**Rating Action**

On 21 January 2008 Fitch Ratings downgraded the ratings of Arsenal Securities plc’s (the issuer) GBP 50,000,000 class A1 floating rate and GBP 200,204,298 class A2 fixed rate notes to ‘AA’ from ‘AAA’. The ratings remain on Rating Watch Negative (RWN). The agency affirmed the underlying rating of the notes at ‘BBB’ with Stable Outlook1.

**Credit Committee Highlights**

This GBP260m transaction is a securitisation of ticket receipts from the Emirates Stadium, the venue which Arsenal Football Club plc (Arsenal or ‘the club’) adopted as their home stadium in 2006. Detailed information on the transaction can be found in Fitch’s new issue report entitled “Arsenal Securities plc”, dated 22 August 2006 and available at www.fitchresearch.com.


The ratings are based on the following considerations:

- the ‘AA’ ratings of class A1 and A2 are based on the unconditional and irrevocable guarantee from Ambac Assurance UK (Ambac) (‘AA’, RWN) in respect of timely payments of interest and repayment of principal according to the schedule, and remain on RWN;

- the underlying collateral, which, together with appropriate structural and legal protections, led to the ‘BBB’ underlying ratings, has had satisfactory performance to this date. The structure of the transaction is sound; DSCR ratios are healthy and in line with the underlying ‘BBB’ ratings on the notes, and there is ample working capital available.

- The ratings of Ambac Financial Group, Inc. and its affiliated entities (including Ambac Assurance UK (Ambac)) were downgraded on 18 January 2008 with RWN remaining in place. The rating was first placed on RWN on 21 December 2007.

This transaction is primarily a securitisation of ticket receipts from the Emirates Stadium, the new home stadium of the Arsenal FC football club. However, the structure also benefits from fixed and floating charges and security over other income streams as well as the assets of the wider business of the club and as such, represents more of a whole business securitisation.

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1 Rating Outlooks have been introduced for European Structured Finance tranches to provide more forward-looking information to the market. An Outlook indicates the likely direction of any rating change over a one- to two-year period. For further information on Rating Outlooks please refer to “Scanning the Horizon – Rating Outlooks in European Structured Finance”, dated 1 June 2007 and available at www.fitchratings.com.
### Tranche Summary

#### Tranche Update

<table>
<thead>
<tr>
<th>Tranches</th>
<th>Original</th>
<th>Previous</th>
<th>Current</th>
<th>Previous</th>
<th>Current</th>
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<tr>
<td>A1</td>
<td>AAA</td>
<td>AAA</td>
<td>AA</td>
<td>RWN</td>
<td>RWN</td>
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<tr>
<td>A2</td>
<td>AAA</td>
<td>AAA</td>
<td>AA</td>
<td>RWN</td>
<td>RWN</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Tranches</th>
<th>Amount (EURm)</th>
<th>ISIN Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>50</td>
<td>XS0261374549</td>
</tr>
<tr>
<td>A2</td>
<td>210</td>
<td>XS0261374200</td>
</tr>
<tr>
<td>Total</td>
<td>260.0</td>
<td>250.2</td>
</tr>
</tbody>
</table>

Source: Fitch

#### Background

**Structure Diagram**

Source: Transaction document, Fitch
Having so far played twenty-three matches in this season (of which 12 were home matches) Arsenal ranks second in the FA Premier League and is level on points with Manchester United. In European competition they have qualified for the first knock out round of the prestigious UEFA Champions League in February 2008 (against Inter Milan).

Attendance in this period has been excellent. As of today, the average attendance was 99.3% for Premier League matches, which is the highest percentage of all Premier League clubs.

The club has played four home matches in the UEFA Champions League and two in the League Cup. The last League Cup match against Tottenham Hotspur on 9 January 2008 showed a comparatively weak attendance (53,136, 87.9%) and caused the favourable average attendance of 98.6% prior to this match to decrease to 96.8%.

Both attendances for Premier League and UEFA Champions League/League Cup matches compare to the agency’s overall assumption for matches of 96.6% for the 2007/2008 season.

Future Performance Drivers
Fitch believes that demand for seats will continue to exist such that most matches will be at full capacity. Data related to the club’s membership schemes suggests that where existing season ticket holders decide not to renew their season ticket there will be strong demand from others - such is the length of the Season Ticket Waiting List, which numbered nearly 38,000 members prior to the move to the new Emirates Stadium and has been closed at 44,000 after the move.

As such, membership scheme numbers can be viewed to an extent as a proxy for future demand.

### Membership Schemes

<table>
<thead>
<tr>
<th>Level</th>
<th>Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>34,000</td>
</tr>
<tr>
<td>Silver</td>
<td>24,000</td>
</tr>
<tr>
<td>Red</td>
<td>90,000</td>
</tr>
<tr>
<td>Junior Gunners</td>
<td>27,000</td>
</tr>
<tr>
<td>Others</td>
<td>12,000</td>
</tr>
<tr>
<td>Total</td>
<td>187,000</td>
</tr>
<tr>
<td>STWL</td>
<td>44,000</td>
</tr>
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</table>

* Membership level details – Gold: season ticket holders, retain right to purchase season ticket in the following season. Silver: ticket registration scheme, permits members to purchase match day tickets. Red: wailing list to enrol for Silver level. Junior Gunners: Membership for both boys and girls up to and including 16 years of age. Others: includes travel club STWL: Season Ticket Waiting List. Source: AFC

Typically, season tickets are held by loyal supporters of the club, who exhibit low price elasticity and who only relinquish their right to purchase a season ticket...
through economic conditions. This is exhibited by low renewal turnover; only 1000 season ticket holders out of 34,000 last season relinquished their right to purchase a season ticket for this season.

Sixteen thousand seats are allocated for match day sales. This is in comparison to nearly 90,000 members on the ticket registration scheme, a coverage ratio of 5.6x, as well as demand from the general public.

For premium offerings Fitch believes they will be more cyclical. In times of stress, companies are likely to scale back on corporate entertainment expenses which should affect ticket receipts. Fitch will be keeping an eye to those dynamics of the London economy that relate to the performance of this transaction.

### Financial Performance of AFC in FY 06/07 (ending 31 May 2007)

Performance of the parent company (Arsenal Holdings plc) during FY06/07 was very encouraging.

**Total turnover** increased by 46% to GBP200.8m (vs. the agency’s assumption of GBP158.6m) from GBP137.2m in FY05/06, resulting in an operating profit of GBP51.2m in FY06/07 (vs. assumption of GBP31.3) compared with GBP13.7m in the previous year. Of this revenue, GBP90.6m (vs. assumption of GBP 73.8m) was related to match day activities. Approx. 4% of these sales can be attributed to events held at the stadium, for example concerts and non-competitive matches organised by the club. This compares to gate and other match day ticket sales of GBP44.1m in FY 05/06.

By offering 60,355 seats the Emirates Stadium is the fifth largest stadium in the UK and the second largest hosting club football, behind Manchester United’s Old Trafford stadium (76,000). The number of premium product seats is unprecedented in comparison to other such venues, and is aimed at the corporate and high value end of the market. The stadium capacity consists of 50,842 general admission seats and 9,253 seats for premium offerings. There are 7,031 Club Level seats, 168 Diamond Club seats and 150 executive boxes (from 53 in the old stadium). The take-up level of premium levels for the previous season 2006/2007 and the current season 2007/2008 is 100%.

Match day activities have replaced **broadcasting revenues** as the football club’s main source of income. Broadcasting revenues fell to GBP44.3m in FY 06/07 (vs. forecast of GBP 31.8m) compared with GBP54.9m in FY 05/06. 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 2005/2006.

In FY06/07 revenue in **retail business** increased to GBP12.1m (vs. assumptions of GBP11.3m) compared with GBP10.2m in FY 05/06. The increase is mainly due to two new stores on the Emirates Stadium site – The Armoury and All Arsenal – and by increased match attendances.

**Commercial revenue** increased to GBP29.5m in FY06/07 (vs. assumption of GBP23.1m) compared with GBP22.8m in the previous period. The increase mainly stems from income from Emirates Airlines as the Club’s shirt and stadium naming rights sponsor.

### Stability of Cash Flow

Payroll costs, the major source of cash outflow, increased to GBP89.7m in FY 2006/2007 from GBP83m in 2005/2006 (an increase of 8.07%). Over the 2007 summer transfer window the club sold Thierry Henry who is considered by many to be their most important player for GBP16.1m to FC Barcelona. This will relieve some upward pressure on player costs. The wage-to-turnover ratio at the end of FY 06/07 improved to 44.7% compared with 60.5% in FY05/06.

### Changes to Key Credit Issues since Closing

**Management of Arsenal Football Club**

On the sporting side, the manager of Arsenal, Arsène Wenger, signed an extension to his contract to remain at the club until 2011. This would make Arsène Wenger the longest serving manager in the history of Arsenal. He already is one of the most successful managers in the club’s history (League championship 1998, 2002, 2004 / F.A. Cup winner 1998, 2002, 2003, 2005 / Voted 'Manager of the Year' 1998, 2002, 2004).

Since closing the club has conducted a conservative approach to staff purchases and remuneration.

In August 2007 Alisher Usmanov bought a 23% stake in Arsenal’s shares (via his company Red and White Securities Limited). He now ranks 2nd in the list of AFC shareholders. Following this development the club’s board extended a lock-down of shares passed in April 2007 by another 5 years until October 2012 to rule out the possibility of a takeover bid in the immediate future.
Financial Guarantee

The transaction benefits from an unconditional and irrevocable guarantee from Ambac. Following the downgrade of Ambac to ‘AA’ from ‘AAA’ and with the RWN still on, Fitch downgraded Arsenal Securities plc’s class A1 and A2 notes to ‘AA’ from ‘AAA’ with RWN remaining in place. Fitch expects to resolve the Negative Rating Watch after the agency evaluates various qualitative factors as pointed out in the press release “Fitch Downgrades Ambac; Ratings Remain on Watch Negative”, dated 18 January 2008 and available on www.fitchresearch.com. Fitch will provide that feedback to the market upon the conclusion of this review.

Performance Analysis

Structural Enhancements

The transaction has been structured to accommodate the seasonal nature of the inflows, with principal payments being made once a year, following the receipt of season ticket income.

As it is unlikely that a football club would be given an investment grade rating on a stand-alone basis, there are a number of structural enhancements which have been introduced in order to increase the creditworthiness of the Arsenal FC Group (AFC) and the transaction, including:

- the working capital test;
- limitation of indebtedness;
- minimum retention of proceeds from player disposals (aimed at restricting the ability to asset strip the football club);
- a qualifying floating charge over Arsenal’s assets (which includes the new stadium) and cash flows; and
- security over shares in Arsenal.

Debt Service Coverage Ratio (DSCR)

There has been no breach of any DSCR incorporated in this transaction.

The AESL DSCR is tested semi-annually on both a prospective basis for the following three years as well as on a historic basis for the previous year. The ratio is calculated by dividing, for any period:

- cash received by Arsenal Stadium Management Company Limited (Manco) from ticket sales, less certain stadium operating costs; by
- debt service.

Performance FY 06/07

Year to 1 September 2007

<table>
<thead>
<tr>
<th></th>
<th>FY 06/07</th>
<th>Forecast FY 06/07</th>
</tr>
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<tbody>
<tr>
<td>Ticket Revenue</td>
<td>90,599,175</td>
<td>73,799,958</td>
</tr>
<tr>
<td>Stadium operating costs</td>
<td>-13,021,372</td>
<td>-7,361,857</td>
</tr>
<tr>
<td>Stadium operating profit</td>
<td>77,577,803</td>
<td>66,438,101</td>
</tr>
<tr>
<td>Debt service</td>
<td>-20,257,398</td>
<td>-19,612,452</td>
</tr>
<tr>
<td>DSCR</td>
<td>3.83</td>
<td>3.39</td>
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</tbody>
</table>

Source: Investor reports

In the latest report, as of September 2007, the lowest DSCR (historical or projected) is 3.16x (forward one year).

Debt Service Coverage Ratios

<table>
<thead>
<tr>
<th>AESL DSCR</th>
<th>Increased Monitoring</th>
<th>Trigger Event of Default</th>
<th>1 Mar 2007</th>
<th>1 Sep 2007</th>
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<tbody>
<tr>
<td>Historic (1 yr)</td>
<td>&lt; 2.25</td>
<td>&lt; 1.75</td>
<td>&lt; 1.10</td>
<td>n.a.</td>
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<tr>
<td>Forward (1 yr)</td>
<td>&lt; 2.25</td>
<td>&lt; 1.75</td>
<td>&lt; 1.10</td>
<td>3.07</td>
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<tr>
<td>Forward (2 yrs)</td>
<td>&lt; 2.25</td>
<td>&lt; 1.75</td>
<td>&lt; 1.10</td>
<td>3.10</td>
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<tr>
<td>Forward (3 yrs)</td>
<td>&lt; 2.25</td>
<td>&lt; 1.75</td>
<td>&lt; 1.10</td>
<td>3.16</td>
</tr>
</tbody>
</table>

Source: Arsenal Securities plc

Working Capital Test

As of the test dates on 1 March 2007 and 1 September 2007, this test was passed. The balance of the working capital facility as of September 2007 is GBP30m.

The test is a three-season look-forward test at the club level, carried out semi-annually in September and March, and considers the projected net cash position of Arsenal for the following six and five semi-annual periods respectively. Each calculation is based on a series of conservative forecast assumptions in the issues of league position, salary costs and transfer expenditure. Further details of this test can be found in the new issue report referenced above.

Limitation on Indebtedness

AFC has complied with the covenants as of September 2007. AFC covenants not to take on any further debt, with certain exceptions

Increased Monitoring

None of the monitoring event triggers has been breached on the test dates on 1 March and 1 September 2007.

The increased monitoring event triggers include:
the occurrence of a trigger event (including failure of the WC test in any period); and

• historic or projected AESL debt service coverage ratio (DSCR) below 2.25x.

These should act as early warning signals and Fitch views the level of the tests as appropriate.

**Minimum Retention from Player Disposals**
The player transfers complied with these covenants during the period September 2006 to September 2007.

AFC covenants to spend a minimum percentage of net transfer proceeds, or any amounts received under insurance claims in the event that injury ends a player’s career on player acquisitions certain and other activities;

**Trigger Events**
None of the triggers below was breached on the test dates 1 March 2007 and 1 September 2007.

The following triggers are incorporated into the transaction:

• historical or projected AESL debt service coverage ratio (DSCR) of less than 1.75x;

• on any 1 March, Arsenal is in a position in the domestic league which would cause the club to be relegated if it occupied such a position at the end of the season (as per 1 March 2007 Arsenal occupied the 4th position in the premier league); and

• breach of the working capital test in any of the three seasons.

It is intentional that these triggers are curable following consultation with Ambac regarding a remedial plan.

**Restricted Payment Conditions**
To date, no restricted payment conditions (RPCs) for AFC and AESL have been met. As an example, an RPC can be the failure of the WC test in the first/second/third season;

Due to the fact that there were no breaches of the RPC triggers, no cash was trapped in the trapped cash account as of 1 September 2007.

**Debt Service Reserve Account**
The actual balance of the Debt Service Reserve Account was equal to the required balance and stood at GBP 13,167,658 as of 4 September 2007.

**Liquidity Facility**
The issuer entered into liquidity facility agreements to maintain payments of interest and principal to noteholders in the event that receipts from the borrower are insufficient to pay amounts due under the notes. The size of the liquidity facility is GBP 20m. There were no drawings under this facility as of 1 September 2007.

**Events of Default**
No event of default has occurred since closing.

Events of default in this transaction are the same at both issuer and borrower level. Fitch views such structuring as a credit negative; however, it believes that it is mitigated by the involvement of Ambac as controlling creditor as well as the fact that all rated debt ranks pari passu. Events of default for the transaction include:

• failure of the WC test in the current year;

• an historic or projected AESL DSCR of less than 1.1x;

• non-payment by AESL; and

• a change of share ownership of any guarantor or the issuer.

**Conclusion**
Following the downgrade of Ambac to ‘AA’ from ‘AAA’ and with the RWN still on, Fitch downgraded Arsenal Securities plc’s class A1 and A2 notes to ‘AA’ from ‘AAA’ with RWN remaining in place.

Fitch considers positive the first year’s performance of this transaction’s underlying collateral having seen the robustness of ticket receipts from the Emirates Stadium, compared to initial expectations.

Furthermore, the structure of the transaction is sound; DSCR ratios are healthy and in line with the underlying ‘BBB’ ratings on the notes, and there is ample working capital available.

Fitch’s structured finance performance analytics team ensures that the assigned ratings remain, in the agency’s view, an appropriate reflection of the issued notes’ credit risk. Details of the transaction’s performance are available to subscribers at www.fitchresearch.com. Further information on this service is available at www.fitchratings.com.

Please call the Fitch analysts listed on the first page of this report with any queries regarding the initial analysis or the ongoing performance.