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Dear Fanshare member

I am writing on behalf of the Arsenal Fanshare Society Limited (the “**Society**”) to inform you that, with much regret, the Arsenal Fanshare Scheme (the “**Scheme**”) is likely to close in the near future. Effective immediately, therefore, the Scheme will not take in any further contributions, and all requests to redeem Fanshares are currently suspended, pending the potential sale of the Arsenal Holdings PLC Shares (“**Shares**”) held by the Scheme and a distribution of funds to members (less the costs of winding-up the Scheme and the Society).

I know you will be interested in the background to this situation. The Scheme has faced two major problems: a lack of liquidity in the share market and a shortfall in funding.

As you will be aware, Stan Kroenke, via his company KSE UK Inc (“**KSE**”) has a majority stake in Arsenal Holdings PLC, the company that owns Arsenal Football Club. According to published figures, this holding is currently 66.85%, 41,596 Shares. Red & White Securities Limited (“**Red & White**”), a wholly-owned subsidiary of Red & White Holdings Limited, the vehicle of Alisher Usmanov, holds 30.04% or 18,695 Shares. The Fanshare Scheme holds 116 Shares and is now the third largest shareholder.

This means that out of a total of 62,217 available Shares, there are just 1,810 outside of these three hands. As a result, the Society has found obtaining additional Shares increasingly difficult to arrange. Understandably some shareholders do not want to sell, as they have an emotional attachment to Arsenal – most of the 360-plus who own just one share each fit into this category, and many others are also fans of the club. Holders who between them hold over 200 Shares cannot be traced. Accordingly, the lack of movement in the share market and the overall availability of Shares have caused problems. This has directly led to the second issue: a lack of ongoing funding to continue to operate the Scheme.

The Fanshare Scheme was set up with encouragement from Danny Fiszman and Ivan Gazidis. The concept was built on a model which assumed that Shares would be readily available to buy, as they always had been, which meant that the Scheme could be widely promoted and marketed, as it was in the first year of operation when adverts were run in Emirates stadium and Arsenal promoted the scheme in the annual membership pack.

At this time it was envisaged that the scheme would be self-financing as the 2% fee charged on contributions would cover the professional costs of operating the Scheme.

As a result of both the takeover by KSE, and the subsequent buying of Shares by Red & White, it has not been possible to develop the Scheme in the way that was initially envisaged. The Fanshare Board has on several occasions asked the Arsenal Board to consider options for the placement (issue) of new Shares to the Scheme (including the idea of a specific offer of 125 Shares on Arsenal's 125th anniversary). While this was initially favourably received it has subsequently been ruled out.

In summary, we have not been able to market the Scheme nor generate the required growth in new members to become self-sufficient due to the lack of liquidity in Shares.

When the Scheme was opened (prior to the takeover by KSE), the Arsenal Board at the time were aware that it would need to build momentum in order to become self-funding, so they agreed to provide funding support through Arsenal Overseas Limited, which subsidised our running costs. Arsenal extended that financial support for one year. However, as noted in our last accounts, Arsenal has now decided not to renew the funding arrangement.

This decision was communicated to the Society Board in November 2013 and since then the Board has explored a number of alternative solutions. One option is to run the Scheme on a "net asset" model, which would allow the costs to be covered by linking the value of each Fanshare to the value of the assets in the Scheme rather than to the underlying value of Shares. This model could work in principle, but unfortunately despite approaching numerous potential administrators, it has not been possible to find an administrator who could operate the Scheme in an affordable manner. One potential administrator did appear to be feasible, but despite every effort being made we have not been able to finalise a scheme with this company. Our current administrators, Equiniti, are unfortunately not able to operate a "net asset" model for us in an economic way, and all potential administrators have the problem that the Scheme remains very small in relation to similar schemes.

With no other viable means of financial support following the decision by Arsenal not to continue funding, we are sadly faced with the likely closure of the Scheme, as it is no longer economically viable. There is one other potential way forward to outline, but first I must explain the likely scenario if the Scheme has to close.

As will be evident from the above, there are only two likely buyers of the Scheme's Shares in the market, KSE and Red & White, and it is probable that we will enter into negotiations to sell the Scheme's Shares to the higher bidder. We cannot give any guarantee as to the price that will be achieved, but obviously the Board will endeavour to achieve the best price it can.

Regardless of any continuation of the Scheme in another form, those Fanshare members who have at least 1,000 Fanshares are being contacted to see if they would like to take a direct transfer of the underlying Share. In addition, any member or members wishing to purchase a whole Share at around the mid-market price (currently £15,225 or thereabouts) by adding to their existing holding, please contact us on enquiries@arsenalfanshare.com as soon as possible.

If the Scheme does need to sell the Shares it is likely that this will happen within the next two months, and a distribution to Fanshare members would be made shortly thereafter. In any distribution, as per the Scheme Rules, we have to ensure that sufficient funds are retained by the Society to pay the winding-up costs, and the Rules provide on leaving the Scheme that a £50 exit fee will be levied on every member. However, it is the Board's current intention to charge a reduced exit fee if possible.

Following that distribution, the Board would move to wind up the Scheme and the Society, although this could take several months. Please be aware that the Board is limited in what it can do by the rules governing Industrial and Provident Societies, and any cash surplus following winding up is unfortunately not available for distribution. For this reason we will try our utmost to ensure that whatever happens only the minimum fees are levied in advance to cover costs. If there is a surplus, it would most likely be transferred to the Arsenal Supporters' Trust, as it must be used to further the aims of the Society's constitution.

The Board are very sorry to bring you this disappointing news, but I can assure you enormous efforts have been made to keep the current Scheme alive, including repeated requests to the club directly to allow a small placement of Shares (which would be statistically irrelevant as far as Stan Kroenke is concerned) to address the liquidity issue and to allow the Scheme to become self-financing, or to provide it with further financial support, but these requests have consistently been refused.

We have also contacted both Stan Kroenke and Red & White directly to seek their support for the Scheme but without positive response.

As mentioned above, there is one further possibility to keep the Scheme going, but it does require radical differences from the current Scheme. In summary, we would attempt to implement a 'frozen assets' model to freeze the Scheme in its current position, maintaining the shareholding we now have. This would mean:

- members who want to remain sign up to new terms and conditions
- no further investment from members or share buying
- no ability to exit on demand (we would hope, but can't yet guarantee, to offer a 'matched bargain' exit, whereby members could leave the new Scheme if there was someone to take their place)
- potentially greater risk of loss of value due to illiquidity
- a probable small annual charge to cover necessary administration and maintenance of a members' register (we would want to limit this to a maximum of £25 a year, which we believe is possible with sufficient numbers)
- a reduction in statements and other communications, and the ability to engage with the Scheme's administrators on any problems.

We want to gather opinion on this option because we recognise that many members have little or no interest in Fanshare as a monetary investment (and indeed it was not set up to make money for members), but rather an emotional attachment to the club they have supported for many years. However, we can only look into this further if sufficient members confirm that they would be happy with this model. It must be stressed that:

- if this model for the Scheme is implemented there is no turning back
- members may ultimately lose part or even all of their investment.

It is not therefore a decision to be taken lightly, but we do believe that it is the only possible alternative to complete closure, and we feel that we would not be doing justice to the aims of the Society if it were not offered in some form, although the ultimate financial cost to members who opt for it may be higher than complete closure.

The crisis in the Society's funding means that since all other options have proved unworkable, we only have a very short time to make a decision. We must therefore ask for responses within the next 14 days. Depending on responses and other circumstances, a decision on winding up the Society will then be taken.

I should also add that in the event of winding up we are investigating an arrangement where people who do not wish to sell can transfer their Fanshares to be held by the Arsenal Supporters' Trust ("**AST**"), who are committed to hold them for long-term supporter ownership – but this does mean that individual members no longer have a financial interest.

We are grateful to the previous Board of Arsenal, especially the late Danny Fiszman, for the support given at the Scheme's inception and it is a shame that we have not been able to take forward this support.

Whatever happens, I would like to thank you for being part of the Scheme, which received plaudits all around the world for its innovation, and support from the UK Government and the football governing bodies including UEFA, the Premier League and the Football Association.

We are proud to have created the Scheme and believe that supporter ownership in football clubs has much merit, but obviously, given the significant alteration in the shareholding base of our football club, we have been fighting an increasingly difficult battle.

The AST will in any event continue to represent its members in trying to hold Stan Kroenke and the Board accountable for the decisions that they have made and continue to make. Those of you who are not members of the AST are urged to consider joining, and help the AST to maintain your voice in our club.

Please provide the Society with your feedback by completing our online survey (a link is featured in the recent email from the Board) within 14 days.

The options the Board are currently considering are:

- **Close the Scheme**, by seeking to sell the assets of the Scheme and repay the proceeds (less fees) to members
- Explore how the **Scheme, and its assets, may be frozen**; this would mean members may ultimately lose part or even all of their investment and that they will not be easily able to enter or exit the scheme
- Enable members to choose to **donate their existing Fanshare holdings to the Arsenal Supporters' Trust** so that the Shares remain in supporter ownership (note: that in this scenario all individual ownership rights are ceded)

We will contact you further once a final decision is made.

Yours sincerely

Glyn Taylor
Chairman
Arsenal Fanshare Society Limited



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