ARSENAL HOLDINGS PLC
STATEMENT OF ACCOUNTS & ANNUAL REPORT 2004 / 05

The front cover aerial photograph of the new stadium with Highbury in the background is stunning and highly appropriate given how once again the financial results are dominated by the new stadium project.

The headline numbers show ***total revenue*** down to £130m from £157m but with ***profit before tax*** almost doubling to £19.3m from £10.6m. The reduced revenue is due to less property development activity. Football related turnover was unchanged at £115m. [Manchester United's football revenue is £170m.] Arsenal's income comprised four separately identified revenue streams, namely:

Broadcasting	£48.6m (£59.8m in the prior year)	42% of football revenue
Match day	£37.4m (£33.8m)	32%
Commercial	£20.7m (£14.1m)	17%
Retail	£8.4m (£6.9m)	7%

Broadcasting revenue fell due to the payout from the new Sky TV contract containing "flat" annual payments rather than "escalating" as was previously the case and also a reduced contribution from the Champions League pool. Commercial revenues grew strongly due to the new deal with Nike and other sub sponsors. Gate receipts rose mainly due to the ticket price increases.

Wages of course are the Club's main expense and these fell to £66m from £70m as players such as Keown, Parlour, Wiltord, Kanu and Jeffers left and the playing staff reduced to a 5 year low of 61, down from 72. The important wages to football revenue ratio fell to 57% from 60%. Payments to agents are believed to total £4m although this figure is not disclosed in the accounts. Unlike the Football League the FA Premier League has not adopted the policy of disclosing fees paid to agents. Salaries for directors, principally Keith Edelman and Ken Friar, totalled £1.76m (£1.57m).

The ***tax charge*** for the year increased substantially to £11m from £2.4m and is related to an adverse House of Lords ruling on a tax "dodge" used by many clubs to enhance the takehome earnings of the players (and reduce the cost to the Club). These Employee Benefit Trusts allow tax paid by the players to be reduced to about 25% from the standard 40%. This ruling could potentially have a significant impact on the Club's future negotiations with players and it is possible that Thierry Henry's decision to delay renegotiations until the summer is related to this issue.

During the year Arsenal spent £98m on the new stadium which came from new debt (£72.8m) and the Club's own resources (£25.1m). The ***total gross debt*** at the financial year end was £239m (£183m) although cash balances increased to £71.6m from £26m. There is a further £94m of stadium debt to be incurred to finish the project. ***Net interest paid*** during the year was £14m (£5m). Arsenal has declared their intention to refinance the £260m stadium loan over maybe 25 years and with insurance from an "AAA" rated insurer the rate of interest to be paid will be reduced from the current level. This refinancing is important as it will hopefully reduce the annual interest bill that could rise to £25m as further debt is incurred.

The ***cash position*** is interesting and one which has created much comment. The Club started the year with £26m cash and after receiving £30m from Granada Media Group Ltd (ITV plc) for a further 5% of the Club’s shares, £16.4m in deposits / instalments on boxes and Club seats at the new stadium and also Emirates having paid its first instalment on the 8 year shirt and 15 year stadium naming rights sponsorship, the year end cash position was £72m. Executive boxes at the new stadium are said to be “effectively” fully sold along with about 75% of the 7,000 Club seats. The sale of Patrick Vieira to Juventus for €20m (£14m) was a post balance sheet event so is not reflected in the financials.

Outline planning consent for the ***Highbury Square development*** (711 housing units) has been received. Arsenal will manage this 5 year project and the possible income this generates for the Club (£100m?) will have a material impact on the level of Arsenal’s new stadium related debt in the years to come.

Disclosed ***shareholders*** showed the increased holding of Granada Media Group Ltd (ITV plc) which is now 9.99%, following the new share subscription in March. Geoffrey Klass, who previously owned 3.4% of the shares, following sales in February, no longer has a declarable interest (greater than 3%) in Arsenal.

Summary – Issues such as tax and agents’ commission require more clarification but generally the accounts are informative and well presented. The sheer scale of the new stadium project dwarfs the football business and for this reason the Club is keen to separate the two activities as far as possible. The football business appears to have financially plateaued given the confines of Highbury and the limit to how much can be extracted from the current spectators, broadcast and commercial partners. The stadium move should move the Club onto a new financial level with football turnover expected to show an increase of 50% over current levels, potentially giving Arsene Wenger some real spending power. This projected revenue growth does however assume that on the field the team continues to be successful and play attractive football.

The Highbury Square development is a 5 / 6 year project and until at least 2010/11 we will be looking at financial accounts which continue to include both football and property development activities.

As an Arsenal shareholder if you have any comments on the financial accounts please get in contact with the Arsenal Supporters’ Trust either by using the enclosed reply paid envelope or email us at info@arsenaltrust.org.