was not materially different from their book value

	2007		2006	
	Book value £000's	Fair value £000's	Book value £000's	Fair value £000's
Derivative financial instruments held to manage the Group's interest rate profile				
Interest rate swaps	-	(3,287)	-	(7,440)

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

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

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

17. Derivative financial instruments (continued)

An analysis of these unrecognised gains and losses is as follows	Group	
	2007	2006
	£000's	£000's
Unrecognised losses at start of year	(7,440)	(14,621)
Unrecognised gains arising in year	4,153	7,181
Unrecognised losses at end of year	(3,287)	(7,440)
Of which		
Gains and losses expected to be recognised in 2007/08	-	(7,440)
Gains and losses expected to be recognised later than 2007/08	(3,287)	-

Foreign currencies

Included in other debtors are amounts of £3 4 million (2006 - £8 2 million) denominated in Euros

Included in prepayments and accrued income are amounts of £4 1 million (2006 - £Nil) denominated in Euros and amounts of £Nil (2006 - £10 5 million) denominated in Swiss Francs

Included in other creditors are amounts of £4 6 million (2006 - £17 2 million) denominated in Euros and £0 9 million (2006 - £0 2 million) denominated in US dollars Included in provisions are amounts of £3 7 million (2006 - £3 3 million) denominated in Euros and £1 0 million (2006 - £Nil) denominated in US dollars

18. Provisions for liabilities and charges

	Group	
	2007	2006
	£000's	£000's
Share of losses of joint venture (see note 12)	-	209
Pensions provision (see note 28 (b))	705	834
Deferred taxation	18,953	16,347
Transfers	12,126	10,702
	31,784	28,092

The transfers provision relates to the probable additional fees payable based on the players concerned achieving a specified number of appearances

The deferred tax charge for the year was £2 60 million (see note 8) (2006 - £9 30 million)

Deferred tax provision	Group	
	2007	2006
	£000's	£000's
Corporation tax deferred by accelerated capital allowances	7,938	6,216
Interest capitalised and other timing differences	11,015	10,131
Total provision for deferred taxation	18,953	16,347

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

19. Called up share capital

	2007	2006
Authorised	**Number**	**Number**
Ordinary shares of £1 each	62,217	62,217
Subscriber Ordinary shares of £1 each	2	2
Redeemable preference shares	49,998	49,998

Allotted, issued and fully paid	**£**	**£**
Subscriber Ordinary shares of £1 each	2	2
Ordinary shares of £1 each	62,217	62,216

One ordinary share of £1 was issued at par during the year

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

20. Share premium

	Group	Company
	£000's	£000's
Balance at 1 June 2006 and 31 May 2007	29,997	29,997

21. Other reserves

	Merger reserve
	£000's
Group	
Balance at 1 June 2006 and 31 May 2007	26,699

22. Profit and loss account

	Group Profit and loss account	Company Profit and loss account
	£000's	£000's
Balance at 31 May 2006	73,800	103,484
Profit for the year	2,816	383
Balance at 31 May 2007	76,616	103,867

23. Reconciliation of movement in equity shareholders' funds

	2007	2006
	£000's	£000's
Profit for the year	2,816	7,902
Opening equity shareholders' funds	130,558	122,656
Closing equity shareholders' funds	133,374	130,558

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

24. Notes to the consolidated cash flow statement

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

	2007 £000's	2006 £000's
Operating profit/(loss)	23,376	(3,939)
Amortisation of player registrations	18,782	15,401
Profit on disposal of tangible fixed assets and subsidiaries	(1,036)	(19)
Depreciation	9,698	2,384
Increase in stock	(34,783)	(18,162)
Decrease/(increase) in debtors	13,792	(6,306)
Increase in creditors	47,503	51,715
Net cash inflow from operating activities	77,332	41,074

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

	2007 £000's	2006 £000's
Increase/(decrease) in cash for the period	38,259	(36,031)
Cash inflow from increase in debt	(31,542)	(70,373)
Change in net debt resulting from cash flows	6,717	(106,404)
Change in debt resulting from non cash changes	(12,770)	(2,409)
Net debt at start of year	(262,144)	(153,331)
Net debt at end of year	(268,197)	(262,144)

Bank balances, included in net debt of £239,000 (2006 - £196,000) are held in an employee benefit trust at the discretion of the trustees

(c) Analysis of changes in net debt

	At 1 June 2006 £000's	Non cash changes £000's	Cash flows £000's	At 31 May 2007 £000's
Cash at bank and in hand	35,598	-	38,259	73,857
	35,598	-	38,259	73,857
Debt due within one year (bank and other loans/bonds)	(22,816)	-	16,852	(5,964)
Debt due after more than one year (bank loans/bonds)	(249,761)	(12,467)	(48,399)	(310,627)
Debt due after more than one year (debentures)	(25,165)	(303)	5	(25,463)
Net debt	(262,144)	(12,770)	6,717	(268,197)

Non cash changes represent £12,700,000 in respect of the amortisation and write off (exceptional) of costs of raising finance, £303,000 in respect of rolled up, unpaid debenture interest and £233,000 in respect of amortisation of the premium on certain of the Group's interest rate swaps

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

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

(d) Gross cash flows

	2007 £000's	2006 £000's
Player registrations.		
Payments for purchase of players	(21,878)	(23,754)
Receipts from sale of players	13,869	11,961
	(8,009)	(11,793)
Returns on investment and servicing of finance.		
Interest received	2,389	2,643
Finance charges paid	(26,992)	(17,270)
	(24,603)	(14,627)

£3 4 million of finance charges paid relate to the exceptional costs disclosed in note (5)

	2007 £000's	2006 £000's
Capital expenditure:		
Payments to acquire tangible fixed assets	(38,985)	(117,720)
Receipts from sale of tangible fixed assets	1,036	27
	(37,949)	(117,693)
Financing.		
Repayment of borrowings	(265,074)	(19,270)
Increase in long term borrowings	309,579	89,602
Costs of raising finance	(12,958)	41
Total debt financing	31,547	70,373
Debenture repayments	(5)	-
	31,542	70,373

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

25. Leasing commitments

Commitments due under operating leases for the period to 31 May 2007 are in respect of

	2007		2006	
	Land and buildings £000's	Other £000's	Land and buildings £000's	Other £000's
Leases expiring in.				
Within one year	-	1	-	4
Two to five years	143	138	-	170
Over five years	608	-	767	-
	751	139	767	174

26. Commitments and contingent liabilities

Under the conditions of certain transfer agreements in respect of players purchased, further transfer fees will be payable to the vendors in the event of the players concerned making a certain number of First Team appearances or in the event of certain other future events specified in the transfer agreements In accordance with the Group's accounting policy for transfer fees, any additional fees which may be payable under these agreements, will be accounted for in the year that it becomes probable that the number of appearances will be achieved or the specified future events will occur The maximum potential liability is £9 4 million (2006 - £3 5 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 £7 7 million (2006 - £5 7 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

27. Related party transactions

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

	2007 Income/ (charge) £000's	2006 Income/ (charge) £000's
Provision of office services	107	74
Merchandising and advertising sales	(751)	(786)

At 31 May 2007 the balance owing from the Group to Arsenal Broadband Limited was £582,000 (2006 - £997,000)

NOTES TO THE ACCOUNTS

For the year ended 31 May 2007

28. Pensions

a) *Defined contribution schemes*
Total contributions charged to the profit and loss account during the year amounted to £2,467,972 (2006 - £6,285,000)

b) *Defined benefit scheme*

	2007	2006
	£000's	£000's
Provision at start of year	834	645
Payments in year	(129)	(303)
Increase in provision	-	492
Provision at end of year	705	834

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 2005 and indicated that the contribution required from the Group towards making good this deficit was £0 87 million at 1 April 2006 (the total deficit in the Scheme at this date was £8 8 million)

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

The agreed revised deficit is being paid off over a period of 10 years commencing May 2006 Payments for the year amounted to £128,916 and the profit and loss account charge was £84,000 (2006 - £368,836)

29. 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 income resulting from these transfers, taking into account the applicable levies, is £11 8 million These transfers will be accounted for in the year ending 31 May 2008

FIVE YEAR SUMMARY

	2003	2004	2005	2006	2007
Profit and Loss Account	£000's	£000's	£000's	£000's	£000's
Group Turnover	117,831	156,887	138,395	137,237	200,843
Operating profit before player trading and exceptional costs	25,319	36,162	32,631	11,323	41,614
Operating expenses - player registrations	(18,774)	(19,637)	(14,993)	(15,262)	(18,238)
Operating expenses - exceptional	(2,500)	(6,269)	-	-	-
Operating profit / (loss)	4,045	10,256	17,638	(3,939)	23,376
Share of results of joint venture	(162)	(67)	204	499	435
Profit on disposal of player registrations	1,370	2,282	2,894	19,150	18,467
Net interest - ordinary	(721)	(1,894)	(1,471)	175	(15,304)
Net interest - exceptional	-	-	-	-	(21,401)
Profit before tax	4,532	10,577	19,265	15,885	5,573
Profit after tax	4,011	8,152	8,293	7,902	2,816
Earnings per share	£68 04	£138 29	£138 91	£127 01	£45 26
Earnings per share (excluding exceptional items)	£68 04	£138 29	£138 91	£127 01	£286 05
Balance Sheet					
Tangible fixed assets	124,770	209,615	314,822	451,501	455,376
Intangible fixed assets	39,396	34,989	28,983	66,555	64,671
Net current assets/(liabilities)	(66,014)	(7,479)	28,149	(38,166)	61,231
Long term creditors and provisions	(21,938)	(152,762)	(249,298)	(349,332)	(447,904)
Net assets	76,214	84,363	122,656	130,558	133,374
Share capital	59	59	62	62	62
Share premium	-	-	29,997	29,997	29,997
Reserves	76,155	84,304	92,597	100,499	103,315
Shareholders' funds	76,214	84,363	122,656	130,558	133,374
Net assets per share	£1,292 92	£1,431 17	£1,971 45	£2,098 46	£2,143 69

Playing record					
FA Premier League	2nd	Champions	2nd	4th	4th
FA Challenge Cup	Winners	Semi-finalists	Winners	4th round	5th round
Europe	2nd round Champions League	Quarter finals Champions League	1st K/O round Champions League	Finalist Champions League	1st K/O round Champions League

ARSENAL HOLDINGS PLC - NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the sixth Annual General Meeting of the shareholders of Arsenal Holdings plc will be held at Emirates Stadium, London N7 on Thursday 18 October 2007, at 11 30 am when the following ordinary business will be transacted, viz

1 To receive the Directors' Report and Statement of Accounts and the Auditors' Report thereon for the year ended 31 May 2007

2. To re-elect D D Fiszman, a Director, who retires by rotation in accordance with article 88 of the articles of association

3. To re-elect K G Edelman, a Director, who retires by rotation in accordance with article 88 of the articles of association

4. To elect Deloitte & Touche LLP as Auditors for the ensuing year and authorise the Directors to fix their remuneration

5 To transact any other ordinary business of the meeting

By Order of the Board
D MILES
SECRETARY

Registered Office
Highbury House,
75 Drayton Park
London N5 1BU

Note Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on the members behalf A proxy need not be a member of the Company The form of proxy should be deposited at the Registered Office of the Company not later than 48 hours before the time appointed for the meeting Where a form of proxy is signed under power of attorney or other authority, the form of proxy should be accompanied by the authorising instrument of a notarially certified copy The sending of a form of proxy will not preclude members from attending and voting at the meeting in person, should they so wish

AGM VOTING FORM

ARSENAL HOLDINGS PLC

I, the undersigned hereby appoint P D Hill-Wood, Esq , whom failing R C L Carr Esq , whom failing D D Fiszman Esq , whom failing K J Friar OBE, whom failing K G Edelman Esq , whom failing Lady Nina Bracewell-Smith, whom failing Lord Harris of Peckham, whom failing Sir Chips Keswick, as my proxy to vote for me on my behalf at the Annual General Meeting of the Company to be held on Thursday 18 October 2007, and at any adjournment thereof

Dated this__________________ day of __________________ 2007

Signature____________________________________

Name (in block capitals)____________________________

Address_____________________________________

CUT HERE

Resolution No 1	**FOR* / AGAINST***
Resolution No 2	**FOR* / AGAINST***
Resolution No 3	**FOR* / AGAINST***
Resolution No 4	**FOR* / AGAINST***
Resolution No 5	**FOR* / AGAINST***

**Delete as appropriate*

Unless otherwise instructed the proxy will vote as he thinks fit

This form DOES NOT permit admission to the Annual General Meeting and must be deposited at the Registered Office of the Company not less than 48 hours prior to the time of the meeting

ARSENAL HOLDINGS PLC

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No BS LON 11449

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Arsenal Holdings PLC
Highbury House
75 Drayton Park
LONDON
N5 1BR

FIRST FOLD

THIRD FOLD AND TUCK IN