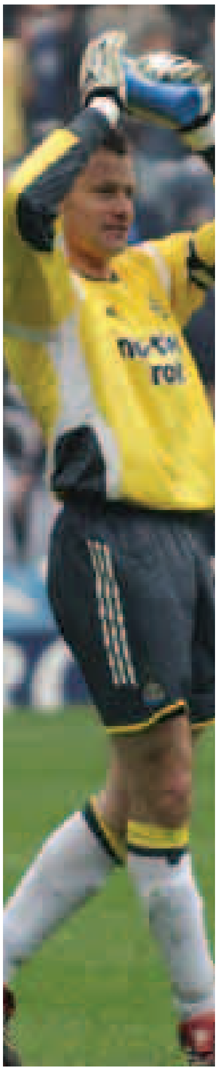
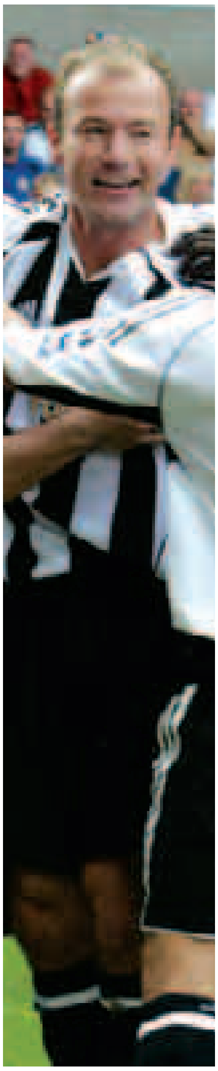
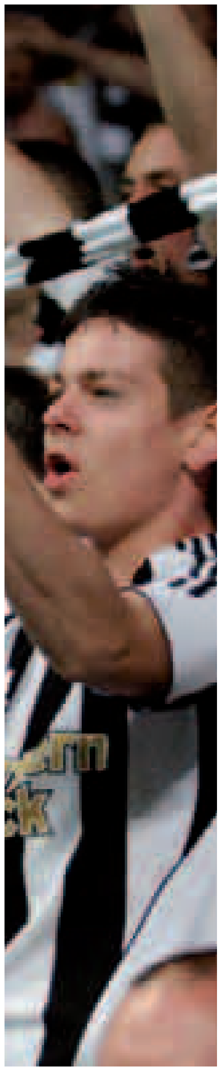
NEWCASTLE UNITED

Newcastle United PLC Annual Report 2006







Outlook

"The Board believes that the investment it has made in all areas of the Club will deliver long term benefits and will continue to take every step necessary to maximise potential for success both on and off the pitch."

Highlights

Note: the 2006 results comprise the eleven month period ended 30 June 2006. The comparative (2005) results comprise the year ended 31 July 2005.

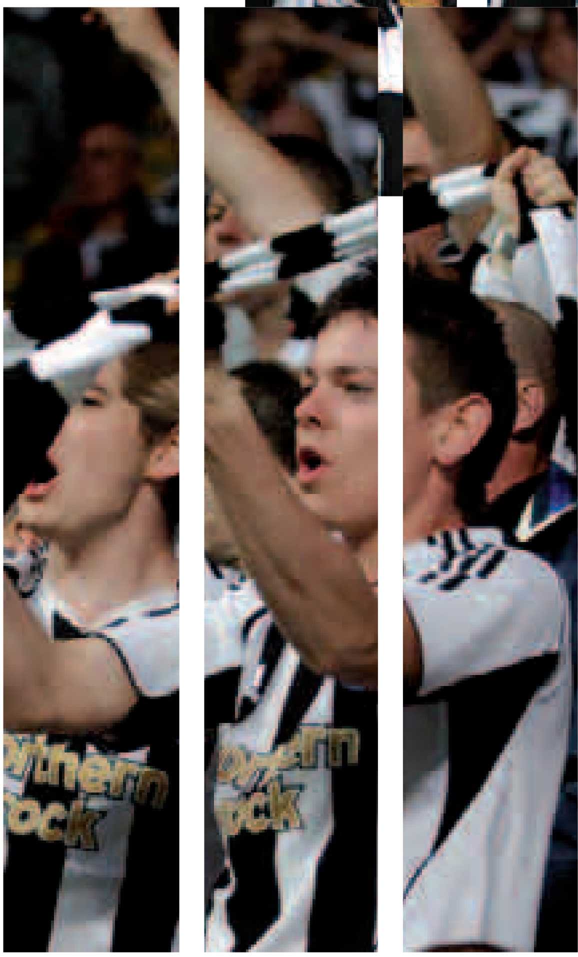
Financial highlights

- Revenue of £83.1m (2005: £87.0m) principally due to non-qualification for the UEFA Cup in season 2005/6.
- Total operating expenses of £76.9m (2005: £81.0m).
- Group profit from operations before player amortisation and trading of £6.2m (2005: £6.0m).
- Loss from operations £6.2m (2005: profit £5.9m).
- Retained loss for period £12.0m (2005: profit £0.6m).
- Commercial revenue £25.7m (2005: £23.8m) reflecting the benefits of the new adidas and Northern Rock sponsorship contracts.
- Media revenues decreased to £26.5m (2005: £27.9m).
- Increase in merit payments following the Club's seventh place (2005: fourteenth place) finish in the FA Premier League, partly offsetting a £3.3m reduction in UEFA Cup TV revenue.

Operational highlights

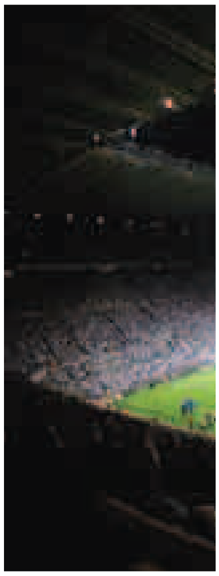
- Significant strengthening of the first team squad with the Club record signing of Michael Owen from Real Madrid, Albert Luque from Deportivo La Coruna, and Nolberto Solano from Aston Villa, signed during the Summer 2005 transfer window.
- Glenn Roeder appointed Team Manager on 1 July 2006, after a successful period at the helm following the departure of Graeme Souness in February 2006.
- Damien Duff signed from Chelsea for £5m in July 2006 and Obafemi Martins signed from Inter Milan for €15m during August 2006.
- Alan Shearer appointed as the Club's Sporting Ambassador following his retirement from professional football.
- Improved team performances during the 2005/6 season, with seventh place in FA Premier League, resulting in qualification for the Intertoto Cup and subsequent qualification for the UEFA Cup.
- Reached the quarter-finals of the FA Cup.
- Academy team reached the semi-final of the FA Youth Cup.
- Improved Box Office facilities for supporters including online sales facility.
- The Newcastle United Museum opened in January 2006.
- International premiere of film 'Goal' in September 2005.
- 'The Match 3' was staged in October 2006 following the resounding success of the previous two Sky TV programmes.
- Revival of pop concert venue status with a 16,000 plus crowd attending the Bryan Adams concert in June 2006 which generated a profit for the Club.

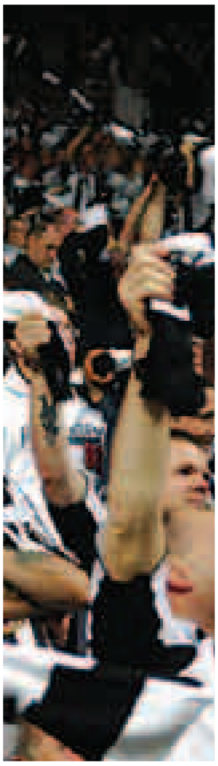
our Club is...



Average attendance

Our occupancy rate for home FA Premier League games was again over 99%, the Club benefiting from a continued high level of season ticket renewals.





Shareholdings

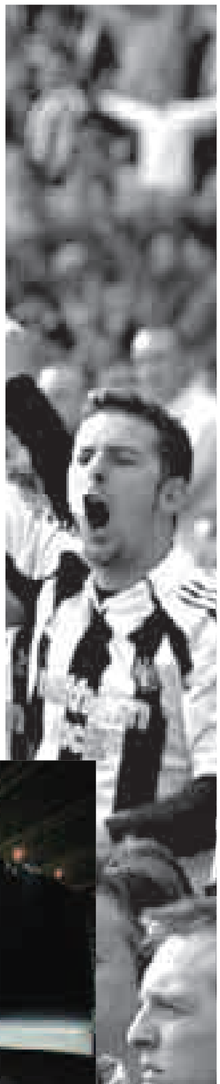
22,716

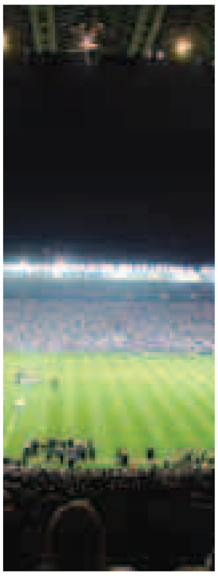
A large number of supporters also hold shares in the Company.

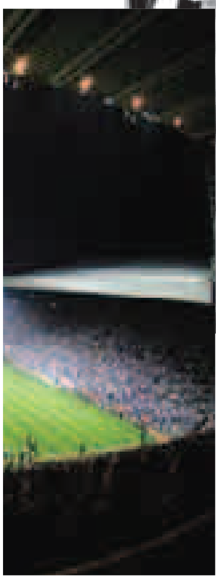
Average attendance

52,032

Average FA Premier League attendance level for 2005/6.







our fans

our Club is...

Academy

120

Our academy trains 120 scholars, from under 9s to under 18s.

Football in the community

70,000

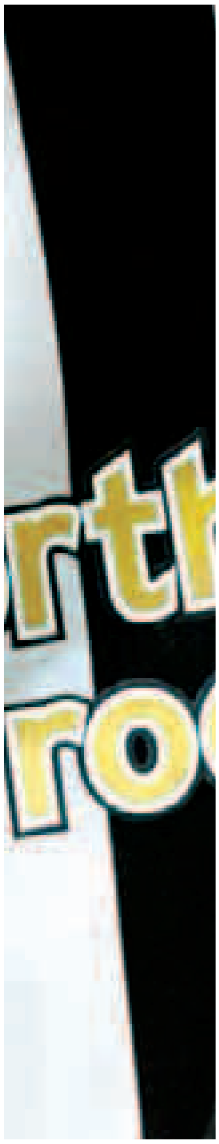
Over 70,000 members of our community attended coaching courses and events held during 2005/6.

Open day

As part of Newcastle United's continuing involvement at the heart of the community, the Football in the Community programme has introduced many new initiatives. These included an open day where more than 10,000 fans – many of them youngsters on their school holidays – poured into St. James' Park to watch a first team training session. This was an enjoyable session for the players and fans alike.

our community

our Club is...



New sponsorship deals
Commercial revenues totalled £25.7m for the eleven months (2005: twelve months £23.8m) enhanced by the impact of the improved deals with the Club's two main sponsors, adidas and Northern Rock.

Sponsorship

£11.2m

£11.2m was raised from sponsorship, 13% of total revenue.

Branded products

£7.8m

£7.8m was raised from branded products, 9% of total revenue.

Catering

£6.7m

£6.7m was raised from catering, 8% of total revenue.

our brand

our Club is...

International

15

15 of our squad are playing or have played at international level.

New signings

£43.4m

£28.3m was invested in signing new players, with a further investment of £15.1m after the period end.

Record signing

Michael Owen was signed for a Club record fee of £16.8m from Real Madrid.

our players

Chairman's statement

International Financial Reporting Standards ("IFRSs")

EU law (IAS regulation EC 1606/2002) requires that the annual consolidated financial statements of the Group, for the eleven month period ended 30 June 2006, be prepared in accordance with IFRSs adopted for use in the EU ("Adopted IFRSs"). The comparative (2005) results comprise the year ended 31 July 2005.

Introduction

Group revenue for the period of £83.1m is lower than the £87.0m reported last year, principally due to non-qualification for the UEFA Cup in season 2005/6, which impacted on Matchday and Media revenues.

As shareholders will be aware, despite significant investment in the playing squad, we had a very disappointing start to the 2005/6 playing season resulting in the departure of Graeme Souness as Team Manager. Glenn Roeder, with support from Alan Shearer, was appointed as his successor on a temporary basis. Following the appointment of Glenn Roeder, performances on the pitch improved significantly resulting in the Club finishing a respectable seventh in the FA Premier League.

Financial overview

Group revenue for the eleven months was £83.1m, versus £87.0m for the twelve month prior period, principally due to non-qualification for the UEFA cup in season 2005/6.

- Matchday revenues for the period were £30.9m (2005: £35.3m) due to playing nine fewer games at St. James' Park (six UEFA Cup, two Carling Cup and one FA Cup).
- Media revenues were £26.5m (2005: £27.9m) reflecting two fewer live televised FA Premier League games and the absence of UEFA Cup revenue. An increase in merit payments, following the Club's seventh place finish in the FA Premier League, partly offset a £3.3m reduction in UEFA Cup television revenue.
- Commercial revenues were £25.7m (2005: £23.8m) reflecting the benefits of the new adidas and Northern Rock sponsorship contracts.

Operating expenses were £76.9m (2005: £81.0m) and the profit from operations before player amortisation and trading was £6.2m (2005: £6.0m).

Wages and salaries for the period were £52.2m (2005: £50.2m). Other operating expenses decreased to £24.7m (2005: £30.8m). In total, operating expenses were £76.9m (2005: £81.0m).

Reflecting the significant investment in the playing squad, amortisation of players' registrations was £16.2m (2005: £9.8m). This, together with a reduction in net profit on disposal of players' registrations and a decrease in impairment costs of players' registrations, contributed to a loss from operations of £6.2m (2005: profit £5.9m).

Finance expenses were £6.3m (2005: £5.6m) reflecting an increased level of borrowings together with the effect of notional interest on deferred transfer fee instalments.

The retained loss for the period was £12.0m (2005: profit £0.6m).

Football management and playing squad

Newcastle United invested heavily in the playing squad in the period. Team performances in the first half of the season fell significantly below the level that we, and our supporters, have come to expect. Consequently, the Board decided that it was necessary to make changes in the management of team affairs. This resulted in the departure of Graeme Souness and his backroom team in February 2006 and the appointment of Glenn Roeder as Acting Team Manager, supported by Alan Shearer. Performances on the pitch improved significantly, resulting in the Club finishing a respectable seventh in the FA Premier League, qualifying for the Intertoto Cup and subsequently qualifying for the UEFA Cup.

We achieved another good run in the FA Cup, reaching the quarter-finals, losing 1 – 0 to Chelsea at Stamford Bridge in a well contested game. However, we were disappointed to lose in the fourth round of the Carling Cup against Wigan Athletic.

In August 2005, we were delighted to sign Michael Owen from Real Madrid. However, since his signing, Michael's appearances for the Club have been limited due to injury. Michael had scored seven goals in ten appearances before suffering an unfortunate metatarsal break on New Year's Eve at Tottenham Hotspur. After returning to full fitness just in time for the World Cup, he sustained a serious knee injury against Sweden in the Group stages and has had to undergo surgery on two occasions.

Additional players who joined the Club during the first half of the season included Albert Luque from Deportivo La Coruna and Nolberto Solano from Aston Villa. Kieron Dyer and Steven Taylor signed improved contracts during the period, which will keep them both at St. James' Park until 2009.

Since the end of the 2005/6 season new contracts have also been awarded to Shay Given, Charles N'Zogbia and Steve Harper.

After the period end we signed Republic of Ireland international Damien Duff from Chelsea, Nigerian international striker Obafemi Martins from Inter Milan and Antoine Sibierski from Manchester City. Olivier Bernard returned to the Club on a free transfer and Giuseppe Rossi joined on loan from Manchester United until 31 December 2006.

Players who left the Club during the period included Jermaine Jenas to Tottenham Hotspur, Michael Chopra to Cardiff City and Hugo Viana to Valencia. Robbie Elliott, Tony Caig and Lee Bowyer were released on free transfers while Lee Clark retired and joined our coaching staff. Subsequent to the period end the Club sold Jean-Alain Boumsong to Juventus and Amady Faye to Charlton Athletic.

The Club's young talent will benefit from the appointment of new Academy Manager Joe Joyce. Joe has been the PFA's Head of Coaching for the last eight years and officially started his new role in September 2006.

Alan Shearer

May 2006 saw Alan Shearer's wonderful ten-year playing career with Newcastle United come to an end with the unforgettable scenes at his testimonial night against Glasgow Celtic in front of a sell-out crowd at St. James' Park, an event that raised more than £1m for children's charities.

Earlier in the year, Alan set a new goal scoring record for the Club, passing another Geordie hero, Jackie Milburn, in achieving a new all-time best tally of 206 goals.

Alan was an inspirational captain for both Club and country, and the perfect role model to every budding young footballer. Everyone is delighted that Alan's close links with his home town Club will continue as he travels worldwide promoting the name of Newcastle United as our Sporting Ambassador.

Following Alan's retirement, Scott Parker was appointed as Club Captain and he is enjoying his new role.

The stadium

Following extensive investment into the stadium over the years, it is now complete and fully operational as a venue not only for football, but also conferences, banquets, wedding ceremonies and receptions. In June 2006, St. James' Park was used as a pop concert venue for the first time in ten years, when Bryan Adams took to the stage. He is the latest in a long line of rock stars to have played at St. James' following in the footsteps of Bob Dylan, The Rolling Stones, Bruce Springsteen and Queen. The concert generated a profit for the Group and we will be seeking further opportunities of this nature going forward.

The Board continues to search for opportunities to promote the Club's future development and improve the facilities for visitors to the stadium.

Chairman's statement continued

The stadium continued

In September 2005, we launched stadium tours to allow visitors to look behind the scenes. In January of this year, the new museum was opened to the public. Situated at the south-west corner of the stadium, the museum completes the redevelopment of the Gallowgate End, which now includes our new Box Office; the Newcastle United Superstore (in conjunction with adidas); Museum; Café @ St. James'; and of course, the ever popular Shearer's Bar.

The Club did not incur significant capital expenditure in 2006. All facilities are currently at a very high standard and so the Board has no plans to extend St. James' Park at this time, although further expansion is possible, subject to planning. However, new changing rooms have been constructed this year by our in-house engineering team.

Media and brand development

The new sponsorship contracts with adidas and Northern Rock, which commenced during the summer of 2005, are driving improved sponsorship revenue. Both contracts run for a period of five years and expire at the end of the 2009/10 season.

MGM MIRAGE joint venture

On 5 September 2006, Newcastle City Council presented its case before the Casino Advisory Panel for the right to host a regional casino in the City. We welcome this move and are hopeful that the strength of this bid will lead to the City of Newcastle being selected by the Casino Advisory Panel as the right location in the United Kingdom for a regional casino. In that event, we are confident that the benefits to the City represented by our joint venture with MGM MIRAGE will lead to our proposal prevailing in any competitive bid conducted by Newcastle City Council.

Other media developments

Other media developments are progressing well and are part of the overall programme to continue to promote the Club's brand in the United Kingdom and abroad.

The movie 'Goal', the first of a trilogy of football movies, with the first instalment set at Newcastle United, successfully premiered on 15 September 2005 in London and regionally in Newcastle on 18 September 2005. This has been an exciting project for everyone involved at the Club.

Following the success of Sky One's 'The Match 2' staged during October 2005, 'The Match 3' took place on 8 October 2006 and, as on previous occasions, it was a thoroughly enjoyable game watched by another sell-out crowd.

Hospitality

The Club is delighted that its conference and banqueting division won the Directors' Choice in the Premiership award, one of the top awards in the 2006 Official Football Hospitality Awards. It was also nominated for the top prizes in three other categories: Conference and Event Marketing, Media Choice and the Chef's Team of the Year. In addition, Newcastle United chef, John Connell, won silver in the North East Chef of the Year awards.

Supporters

Our occupancy rate for home FA Premier League games was again over 99%, the Club benefiting from a continued high level of season ticket renewals. Playing in a stadium filled to capacity provides a tremendous boost to the team and our home record helped greatly in achieving seventh place in the FA Premier League. Our supporters must be congratulated on their ongoing support.

In terms of supporter services the Club successfully launched a new online ticket sales service in October 2005. This service, which is available on our website, www.nufc.co.uk, is proving popular with supporters, making it more convenient to obtain tickets and dispensing with the need to stand in long queues waiting to be served. It is quite simple to log onto our website and make a purchase. Also in the pipeline is a new smart card membership, loyalty and admission system which we are targeting to go live in August 2007, there is also likely to be a test period in the latter part of the current season where we will be asking for fans' co-operation in trialling the system.

Community activities

As part of Newcastle United's continuing involvement at the heart of the community, the Football in the Community Programme has introduced many new initiatives. These included an open day held at which more than 10,000 fans – many of them youngsters on their school holidays – poured into St. James' Park in the summer to watch a first team training session. This was an enjoyable session for the players and fans alike.

In addition, a Football Aid Day was held at Newcastle United on 13 August 2005. Football Aid, a charity founded in 2000 to find a cure for diabetes, offered fans the chance of a lifetime – an exclusive insight into a day in the life of the likes of Scott Parker and Shay Given.

As part of the Club's charitable initiatives, Newcastle United's Football Academy participated in Sport Relief. This involved 85 of the Club's youngsters putting on their running shoes and taking part in the Sport Relief Mile around Newcastle's Quayside. It was an excellent event for the Club to be involved in and for a very worthwhile cause.

A Soccer 7s tournament at Bullocksteads, organised by the Football in the Community department for juniors, turned out to be a huge success, with more than 5,000 people attending the two-day event. A total of 140 teams took part in the tournament which was held during June 2006.

Our coaching initiatives continue to grow with Newcastle United's Football in the Community Department now offering residential courses over three, five or seven days, which are proving extremely popular with youngsters from home and abroad. As part of the first phase, a group of children from the All-India Youth Football Academy in Pune, near Mumbai, enjoyed a seven-day residential course in Newcastle.

In addition, the Club has signed up to the Racial Equality Standard for professional Clubs. Developed by Kick It Out, with the support of the FA Premier League, the Standard helps to support us in our aim to achieve racial equality and can also provide the framework to help strengthen existing relationships within the local community.

Dividend

The Board is not proposing a dividend at this time. The Board will review this policy for future reporting periods.

Outlook

The Board believes that the investment it has made in all areas of the Club will deliver long term benefits and will continue to take every step necessary to maximise potential for success both on and off the pitch.

Statement regarding press speculation

On 21 August 2006, the Belgravia Group ("Belgravia") announced that it was examining the potential opportunity of acquiring Newcastle United PLC and that this may or may not lead to an offer for the Company being made by Belgravia. Further to this, on 25 October 2006, the Board announced that, whilst discussions are ongoing between the two parties, it had not received a formal proposal from Belgravia or any other party. This remains the case. Therefore, there can be no certainty that an offer will be made, nor as to the terms on which any offer would be made.

A further announcement concerning this matter will be made in due course.

W F Shepherd
Chairman
27 October 2006

Operating and performance review

International Financial Reporting Standards ("IFRSs")

This report represents the first annual results prepared under IFRSs. The comparative figures for the year ended 31 July 2005 have been restated. The transition to IFRSs has not had a material impact on reported operating results before player amortisation and trading; the Group's operating profit before player amortisation and trading of £6.049m reported in 2005 has been restated to £6.017m under IFRSs. The main change arises from the impact of IFRSs on the way the Group accounts for player acquisitions and disposals, where all or part of the transfer fee payable or receivable is deferred. This change impacts on amortisation and financial income and expenses. Revised accounting policies under IFRSs for the Group, and the disclosures concerning the Group's transition from UK GAAP to IFRSs, were available from 13 April 2006 on the Group's website at www.nufc.co.uk and are summarised in note 30 to these accounts.

Operating performance review

The aims of Newcastle United, namely success on the playing field, whether in the FA Premier League or domestic and European cup competitions are relatively easy to measure. Final League position and success, or otherwise, in knockout competition gives the Club an instant measure of performance against its competitors. The strategy of the Group remains that of securing its position among the top teams in England, and competing in Europe on a consistent basis. Success on the pitch brings financial reward, in terms of enhanced gate receipts and increased broadcasting revenues and other associated revenue streams.

In 2005/6 the Club finished in seventh place in the FA Premier League (2004/5: fourteenth place), and reached rounds six and four (2004/5: semi-final and round four) in the FA and Carling Cup respectively.

The average attendance for home FA Premier League games was 52,032 resulting in an occupancy rate of 99.4% (2005: average 51,844 and occupancy rate 99.1%). The average attendance for all home FA Premier League and Cup games was 49,148 resulting in an occupancy rate of 94.0% (2005: average 46,566 and occupancy rate 89.0%).

Financial review

In June 2006 we announced a change in the Group's accounting reference date from July to June. This brings the Group in line with the majority of FA Premier League Clubs and means that our accounting reference date also ties in with the expiry date of players' contracts. As a consequence we are reporting on the eleven months ended 30 June 2006 compared to the year ended 31 July 2005. The comparative figures and percentages, particularly in relation to operating costs, are therefore not always directly comparable.

Revenue for the eleven months ended 30 June 2006 was £83.1m (2005: £87.0m). The reduction in turnover of £3.9m was principally due to the absence of UEFA Cup football following the Club's fourteenth place FA Premier League finish in 2005. After deducting operating expenses of £76.9m (2005: £81.0m), Group profit from operations before player amortisation and trading increased slightly to £6.2m (2005: £6.0m).

Amortisation of players' registrations increased by 65% to £16.2m (2005: £9.8m) following the significant level of investment in the playing squad during the close season and early part of the 2005/6 season, which included the acquisitions of Michael Owen and Albert Luque. The net profit on disposal of players' registrations, the most significant of which was the sale of Jermaine Jenas in August 2005, was £5.2m (2005: £13.4m). The £8.2m reduction is due principally to the profit in respect of the sale of Jonathan Woodgate to Real Madrid in August 2004. Impairment of individual players' registrations resulted in a charge of £1.4m (2005: £3.8m) which relates to assets held for sale. The net cash outlay in respect of player trading during the period amounted to £25.2m (2005: inflow £0.5m).

The increase in amortisation and fall in profit on disposal of players' registrations contributed to a loss from operations of £6.2m (2005: profit £5.9m).

A Value Added Tax and Duties Tribunal decision, released on 21 August 2006, ruled that the Club was not entitled to reclaim VAT on payments made to agents on 21 deals between 2001 and 2003. Following the Tribunal's decision the Club lodged an appeal to the Chancery Division of the High Court to recover £0.5m of the VAT paid to HM Revenue and Customs ("HMRC") in 2004. The Directors believe that adequate provision has been made for any further amounts that may be due to HMRC at the period end.

Additional borrowings taken out during the period, to finance player acquisitions, contributed to an increase in finance expenses which were up from £5.6m to £6.3m. IAS 38 requires a notional interest charge to be recognised where player acquisitions are paid for in instalments. For the period ended 30 June 2006 finance expenses include notional interest of £1.2m (2005: £0.6m).

A share alternative was offered in respect of the 2005 final dividend of 2.04p per ordinary share. The alternative comprised the issue of new ordinary shares with a market value of 44.9p per ordinary share. Holders of 76% of ordinary shares elected for the share alternative, resulting in the issue of 4,439,429 shares with a nominal value of £221,971. The Board does not recommend the payment of a dividend for the period under review (2005: 3.07p per ordinary share). The retained loss for the period is £12.0m (2005: profit £0.6m).

All of the major building projects are now complete and as a result capital expenditure on acquiring tangible fixed assets was limited to £0.8m (2005: £2.6m).

Taxation

No tax charge arose in the period (2005: £nil) and the Group has corporation tax losses of approximately £18.6m available to carry forward against future trading profits.

Goodwill

Following the acquisition of nufc.co.uk Limited in 2005, the Board is pleased to report that the profit before tax of this Company for the period was £201,000. In accordance with IAS 38 the Directors have carried out an impairment review of the carrying value of the goodwill relating to the acquisition of this Company and have concluded that no impairment is required.

Equity

Net assets of the Group at 30 June 2006 were £16.8m (2005: £30.4m). Reconciliations of the movement during the period are shown on page 56.

Intangible assets increased by £12.6m to £48.2m, reflecting the playing squad acquisitions, most significantly Michael Owen and Albert Luque.

Key performance indicators

The Group monitors a range of key performance indicators including:

	2006 (Eleven months)	2005 (Year)
Revenue	**£83.1m**	£87.0m
Profit from operations before player amortisation and trading	**£6.2m**	£6.0m
Wages to revenue ratio	**63%**	58%
FA Premier League position	**7th**	14th
Average FA Premier League attendance	**52,032**	51,844
Participation in UEFA Competitions	**n/a**	UEFA Cup QF
Number of live televised FA Premier League games	**12**	14
Cash generated from operating activities	**£7.0m**	£6.6m

Further comment on a number of the above key performance indicators can be found in this Operating and performance review.

Operating and performance review continued

Revenue

Revenue has been reanalysed into three categories in these accounts. Details can be found in note 2.

Matchday ➜ 37% of total revenue (2005: 40%)
Revenue from the 19 home FA Premier League games played during the 2005/6 season was unchanged from the prior year, however the absence of UEFA Cup fixtures (2004/5 season: six home fixtures) and only two home fixtures in the domestic Cup competitions (2004/5: five home fixtures) resulted in an overall decline in matchday revenue to £30.9m (2005: £35.3m).

Media ➜ 32% of total revenue (2005: 32%)
Media revenues of £26.5m (2005: £27.9m) were significantly impacted by the lack of UEFA Cup football in the 2005/6 season. However, domestic TV revenues increased by 12% as a result of an improved merit award receipt following our seventh place finish in the FA Premier League (2005: fourteenth place).

On the domestic front we were chosen for six FA Premier League live packages 1 and 2 (2005: nine) and six live packages 3 and 4 (2005: five). In addition, five of our six domestic Cup games were selected for live transmission by Sky and BBC (2005: four out of six).

Commercial ➜ 31% of total revenue (2005: 27%)
Commercial revenues totalled £25.7m (2005: £23.8m), enhanced by the impact of improved deals with the Club's two main sponsors, adidas and Northern Rock.

Revenue from the sale of branded goods performed well during the period, with internet sales continuing to make an increased contribution to overall revenue.

Despite playing fewer home games, revenue generated by the conference and banqueting division was broadly flat at £6.7m for the eleven months (2005: £6.8m).

Operating expenses

The impact of the eleven month reporting period is more marked here, as a significant element of operating costs accrue evenly throughout the year, whereas revenue is weighted more towards the playing season.

Total operating expenses excluding amortisation of players' registrations were £76.9m (2005: £81.0m), a reduction of £4.1m.

Operating expenses included £0.8m relating to the write off of the carrying value of the cost of acquiring Graeme Souness, following his departure in February 2006.

Agreement was also reached with Sir Bobby Robson during the period, although the final settlement amount was fully provided in 2004. Therefore, this has no impact on the current period's results.

Wages and salaries continue to be the most significant cost incurred by the Group at £52.2m for the eleven months (2005: twelve months £50.2m). The increase of £2.0m relates mainly to changes in the playing squad. The wages to turnover ratio, at 63% (2005: 58%), remains higher than the Group's desired ratio of 50% and reducing this remains our aim for the medium term.

Other operating expenses were £24.7m (2005: £30.8m), a fall of £6.1m. In addition to the impact of a shorter accounting period, non-participation in the UEFA Cup and fewer home ties in the FA and Carling Cups contributed to the reduction in costs.

Cash flow

The Group's cash position at the period end decreased by £13.8m to £3.8m (2005: £17.6m).

Cash flows generated from operating activities remained relatively stable at £7.0m (2005: £6.6m). The most significant movements were the net outflow from investing activities (including player acquisitions) which increased to £26.5m (2005: £2.7m) and incoming finance of £5.7m (2005: net outflow of £12.5m).

During the period an amount of £8.0m was received which relates to advance sponsorship monies for future years. This is included in Deferred Income in note 18.

Financial income and expenses

Financial expenses amounted to £6.3m (2005: £5.6m). An analysis of the Group's interest-bearing loans and borrowings is given in note 14. The increase during the period was a result of financing arrangements on new player acquisitions.

Financial income for the period amounted to £0.4m (2005: £0.5m).

Future outlook

The Board is now required to comment on future prospects and does so in good faith, based on the information available to it at the time of approval of this report.

On the playing front the team successfully progressed through the Intertoto Cup and the UEFA Cup qualifying rounds and is now competing in the Group stage of the UEFA Cup.

The FA Premier League recently announced new broadcasting agreements, commencing in the 2007/8 season, in which overall income levels will be significantly higher than the current contract. To fully benefit from these additional revenues the Club must seek to compete in the upper regions of the FA Premier League.

Risks and uncertainties

The Board acknowledges that there are risks which affect the Group and takes such action as it regards necessary to minimise those risks.

Detailed risk catalogues have been maintained by the Group for a number of years. These catalogues are regularly updated to better enable the embedding of the risk management process within the Group. A Risk Management Group has been in place for over five years (for further details see the Statement of corporate governance on page 29). Each identified risk is rated based on an assessment of the likelihood of a particular event occurring, and the magnitude of the impact of such an event. Strategies and actions are developed and implemented to manage each risk at an acceptable level.

Based on our risk management assessments the principal risks are as follows:

- The acquisition of players, and their related payroll costs, are one of the most significant and high profile risks facing the Group. The approval of all player transfers is a matter specifically reserved for decision by the Board.
- Injuries to key players. The well publicised injury to Michael Owen, during the 2006 World Cup, and his subsequent unavailability for the Club, being a case in point. Following this injury the Club incurred significant capital expenditure to secure a replacement player. The Club has invested substantial sums in sports medicine and science facilities to ensure that the players return to fitness in the shortest possible time and the Board also obtains insurance cover where appropriate.
- Team performance affects all aspects of the Group's operations, and the Board has continued to invest in the squad and academy to ensure that the Club can compete at the highest levels in the FA Premier League and domestic and European competitions.

Operating and performance review continued

Risks and uncertainties continued

- Risks are also reported on by the FA Premier League, at meetings of representatives of other member clubs, and Group management regularly attend these meetings which cover Club secretarial, financial, commercial, community and health and safety issues.
- The Group's capital requirements depend on many factors and these are kept under constant review. The Group may require further financing if its capital requirements vary materially from its current plans.
- Certain of the Group's borrowings are subject to a number of financial covenants and this risk is monitored regularly. Breach of these covenants could result in an immediate demand for full repayment.
- The Group buys from suppliers and sells to customers outside the United Kingdom and, consequently, dealings with these customers and suppliers may be in foreign currencies which will be subject to exchange rate fluctuations. Where considered prudent, the Group actively hedges its foreign currency exposure, principally the Euro.

Social responsibility

The Group fully supports the initiatives raised by the FA Premier League, including those focused on racial equality. The Club's 'Football in the Community' programme continues to offer access to coaching throughout the region.

More information on the Club's interaction with the community is included in the Chairman's statement.

Environmental matters

The Group complies with all national and international standards known to it and undertakes regular reviews and audits to ensure ongoing compliance with statutory obligations. In addition we are committed to continual improvement of standards of environmental controls.

The Group seeks to conserve non renewable resources, such as energy, while carrying out its operations and is in discussion with The Carbon Trust, an independent Government funded organisation that aims to help the UK move to a low carbon economy, to understand and improve our energy performance. Our initial Carbon Management Report highlighted a number of opportunities which we are in the process of introducing.

We are also attentive to the needs of the environment and local residents, particularly with regard to noise emissions and collection of refuse from the stadium area.

The academy is an environmentally sensitive site. During its construction we created wetland and pasture areas – both important habitats for wildlife. Our maintenance team manage and maintain these areas.

R Cushing
Group Chief Operating Officer
27 October 2006

Directors and senior management

Directors

William Frederick Shepherd
Chairman and Executive Director
Appointed as a Director of the Football Club in November 1991 and subsequently as Chairman in July 1998. Appointed as a Non-Executive Director of Newcastle United PLC in December 1998, became a full-time Executive Director in August 2001 and was appointed Chairman in 2002. He is also Chairman of the Shepherd Offshore group of companies. Aged 64.

Douglas Stuart Hall
Non-Executive Director
Executive Director of Newcastle United Football Club (International) Limited
Appointed as a Director of the Football Club in November 1991 and subsequently as Deputy Chairman in July 1998. Appointed as a Non-Executive Director of Newcastle United PLC in December 1998 and as an Executive Director of Newcastle United Football Club (International) Limited on 1 August 2001. He is Chairman of Cameron Hall Developments Limited. Aged 48.

Timothy John Revill
Independent Non-Executive Director
Chairman of Remuneration Committee and Audit Committee
Appointed as a Non-Executive Director in July 2002. A Chartered Accountant and Chairman of the BDO Fidecs group of accountants and business advisers, based in Gibraltar. Aged 56.

Bruce Stewart Shepherd
Non-Executive Director
Member of Remuneration Committee and Audit Committee
Appointed as a Non-Executive Director in July 2002. Chief Executive of the Shepherd Offshore group of companies. Aged 59.

Allison Antonopoulos
Non-Executive Director
Appointed as a Non-Executive Director on 3 February 2004. She is also a Director of Cameron Hall Developments Limited. Aged 46.

Senior management

Russell Cushing
Group Chief Operating Officer and Director of Newcastle United Football Company Limited
Joined Newcastle United in June 1971 and has carried out a variety of Senior Management roles since. He has extensive knowledge of, and management experience in, the business of professional football at both domestic league and international competition levels. He was appointed to the role of Group Chief Operating Officer and appointed a Director of Newcastle United Football Company Limited in June 2001. Aged 59.

Kenneth Slater
Group Financial Controller and Finance Director of Newcastle United Football Company Limited
Joined Newcastle United in 1972 and was appointed Chief Accountant in 1984. Appointed as Group Financial Controller and Finance Director of Newcastle United Football Company Limited in June 2001. Aged 50.

Directors' report

The Directors of Newcastle United PLC present their Annual Report for the eleven months ended 30 June 2006, together with the accounts of the Group and the Independent auditors' report for the period. These will be laid before the shareholders at the Annual General Meeting to be held on 19 December 2006.

Results and dividends

On 27 June 2006, we announced a change in the Group's accounting reference date from July to June. Various factors were behind the Board's decision to make this change: June, which is the year end for the majority of football clubs, results in a more balanced split of results for the interim and final reporting periods. Each six month period will now include five months of the playing season and one non-playing month. The change to a June accounting reference date also ties in with the expiry of players' contracts.

As a consequence of the change, this report covers the eleven months ended 30 June 2006 compared to the year ended 31 July 2005. The comparative figures in the Income statement, Statement of changes in equity, Cash flow statement and related notes are not always directly comparable and, where relevant, more detail is given in the Operating and performance review.

The loss for the eleven month period of £12.0m (2005: profit £0.6m) has been transferred from reserves.

The Board does not recommend the payment of a final dividend for the period ended 30 June 2006 (2005: 2.04p per share). No interim dividend was declared in 2006.

Principal activities and business review

The principal activities of the Group during the period were the operation of a professional football club together with related and ancillary activities. Information required to be disclosed pursuant to the Directors' report: Business review requirement of the Companies Act 1985 can be found within this report, the Chairman's statement on pages 10 to 13 and the Operating and performance review on pages 14 to 18 which should be read as part of this report.

Directors

Details of the Directors of the Company who served during the year and their interests in the shares of the Company are shown in the Directors' remuneration report on pages 23 to 26. Brief biographical details of the Directors are contained on page 19.

In accordance with the Articles of Association of the Company, D S Hall retires as a Director of the Company at the Annual General Meeting and, being eligible, offers himself for re-election.

Employment, health and safety and environmental policies

It is the Group's policy that there should be no discrimination against any person on the grounds of race, sex, religion or otherwise.

In accordance with the Group's equal opportunities policy, disabled people are given the same consideration as others when they apply for a job. Depending on their skills and abilities, they enjoy the same career prospects and scope for realising their potential as other employees. If an existing employee becomes disabled, reasonable steps are taken to retain him/her in employment.

Within the bounds of commercial confidentiality, staff are kept reasonably informed of matters that affect the progress of the Group and are of interest to them as employees.

The Group maintains its own health and safety and environmental policies covering its activities. Adherence to these policies is monitored on a regular basis.

Payments to suppliers

The Group does not have a standard creditor payment policy but seeks the best possible terms from suppliers appropriate to its business and, in placing orders, gives consideration to quality, price and terms of payment, which will be agreed with suppliers when the details of each transaction are settled. The Group will continue to honour its contractual and other legal obligations and to pay creditors on the dates agreed in contracts and purchase orders. The number of creditor days calculation is distorted by transfer fees payable. Accordingly the Group has calculated creditor days excluding transfer fees payable. The number of creditor days was 40 (2005: 29). The Company has no significant trade creditors.

Political and charitable donations

The Group's charitable donations for the year amounted to £22,639 (2005: £37,088). There were no political contributions (2005: £nil).

International Financial Reporting Standards ("IFRSs")

This is the Group's first set of financial statements prepared under IFRSs. The detailed reconciliations of the impact of the adoption of IFRSs as compared to UK GAAP are set out on pages 64 to 69 of these financial statements.

Substantial interests

Save as disclosed in the table below, the Directors are not aware of any person who directly or indirectly is interested in 3% or more of the issued ordinary share capital of the Company as at 27 October 2006 or any persons who, directly or indirectly, jointly or separately, exercise or could exercise control over the Company.

Issued ordinary share capital of the Company

	Number of ordinary shares as at 27 October 2006	Percentage of issued ordinary share capital as at 27 October 2006
Wynyard (Guernsey) Limited	38,315,167	28.8
Shepherd Offshore Limited	37,278,505	28.0
Cameron Hall Developments Limited Executive Pension Scheme	10,640,657	8.0
Cameron Hall Developments Limited	6,386,399	4.8
L Hatton	5,161,910	3.9

Independent auditors

A resolution to re-appoint KPMG Audit Plc as independent auditors of the Company and to authorise the Directors to agree their remuneration will be proposed at the Annual General Meeting.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the Parent Company financial statements on the same basis.

The Group and Parent Company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and the Parent Company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Parent Company 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Directors' report continued

Statement of Directors' responsibilities continued

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report, Directors' remuneration report and Corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each Director 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 and to establish that the Group's auditors are aware of that information.

Annual General Meeting

The Notice of the Annual General Meeting to be held on 19 December 2006 is set out on pages 70 and 71 and includes the following special business:

Resolution 6: Directors' authority to allot shares

Resolution 6 set out in the Notice of Meeting would grant authority to the Directors to allot shares in the Company. Under section 80 of the Companies Act 1985, the Directors of the Company may only allot relevant securities if authorised to do so. Resolution 6 will, if passed, give the Directors authority to allot shares up to a maximum nominal value of £2,666,756 (representing the difference between the authorised ordinary share capital of the Company and the issued ordinary share capital of the Company).

The Directors have no present intention of exercising the allotment authority proposed by this resolution. The authority will lapse at the conclusion of the next Annual General Meeting of the Company except in so far as commitments to allot shares have been entered into before that date.

Resolution 7: Directors' power to disapply pre-emption rights

Resolution 7 set out in the Notice of Meeting, which will be proposed as a special resolution, supplements the Directors' authority to allot shares in the Company given to them by resolution 6.

Section 89 of the Companies Act 1985 requires a company proposing to allot equity securities for cash to offer them first to existing shareholders in proportion to their existing shareholdings. Equity securities include ordinary shares. If resolution 7 is passed, the requirement imposed by section 89 will not apply to allotments by the Directors in two cases:

1. in connection with a rights (or similar) issue, where strict application of the principle in section 89 could (for example) either result in fractional entitlements to shares arising or require the issue of shares where this would be impractical because of local, legal or regulatory requirements in any given overseas jurisdiction; and
2. allotments of shares for cash up to a total nominal value of £332,767 (representing 5% of the Company's issued share capital at 27 October 2006). This gives the Directors flexibility to take advantage of business opportunities as they arise, whilst the 5% limit ensures that existing shareholders' interests are protected in accordance with guidelines issued by institutional investors' bodies.

This authority will lapse at the conclusion of the next Annual General Meeting of the Company or 15 months from the date of resolution (whichever is earlier) except in so far as commitments to allot shares have been entered into before that date.

By order of the Board

R Cushing
Company Secretary
St. James' Park
Newcastle upon Tyne NE1 4ST
27 October 2006

Directors' remuneration report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. The aim of the regulations is to provide shareholders with more information about the relationship between Directors' remuneration and corporate performance.

The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration.

The regulations require the independent auditors to report to the Company's members on part of the Directors' remuneration report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The part of the report which is subject to audit is on pages 25 and 26.

Composition and function of the Remuneration Committee

The Remuneration Committee comprises two Non-Executive Directors, T J Revill (Chairman) and B S Shepherd. Working under written terms of reference from the Board, the Committee normally meets twice a year to consider, on behalf of the Board, all aspects of the Executive Directors' remuneration. The remuneration of the Non-Executive Directors is considered by the Board following recommendations by the Executive Directors.

The Committee is directly accountable to shareholders. As Chairman of the Committee, T J Revill will be available at the Annual General Meeting to answer questions about the remuneration of the Executive Directors and this report will be put forward for approval at that Meeting.

Remuneration policy – total remuneration

The objective of the Company's remuneration policy is to retain and motivate high calibre Senior Executives and Non-Executives through competitive pay arrangements which are also in the best interests of the shareholders.

Main components

The components of the remuneration package for Executive Directors are basic salary, annual bonus and benefits.

(i) Basic salary

Basic salary for Executive Directors takes into account performance of the individual and the Group, together with the experience, responsibilities and salaries of those with similar positions and responsibilities in comparable companies. The basic salary is reviewed annually.

(ii) Annual bonus

Annual bonuses are awarded at the discretion of the Remuneration Committee and are dependent upon the performance of the Group, with particular reference to financial performance against budget.

(iii) Benefits

Executive Directors are entitled to a pension contribution (to a money purchase pension scheme) of 10% of basic salary, medical insurance, permanent health insurance and death in service life assurance. Pensionable earnings exclude annual bonus and benefits.

(iv) Share options

There were no Directors' share options in existence at any time during the financial period.

According to the register of Directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial period.

(v) Long-term incentive schemes

There are currently no long-term incentive schemes in place for the Directors.

Directors' remuneration report continued

Directors' interests

The interests (all of which are beneficial) of the Directors who held office at the end of the period and those of their families, in the ordinary shares of the Company on 1 August 2005 and 30 June 2006 which have been notified by each Director pursuant to Section 324 of the Companies Act 1985 were as follows:

	30 June 2006	1 August 2005
D S Hall (1)	**55,342,223**	52,937,065
W F Shepherd (2)	**37,278,505**	34,355,318
B S Shepherd (2)	**37,278,505**	34,355,318
T J Revill	**10,454**	10,000
A Antonopoulos (1)	**55,342,223**	52,937,065

Notes:

(1) At 30 June 2006 these shares comprise 38,315,167 shares owned by Wynyard (Guernsey) Limited, 6,386,399 shares owned by Cameron Hall Developments Limited and 10,640,657 shares owned by Cameron Hall Developments Limited Executive Pension Scheme which are undertakings connected with D S Hall and A Antonopoulos. Wynyard (Guernsey) Limited is a trust run by independent trustees for the benefit of the Hall family (including D S Hall and A Antonopoulos).

(2) At 30 June 2006 these shares comprise 37,278,505 shares owned by Shepherd Offshore Limited, a company connected with W F Shepherd and B S Shepherd.

Service contracts, notice periods and payments on early termination

The Company's policy on the duration of Directors' contracts is as follows:

- W F Shepherd and D S Hall have service contracts terminable on at least two years' notice by the Company or the Director. In the event of a change in control of the Group or a shareholder acquiring more than 25% of the issued share capital of Newcastle United PLC and procuring the appointment of a Chairman or Chief Executive, both W F Shepherd and D S Hall's service contracts become terminable on three months' notice by them and, on expiry of such notice, each is entitled to receive a lump sum payment equivalent to 24 months' basic salary and benefits.
- T J Revill, B S Shepherd and A Antonopoulos are engaged on two year fixed term service contracts. On expiry these are renewable by agreement between the Company and the Director.
- Future Executive Directors will be engaged on terms appropriate to secure individuals of sufficient calibre, having regard to market conditions at that time.
- The Company's Articles of Association require all Directors to retire and seek re-election at the first Annual General Meeting after appointment. Thereafter, Directors must retire and seek re-election at least every three years.

The policy on termination payments for Executive Directors is that the Company does not normally make payments beyond its contractual obligations.

Directors' service contracts

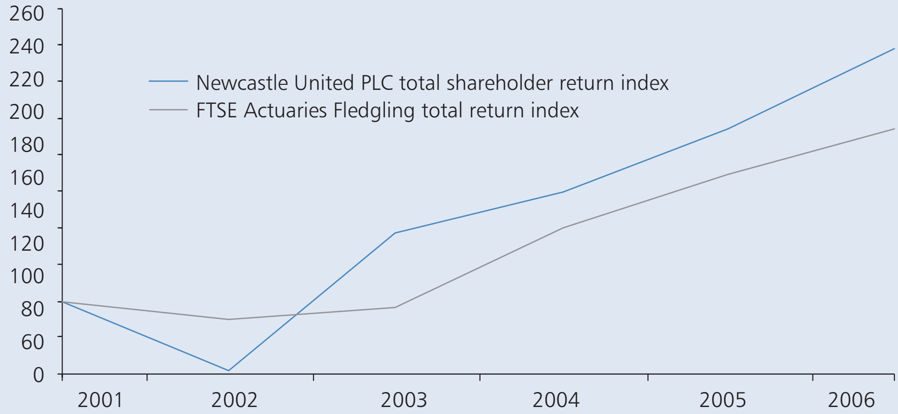
W F Shepherd and D S Hall each have a contract dated 19 December 2002 (effective from 1 December 2002) which specifies retirement at age 70. The notice period effective under each of these contracts is 24 months (except in the circumstances described above). The contracts make provision for compensation for early termination of an amount equal to 24 months' basic salary and benefits. It is considered that such notice periods are appropriate given the length of service of each Director and their intention to remain with the Group throughout the remainder of their working lives.

D S Hall's contract is in respect of his Executive Directorship of Newcastle United Football Club (International) Limited. He does not have a formal contract covering his Non-Executive Directorship of Newcastle United PLC and receives no remuneration in respect of this position.

T J Revill and B S Shepherd have two year fixed term contracts dated 25 July 2006. A Antonopoulos' contract expires on 3 February 2008. These contracts make no provision for payment of compensation for early termination.

Performance graph

The graph below shows a comparison of total shareholder return for the Company's shares for each of the last five financial years against the total shareholder return for the companies comprising the FTSE Fledgling Index. This index comprises listed companies of a similar size to Newcastle United PLC, including the other listed football club.



(Source: Datastream)

Audited information

The auditors are required to report on the information contained in the following section of the report.

Directors' remuneration

The remuneration of the Directors for the eleven months ended 30 June 2006 was as follows:

	Salary/fees £	Taxable benefits £	Bonuses £	**2006 Total £**	**2006 Money purchase pension contributions £**	2005 Total £	2005 Money purchase pension contributions £
Executive Directors							
W F Shepherd	458,333	3,020	—	**461,353**	**45,833**	502,954	50,000
Non-Executive Directors							
A Antonopoulos	32,083	—	—	**32,083**	**—**	35,000	—
D S Hall (1)	412,500	1,046	—	**413,546**	**41,250**	450,951	45,000
T J Revill	36,667	—	—	**36,667**	**—**	38,333	—
B S Shepherd	32,083	—	—	**32,083**	**—**	35,000	—
Aggregate emoluments	971,666	4,066	—	**975,732**	**87,083**	1,062,238	95,000

(1) In addition to his role as Non-Executive Director of the Company, D S Hall is an Executive Director of a subsidiary company, Newcastle United Football Club (International) Limited. The remuneration disclosed above is in respect of this Executive employment.

Directors' remuneration report continued

Audited information continued

Taxable benefits

Taxable benefits for W F Shepherd and D S Hall comprise private medical insurance.

Pensions

W F Shepherd and D S Hall are each entitled to a pension contribution to their personal pension plans. Contributions are fixed at 10% of basic salary. No other elements of remuneration are pensionable.

Approval by shareholders

At the Annual General Meeting of the Company to be held on 19 December 2006, a resolution approving this report, which has been prepared in accordance with the provisions of the Directors' Remuneration Report Regulations 2002 and audited in accordance with Section 235 of the Companies Act 1985, is to be proposed as an ordinary resolution.

This report was approved by the Board on 27 October 2006.

On behalf of the Board

T J Revill
Chairman of Remuneration Committee
27 October 2006

Statement of corporate governance

Introduction

The Board acknowledges the importance of, and is committed to, the principle of achieving and maintaining a high standard of corporate governance, where practicable for a company of this size and structure.

This report, together with the Directors' remuneration report, as detailed on pages 23 to 26, describe how the Principles of Good Governance, as set out in Section 1 of the Combined Code, have been applied as required by the Listing Rules of the Financial Services Authority.

Statement of compliance with the Code of Best Practice

The Group considers that it has complied with the detailed provisions of the Combined Code throughout the period ended 30 June 2006, with the exception of the points noted below.

The Board

The Group is controlled through its Board of Directors. The Board meets at least six times a year to consider Group strategy, investment policy, major capital expenditure projects and significant financing matters. It reviews the performance of the individual trading divisions, their annual budgets and progress towards achievement of these budgets. In the day to day management of operations the Board is supported by the Group Chief Operating Officer and Group Financial Controller, who are both full time Executive Directors of the Group's main operating subsidiary undertaking, Newcastle United Football Company Limited. As members of the Group's Senior Management they are in attendance at Board meetings.

The Board discharges its responsibilities by providing entrepreneurial leadership of the Group within a framework of prudent and effective controls, which enables risk to be assessed and managed. It sets the Group's strategic aims, ensures that the necessary financial and human resources are in place for the Group to meet its objectives, and reviews management performance. It also defines the Group's values and standards and ensures that its obligations to its shareholders are understood and met. The Board has adopted a schedule of matters which are specifically reserved for its decision, which includes various matters relating to the Companies Act 1985 and other legal requirements, listing requirements, Board membership and Board Committees, management, corporate governance, employment, financial and other miscellaneous items.

All Directors have access to the advice and services of the Company Secretary and all the Directors may take independent professional advice at the Group's expense, where they judge it necessary to discharge their responsibility as Directors.

The size and structure of the Board of Newcastle United PLC results in a number of areas of non-compliance with the Combined Code, which are noted below:

- the role of Chairman and Chief Executive is combined (Provision A.2.1). The Chairman does not meet the required independence criteria (Provision A.2.2). The Group also has a Chief Operating Officer who, although not a Director of the Company, bears a large part of the executive responsibility for the running of the Company's business. In addition, T J Revill is available as the Independent Director to whom concerns can be conveyed;
- the Company does not have the recommended minimum (for a smaller company) of two independent Non-Executive Directors (Provision A.3.2);
- T J Revill is considered by the Board to be independent as he has at all times acted independently of management and has no relationship which would materially affect the exercise of his independent judgement and decision making; and
- the Remuneration and Audit Committees do not consist exclusively of independent Non-Executive Directors (Provisions B.2.1 and C.3.1).

Statement of corporate governance continued

The Board continued

The Directors acknowledge that the above may give rise to some shareholder concerns but remain confident that the current Board of Directors, together with Senior Management of the Group, combine to provide an adequate and effective system of leadership and control.

There is no formal annual evaluation of the performance of the Board or of the individual Directors (Provisions A.6.1 and A.7.2). The Board considers that it is easier to recognise effective performance than to measure it; however it is currently considering ways to implement some element of formal appraisal in the future.

Board effectiveness

The Directors possess an appropriate balance of skills and experience for the requirements of the business. The number of full scheduled Board meetings and committee meetings attended by each Director during the year was as follows:

	Board meetings	Audit Committee	Remuneration Committee
W F Shepherd	9	—	—
D S Hall	8	—	—
T J Revill	9	2	1
B S Shepherd	8	2	1
A Antonopoulos	8	—	—

Non-Executive Directors are appointed for an initial period of two years and may be invited to serve subsequent terms by mutual agreement.

One third of the Directors offer themselves for re-election each year at the Annual General Meeting, in accordance with the Articles of Association. In addition, each Director seeks re-election every three years, in accordance with the Combined Code.

Board Committees

The Board has two main committees:

Audit Committee

The Audit Committee comprises two Non-Executive Directors, T J Revill (Chairman) and B S Shepherd. T J Revill has recent and relevant financial experience as defined by the Combined Code (Provision C.3.1). The Committee normally meets twice a year and operates to formal terms of reference, which include the review of the annual accounts and interim statement, compliance with generally accepted accounting principles and the adequacy of the Group's audit and control systems. Time is set aside for discussions with the external auditors in private. The Committee also considers and makes recommendations to the Board in relation to the independence and objectivity of the external auditors (including the impact of any non-audit work undertaken by them) and their suitability for re-appointment. The Audit Committee is satisfied that KPMG Audit Plc's objectivity is not impaired by the size and nature of the non-audit work undertaken in the year.

Board Committees continued

Remuneration Committee

The Remuneration Committee comprises two Non-Executive Directors, T J Revill (Chairman) and B S Shepherd. The Committee normally meets once a year to consider, on behalf of the Board, all aspects of Executive Directors' remuneration. The principles and details of Directors' remuneration are detailed in the Directors' remuneration report on pages 23 to 26.

Areas of non-compliance with the Combined Code regarding the Remuneration Committee are as follows:

- the Company does not have a separate Nominations Committee (Provision A.4.1 – 6). The appointment of any new Directors requires the prior approval of the full Board on terms recommended by the Remuneration Committee. It is felt that should there be a need for a new appointment, the current approach of ensuring that all relevant views and inputs are sought and considered guarantees that any appointment is made on merit against clear criteria;
- the remuneration package for Executive Directors does not formally link a significant proportion of their total remuneration to corporate and individual performance (Provision B.1.1). Bonuses are awarded at the discretion of the Remuneration Committee as explained in the Directors' remuneration report on pages 23 to 26; and
- notice periods for W F Shepherd and D S Hall are currently 24 months, which is in excess of the recommended guidance of twelve months or less (Provision B.1.6). It is considered that such notice periods are appropriate given the length of service of each Director and their intention to remain with the Group throughout the remainder of their working lives.

The Risk Management Group

The Risk Management Group is chaired, on behalf of the Board, by K Slater, Group Financial Controller and comprises of Business Department Managers from throughout the Group. The Group meets on a quarterly basis to review the on-going risk management process and internal control procedures. The Group was established in 2001, following consultations with external risk management consultants, using the Group strategic plan as an initial context for risk identification and assessment. Current risk management has built on this, via the identification and monitoring of on-going major business risks facing the Group. Inter-departmental communication is encouraged. Findings from the Group are reported to the Board on a bi-annual basis for consideration and comment. Risk management, together with health and safety matters, are regular Board agenda items, and form the basis for the Board to undertake its annual assessment on internal control (see overleaf).

Statement of corporate governance continued

Internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. In accordance with the guidance 'Internal Control: Guidance for Directors on the Combined Code' the Group has in place an on-going process for identifying, evaluating and managing significant risks faced by the Group. This process, which is subject to an annual Board review of effectiveness, has been in place throughout the year under review and up to the date of approval of the Annual Report and Accounts. The Group has established an internal financial control framework that is appropriate given the size of the Group. The system is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives and can only provide reasonable assurance against material misstatement or loss. Procedures include:

a) A comprehensive budgeting system with an annual budget approved by the Board.

b) Monthly reporting of actual results and cash flows with comparisons to original budget and updated forecasts.

c) Clearly laid down authorisation levels for all types of expenditure and financial commitments.

d) The definition of a recognised organisation and management structure within which individual Senior Management personnel, together with Business Department Managers, have responsibility for the day to day management of relevant areas of the business.

The Board has considered the need for an internal audit function, but has decided that in view of the current size and nature of the business, such a function is not currently considered appropriate. The Board will keep this decision under review.

Communications with shareholders

The Board of Directors currently includes the major shareholders of the Company (as disclosed on page 24) so the requirement for the Chairman to discuss governance and strategy with major shareholders, and for the Board to develop an understanding of their views about the Group, is covered by their attendance at Board meetings. T J Revill, the Senior Independent Director, is available to all shareholders if they have concerns which contact through the normal channels has failed to resolve or for which such contact is inappropriate.

A full Annual Report and Accounts and an Interim Report are produced and sent to shareholders. Individual shareholders have the opportunity at the Annual General Meeting to question the Chairman and the Remuneration and Audit Committees.

As required by the Combined Code, the Board will, at the 2006 Annual General Meeting, announce the proxy votes in favour and against each resolution following a vote by a show of hands, save where a poll is called.

The Company's website www.nufc.co.uk provides financial and other information about the Group and contains an archive of past announcements and results.

Going concern

After making appropriate enquiries, the Directors have formed the view, at the time of approving the financial statements, that there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Directors' responsibilities

The Directors confirm that the requirements and responsibilities (as set out on pages 21 and 22) have been satisfied and that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements.

Independent auditors' report

KPMG Audit Plc

Independent auditors' report to the members of Newcastle United PLC

We have audited the Group and Parent Company financial statements ("the financial statements") of Newcastle United PLC for the eleven month period ended 30 June 2006 which comprise the Group income statement, the Group and Parent Company balance sheets, the Group and Parent Company Cash flow statements, the Group and Parent Company Statement of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

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 that 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, the Directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU are set out in the Statement of Directors' responsibilities on pages 21 and 22.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant 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 whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards, the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information in the Operating and performance review that is cross referenced to the business review section of the Directors' report. We also 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 review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report 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 other information.

Independent auditors' report continued

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 and the part of the Directors' remuneration report to be audited. 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 Group's and Company's circumstances, 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 and the part of the Directors' remuneration report to be audited 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 and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 30 June 2006 and of its loss for the eleven month period then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 30 June 2006;
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Quayside House
110 Quayside
Newcastle upon Tyne NE1 3DX
27 October 2006

Consolidated income statement

for the eleven months ended 30 June 2006

	Note	**11 months ended 30 June 2006 £'000**	12 months ended 31 July 2005 £'000
Revenue	2	**83,086**	86,982
Operating expenses	3	**(76,865)**	(80,965)
Profit from operations before player amortisation and trading		**6,221**	6,017
Analysed as:			
Profit from operations before player amortisation and trading and before costs of change of team management		**9,413**	8,386
Costs of change of team management	3	**(3,192)**	(2,369)
Profit from operations before player amortisation and trading and after costs of change of team management		**6,221**	6,017
Amortisation of players' registrations	8	**(16,185)**	(9,790)
Impairment of players' registrations	13	**(1,422)**	(3,754)
Profit on disposal of players' registrations		**5,206**	13,381
(Loss)/profit from operations		**(6,180)**	5,854
Financial income	5	**403**	484
Financial expenses	5	**(6,256)**	(5,614)
Share of loss of joint venture		**—**	(104)
(Loss)/profit on ordinary activities before taxation		**(12,033)**	620
Taxation expense	6	**—**	—
(Loss)/profit for the period attributable to equity shareholders of the parent		**(12,033)**	620
(Loss)/earnings per share	25	**(9.2)p**	0.5p

Consolidated statement of changes in equity

for the eleven months ended 30 June 2006

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 August 2005	6,433	69,377	831	(46,226)	30,415
Effect of adoption of IAS 32 and 39	—	—	—	(785)	(785)
Balance at 1 August 2005 as restated	6,433	69,377	831	(47,011)	29,630
Loss for the period	—	—	—	(12,033)	(12,033)
Shares issued in lieu of dividends and amounts thereon	222	(433)	—	1,994	1,783
Final dividend relating to the year ended 31 July 2005	—	—	—	(2,625)	(2,625)
Balance at 30 June 2006	**6,655**	**68,944**	**831**	**(59,675)**	**16,755**

for the year ended 31 July 2005

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 August 2004	7,111	69,377	831	(43,574)	33,745
Profit for the year	—	—	—	620	620
Cancellation of deferred shares	(678)	—	—	678	—
Final dividend relating to the year ended 31 July 2004	—	—	—	(2,625)	(2,625)
Interim dividend relating to the year ended 31 July 2005	—	—	—	(1,325)	(1,325)
Balance at 31 July 2005	6,433	69,377	831	(46,226)	30,415

Company statement of changes in equity

for the eleven months ended 30 June 2006

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 August 2005	6,433	69,377	831	4,468	81,109
Effect of adoption of IAS 32 and 39	—	—	—	—	—
Balance at 1 August 2005 as restated	6,433	69,377	831	4,468	81,109
Loss for the period	—	—	—	(231)	(231)
Shares issued in lieu of dividends and amounts thereon	222	(433)	—	1,994	1,783
Final dividend relating to the year ended 31 July 2005	—	—	—	(2,625)	(2,625)
Balance at 30 June 2006	**6,655**	**68,944**	**831**	**3,606**	**80,036**

for the year ended 31 July 2005

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 August 2004	7,111	69,377	831	3,320	80,639
Profit for the year	—	—	—	4,420	4,420
Cancellation of deferred shares	(678)	—	—	678	—
Final dividend relating to the year ended 31 July 2004	—	—	—	(2,625)	(2,625)
Interim dividend relating to the year ended 31 July 2005	—	—	—	(1,325)	(1,325)
Balance at 31 July 2005	6,433	69,377	831	4,468	81,109

Consolidated balance sheet

at 30 June 2006

	Note	30 June 2006 £'000	31 July 2005 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**90,227**	93,102
Intangible assets	8	**48,179**	35,587
		138,406	128,689
Current assets			
Inventories	10	**1,740**	1,520
Trade and other receivables	11	**13,718**	13,675
Cash and cash equivalents	12	**9,309**	17,569
Assets classified as held for sale	13	**294**	3,031
		25,061	35,795
Total assets		**163,467**	164,484
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	14	**(53,823)**	(49,957)
Trade and other payables	15	**(13,500)**	(11,445)
Deferred income	18	**(11,554)**	(6,081)
Other financial liabilities	19	**(149)**	—
		(79,026)	(67,483)
Current liabilities			
Bank overdraft		**(5,528)**	—
Interest-bearing loans and borrowings	14	**(10,867)**	(5,123)
Trade and other payables	15	**(25,769)**	(34,612)
Provisions	17	**(844)**	(542)
Deferred income	18	**(24,648)**	(26,309)
Other financial liabilities	19	**(30)**	—
		(67,686)	(66,586)
Total liabilities		**(146,712)**	(134,069)
Net assets		**16,755**	30,415
EQUITY			
Issued capital	20	**6,655**	6,433
Share premium	21	**68,944**	69,377
Capital redemption reserve	21	**831**	831
Retained earnings	21	**(59,675)**	(46,226)
Total equity		**16,755**	30,415

The financial statements on pages 33 to 69 have been approved by the Board of Directors and signed on its behalf by:

W F Shepherd
Chairman
27 October 2006

Company balance sheet

at 30 June 2006

	Note	30 June 2006 £'000	31 July 2005 £'000
ASSETS			
Non-current assets			
Investments	9	**71,303**	71,303
Current assets			
Trade and other receivables	11	**82**	64
Amounts owed by subsidiary undertakings		**2,511**	1,445
Cash and cash equivalents	12	**10,500**	13,364
		13,093	14,873
Total assets		**84,396**	86,176
LIABILITIES			
Non-current liabilities			
Other payables	15	**(2,500)**	(2,500)
Current liabilities			
Trade and other payables	15	**(450)**	(1,157)
Amounts owed to subsidiary undertakings		**(1,410)**	(1,410)
		(1,860)	(2,567)
Total liabilities		**(4,360)**	(5,067)
Net assets		**80,036**	81,109
EQUITY			
Issued capital	20	**6,655**	6,433
Share premium	21	**68,944**	69,377
Capital redemption reserve	21	**831**	831
Retained earnings	21	**3,606**	4,468
Total equity		**80,036**	81,109

The financial statements on pages 33 to 69 have been approved by the Board of Directors and signed on its behalf by:

W F Shepherd
Chairman
27 October 2006

Consolidated statement of cash flows

for the eleven months ended 30 June 2006

	Note	**11 months ended 30 June 2006 £'000**	12 months ended 31 July 2005 £'000
Cash flows from operating activities			
(Loss)/profit for the period/year		**(12,033)**	620
Adjustments for:			
Financial expenses		**6,256**	5,614
Financial income		**(403)**	(484)
Share of loss of joint venture		**—**	104
Amortisation of intangible non-current assets		**17,300**	10,325
Impairment of intangible non-current assets		**1,422**	3,754
Profit on disposal of players' registrations		**(5,206)**	(13,381)
Profit on sale of property, plant and equipment		**(47)**	(5)
Depreciation of property, plant and equipment		**3,585**	3,837
Capital grants release		**(75)**	(96)
Increase in trade and other receivables		**(2,248)**	(869)
Increase in inventories		**(220)**	(289)
Increase in trade and other payables		**202**	2,235
Increase/(decrease) in deferred income		**3,827**	(367)
Cash flow from operations		**12,360**	10,998
Interest paid		**(5,635)**	(4,896)
Interest received		**284**	502
Net cash flow from operating activities		**7,009**	6,604
Cash flows from investing activities			
Acquisitions of property, plant and equipment		**(769)**	(2,629)
Capital grants received		**60**	—
Proceeds from sale of property, plant and equipment		**92**	15
Acquisitions of players' registrations		**(35,686)**	(18,764)
Proceeds from sale of players' registrations		**10,468**	19,308
Acquisition of subsidiary undertakings	8	**(671)**	(679)
Net cash flow from investing activities		**(26,506)**	(2,749)
Cash flows from financing activities			
Dividends paid		**(631)**	(3,950)
Payment of share issue expenses		**(211)**	—
Proceeds from new borrowings		**11,417**	2,800
Repayments of borrowings		**(4,866)**	(11,328)
Net cash flow from financing activities		**5,709**	(12,478)
Net decrease in cash and cash equivalents		**(13,788)**	(8,623)
Cash and cash equivalents at start of period		**17,569**	26,192
Net cash and cash equivalents at end of period		**3,781**	17,569
Represented by:			
Cash and cash equivalents	12	**9,309**	17,569
Bank overdraft		**(5,528)**	—
		3,781	17,569

Company statement of cash flows

for the eleven months ended 30 June 2006

	Note	11 months ended 30 June 2006 £'000	12 months ended 31 July 2005 £'000
Cash flows from operating activities			
(Loss)/profit for the period/year		**(231)**	4,420
Adjustments for:			
Finance expenses		**796**	17
Finance income		**(50)**	(187)
(Increase)/decrease in trade and other receivables		**(1,085)**	3,023
(Decrease)/increase in trade and other payables		**(32)**	69
Cash flow from operations		**(602)**	7,342
Interest paid		**(796)**	(13)
Interest received		**51**	187
Net cash flow from operating activities		**(1,347)**	7,516
Cash flows from investing activities			
Acquisition of subsidiary undertaking		**(675)**	(681)
Net cash flow from investing activities		**(675)**	(681)
Cash flows from financing activities			
Dividends paid		**(631)**	(3,950)
Payment of expenses of share issue		**(211)**	—
Repayments of borrowings		**—**	(2,250)
Net cash flow from financing activities		**(842)**	(6,200)
Net decrease in cash and cash equivalents		**(2,864)**	635
Cash and cash equivalents at start of period		**13,364**	12,729
Cash and cash equivalents at end of period	12	**10,500**	13,364

Notes to the accounts

1 Accounting policies

Newcastle United PLC ("the Company") is a company incorporated in the United Kingdom.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as "the Group"). The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

Both the Parent Company and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("Adopted IFRSs"). On publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in Section 230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements. The Company's loss for the eleven month period was £231,000 (2005: profit £4,420,000).

The accounting policies set out below have, unless otherwise stated, been applied consistently for both the Group and the Company to all periods presented in these consolidated and Company financial statements and in preparing an opening IFRSs balance sheet at 1 August 2004 for the purposes of the transition to Adopted IFRSs. The principal exception is that, as explained below, financial instruments accounting is determined on different bases in the current period and comparative year due to transitional provisions of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement".

Judgements made by the Directors, in the application of these accounting policies, that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 28.

a) Transition to Adopted IFRSs

Both the Group and the Company have prepared their financial statements in accordance with Adopted IFRSs for the first time and consequently both have applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the previously reported financial position, financial performance and cash flows of the Group and Parent Company is provided in note 30.

In addition to exempting companies from the requirement to restate comparatives for IAS 32 and IAS 39, IFRS 1 grants certain exemptions from the full reporting requirements of IFRSs in the transitional period. The following exemptions have been applied in these financial statements:

- Fair value as deemed cost: the Group has not taken the option to restate items of property, plant and equipment to their fair value at 1 August 2004. Instead, the deemed cost under Adopted IFRSs will be the cost or revalued amount of each asset previously shown under UK GAAP.
- The Group has not taken advantage of the transitional provisions contained in IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", and has applied this standard with effect from 1 August 2004 (see note 13).

b) Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments; financial instruments classified as fair value through profit or loss. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

c) Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists where the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Jointly controlled entities are those entities over which the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised gains and losses of jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

Intra group balances and any unrealised gains and losses or income and expenses arising from intra group transactions are eliminated in preparing the consolidated financial statements.

Notes to the accounts continued

1 Accounting policies continued

d) Revenue

Revenue represents income arising from sales to third parties, and excludes transfer fees receivable and value added tax.

(i) Season ticket and corporate hospitality revenue is recognised over the period of the football season as home matches are played.

(ii) Fixed elements of FA Premier League central broadcasting contracts are recognised over the period of the football season as league matches (home and away) are played. Appearance fees are accounted for as earned. The merit based payment is recognised at the end of the league season, when the final league position is known.

(iii) Sponsorship contracts are recognised over the duration of the contract, either on a straight-line basis, or over the period of the football season, as appropriate based on the terms of contract. Catering revenues are recognised on an earned basis. Revenue from the sale of branded products is recognised at the point of despatch when significant risks and rewards of ownership is deemed to have been transferred to the buyer.

e) Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Net financing costs

Net financing costs comprise interest payable on borrowings, calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses.

The discounting of the deferred payments for the purchase of players' registrations produces a notional interest payable amount and this is charged to finance costs.

The discounting of the deferred receipts for sales of players' registrations produces a notional interest receivable amount and this is credited to finance income.

f) Taxation

Tax on the result for each period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

1 Accounting policies continued

g) Intangible assets and goodwill

(i) Acquired players' registrations

The costs associated with the acquisition of players' registrations are initially recorded at their fair value at the date of acquisition as intangible fixed assets. These costs are fully amortised over the period of the respective players' contracts.

For the purposes of impairment reviews, acquired players' registrations are classified as a single cash-generating unit until the point at which it is made clear that the player is no longer an active member of the playing squad. In these circumstances the carrying value of the players' registration is reviewed against a measurable net realisable value.

Acquired players' registrations are classified as 'Assets held for sale' on the balance sheet if, at any time, it is considered that the carrying amount of a registration will be recovered principally through a sale the measurement of the registration is the lower of (a) fair value (less costs to sell) and (b) carrying value. Amortisation of the asset is suspended at the time of reclassification, although impairment charges still need to be made if applicable.

(ii) Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

(iii) Amortisation

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite life are systematically tested for impairment at each balance sheet date.

h) Property, plant and equipment

(i) Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

(ii) Leased assets

Finance leases are those which transfer substantially all of the risks and rewards of ownership to the lessee. Assets held under finance leases are capitalised as property, plant and equipment and are depreciated over the shorter of the lease term or their useful economic life. The capital elements of future lease obligations are included within borrowings, while the interest elements are charged to the income statement over the period of the lease to produce a constant rate of charge on the balance of capital repayments outstanding.

All other leases are operating leases, the rentals on which are charged to the income statement on a straight-line basis over the lease term.

(iii) Depreciation

Depreciation is charged to the income statement, to write off the cost of property, plant and equipment less estimated residual value, on a straight-line basis, over their estimated useful lives as follows:

Long leasehold property	over the shorter of the unexpired term of the lease and 50 years
Plant and equipment	3 – 15 years
Motor vehicles	4 years

No depreciation is provided on freehold land or assets in the course of construction. The residual value is reassessed annually.

Interest incurred on borrowings to finance assets in the course of construction is capitalised. Once construction has been completed, interest is charged to the income statement.

i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is based on the estimated selling price in the ordinary course of business. Provision is made for obsolete, slow-moving or defective items where appropriate.

1 Accounting policies continued

j) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits.

k) Signing on fees

Signing on fees are charged, on a straight-line basis, to the income statement over the period of the player's contract. Prepayments/accruals arising at each period end are included within prepayments and accrued income or accruals within current assets or current liabilities, as appropriate. Where a player's registration is transferred, any signing on fees payable in respect of future periods are charged against the profit/(loss) on disposal of players' registrations in the period in which the disposal is recognised.

l) Deferred income

Deferred income comprises amounts received from capital grants, sponsorship, bond and season ticket income. Capital grants are released to the income statement on a straight-line basis over the estimated useful lives of the assets to which they relate. Other deferred income is released to the income statement on a straight-line basis over the period to which it relates.

m) Foreign currency

Transactions in foreign currencies are translated into Sterling at the rate of exchange ruling at the date of the transaction. Foreign currency monetary assets and liabilities at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated into Sterling at the rate of exchange on the date of the transaction.

n) Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called-up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contracts as a contingent liability until such time as it becomes probable that the Company will be required to make payment under the guarantee.

o) Derivative financial instruments and hedging

The Group uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

o) Derivative financial instruments and hedging continued

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

When a derivative financial instrument is used as an economic hedge of the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss on the hedging instrument is recognised in profit or loss.

2005 comparative figures

The 2005 figures are accounted for under FRS 13 "Derivatives and other Financial Instruments". Under this standard, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption being recognised in profit or loss over the period of the borrowings on an effective interest basis.

Debt is initially stated at the amount of the net proceeds after deducting any issue costs which are amortised over the life of the debt. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

2005 comparative figures

The 2005 figures are accounted for under FRS 4 "Capital Instruments". Under this standard, debt is initially stated at the amount of the net proceeds after deducting any issue costs which are amortised over the life of the debt. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments in the period.

q) Employee benefits

Defined contribution plans

Obligations for contributions to defined contributions pension plans are recognised as an expense in the income statement as incurred.

r) Impairment

The carrying value of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Notes to the accounts continued

1 Accounting policies continued

r) Impairment continued

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independently of the cash inflows from other assets or groups of assets.

Goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use were tested at 1 August 2004, the date of transition to Adopted IFRSs, even though no indication of impairment existed.

Calculation of recoverable amount

The recoverable amount of the Group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

s) Trade and other payables and receivables

Trade and other payables and receivables on normal terms are stated at their nominal value, less, in the case of receivables, any impairment losses that may be required.

Other payables on deferred terms, in particular the purchase of players' registrations, are recorded at their fair value on the date of the transaction and subsequently at amortised cost.

Other receivables on deferred terms, in particular the proceeds from sales of players' registrations are recorded at their fair value at the date of sale and subsequently at amortised cost less allowances for impairment.

t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment) which is subject to risks and rewards that are different from those of the other segments.

u) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

v) Investments

Interest in subsidiary undertakings is valued at cost less impairment.

w) Dividends

Dividends are recognised as a liability in the period in which they are declared.

x) IFRSs available for early adoption not yet applied

The following Adopted IFRSs were available for early application but have not been applied by the Group in these financial statements.

- Amendments to IAS 1 "Presentation of Financial Statements" applicable for years commencing on or after 1 January 2007; and
- IFRS 7: "Financial Instruments: Disclosure" applicable for years commencing on or after 1 January 2007.

The application of Amendments to IAS 1 and IFRS 7 in the current period would not have affected the balance sheets or income statement as the standards are concerned only with disclosure.

2 Segmental analysis

The Group has one main business segment, that of professional football operations. As a result, no additional business segment information is required to be provided. It operates in one geographical segment, the United Kingdom, and accordingly no additional geographical segment information is required to be provided.

Notwithstanding this, a voluntary analysis of the revenue streams is given below to assist with an understanding of the business:

	11 months ended 30 June 2006 £'000	12 months ended 31 July 2005 £'000
Matchday	**30,883**	35,302
Media	**26,506**	27,890
Commercial	**25,697**	23,790
	83,086	86,982

Revenue streams comprise:

Matchday – season and matchday tickets and corporate hospitality income.

Media – television and broadcasting income, including distributions from the FA Premier League broadcasting agreements, cup competitions and local radio.

Commercial – sponsorship income, merchandising, conference and banqueting and other sundry revenue.

3 Expenses and auditors' remuneration

Operating expenses before player amortisation and trading

	11 months ended 30 June 2006 £'000	12 months ended 31 July 2005 £'000
Change in stocks of goods for resale	**(220)**	(289)
Other operating income – release of capital grants	**(75)**	(96)
Staff costs (note 4)	**52,183**	50,222
Depreciation and other amounts written off tangible fixed assets:		
Owned	**3,001**	3,173
Leased	**584**	627
Impairment of other intangible fixed assets	**808**	—
Amortisation of other intangible fixed assets	**307**	535
Impairment of assets classified as held for sale	**—**	37
Other operating charges	**20,277**	26,756
	76,865	80,965

Notes to the accounts continued

3 Expenses and auditors' remuneration continued

Operating expenses before player amortisation and trading continued

Costs relating to changes in team management of £3,192,000 have been charged in the period (2005: £2,369,000). These comprise staff costs of £2,384,000 (2005: £2,369,000) and impairment of other intangible fixed assets of £808,000 (2005: £nil). These costs are included within the relevant headings in the above table.

	11 months ended 30 June 2006 £'000	12 months ended 31 July 2005 £'000
Auditors' remuneration:		
Group		
Audit	**83**	48
Fees receivable by the auditors and their associates in respect of other services:	**297**	128
Company		
Audit	**7**	7

Auditors' remuneration can be further analysed as follows:

	11 months ended 30 June 2006 £'000	12 months ended 31 July 2005 £'000
Audit services:		
Statutory audit	**83**	48
Audit related regulatory reporting	**9**	18
Further assurance services	**64**	14
Tax compliance services	**47**	34
Tax and other advisory services	**177**	62
	380	176

4 Staff numbers and costs

The average number of persons employed by the Group (including Directors), analysed by category, during the period was:

	Number of employees			
	Group		Company	
	2006	2005	**2006**	2005
Playing squad and team management	**95**	89	**—**	—
Commercial	**852**	752	**—**	—
Administration	**411**	458	**4**	4
	1,358	1,299	**4**	4

The aggregate payroll costs of these persons was as follows:

	11 months ended 30 June 2006 £'000	12 months ended 31 July 2005 £'000
Wages and salaries	**47,358**	44,521
Social security costs	**4,421**	5,272
Other pension costs	**404**	429
	52,183	50,222

The only employees of the Company during the current period and prior year were the Executive and Non-Executive Directors. Details of their payroll costs are shown on page 25.

5 Financial income and expenses

	11 months ended 30 June 2006 £'000	12 months ended 31 July 2005 £'000
Interest income	**388**	484
Foreign exchange gain	**15**	—
Financial income	**403**	484

	11 months ended 30 June 2006 £'000	12 months ended 31 July 2005 £'000
Interest expense	**(5,948)**	(5,582)
Fair value adjustment on forward exchange contracts (note 19)	**(179)**	—
Foreign exchange loss	**(129)**	(32)
Financial expenses	**(6,256)**	(5,614)

As more fully explained in note 30, classification of payments/charges as financial income and expense are determined on different bases in 2006 and 2005, due to the transitional provisions of IAS 32 and IAS 39.

6 Taxation expense

Recognised in the income statement

	11 months ended 30 June 2006 £'000	12 months ended 31 July 2005 £'000
Current tax expense		
Current period	**—**	—
Adjustment for prior years	**—**	—
Deferred tax expense		
Origination and reversal of temporary differences	**—**	—
Adjustment for prior years	**—**	—
Total tax expense in income statement	**—**	—

Reconciliation of effective tax rate

	11 months ended 30 June 2006 £'000	12 months ended 31 July 2005 £'000
(Loss)/profit before tax	**(12,033)**	620
Tax using the UK Corporation tax rate of 30% (2005: 30%)	**(3,610)**	186
Non-deductible expenses	**166**	148
Non-qualifying depreciation	**449**	471
Other	**138**	326
Utilisation of tax losses	**(75)**	(1,131)
Tax losses carried forward	**2,932**	—
Total tax expense in income statement	**—**	—

The Group had unrelieved UK Corporation tax losses of approximately £18.6m (2005: £7.5m) at the end of the period.

7 Property, plant and equipment

Group	Land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation				
At 1 August 2004	99,799	10,763	375	110,937
Acquisitions	1,255	2,064	17	3,336
Reclassification as assets held for sale	(350)	—	—	(350)
Disposals	—	(625)	(20)	(645)
At 31 July 2005 and 1 August 2005	100,704	12,202	372	113,278
Acquisitions	**168**	**507**	**79**	**754**
Disposals	**(10)**	**(394)**	**(190)**	**(594)**
Balance at 30 June 2006	**100,862**	**12,315**	**261**	**113,438**
Depreciation				
At 1 August 2004	10,145	6,731	154	17,030
Charge for year	2,192	1,534	74	3,800
Reclassification as assets held for sale	(19)	—	—	(19)
On disposals	—	(621)	(14)	(635)
At 31 July 2005 and 1 August 2005	12,318	7,644	214	20,176
Charge for period	**1,997**	**1,543**	**45**	**3,585**
On disposals	**(10)**	**(394)**	**(146)**	**(550)**
Balance at 30 June 2006	**14,305**	**8,793**	**113**	**23,211**
Net book value				
At 1 August 2004	89,654	4,032	221	93,907
At 31 July 2005 and 1 August 2005	88,386	4,558	158	93,102
At 30 June 2006	**86,557**	**3,522**	**148**	**90,227**

Included within fixed assets are assets with a net book value of £6,489,000 (2005: £6,675,000) which are charged as security against certain of the Group's borrowings.

Included within fixed assets are assets held under finance leases with the following net book values: Land and buildings £569,000 (2005: £599,000), Plant and equipment £784,000 (2005: £1,212,000) and Motor vehicles £44,000 (2005: £76,000).

Cumulative finance costs capitalised, excluding tax relief, included in the value of tangible fixed assets amount to £3,964,000 (2005: £3,964,000).

The net book value of land and buildings comprises:

	2006 £'000	2005 £'000
Freehold	**203**	203
Long leasehold	**86,354**	88,183
	86,557	88,386

Particulars relating to assets which have been revalued are given below:

	2006 £'000	2005 £'000
Land and buildings		
At 1993 valuation	**14,275**	14,275
Aggregate depreciation thereon	**(2,979)**	(2,717)
Net book value	**11,296**	11,558
Historical cost of revalued assets	**13,050**	13,050
Aggregate depreciation based on historical cost	**(3,165)**	(2,926)
Historical cost net book value	**9,885**	10,124

Other tangible fixed assets, including subsequent additions to land and buildings, are included at cost.

8 Intangible assets

Group	Goodwill £'000	Players' registrations £'000	Other £'000	Total £'000
Cost				
Balance at 1 August 2004	—	68,390	—	68,390
Acquisitions	642	25,827	1,650	28,119
Reclassification as assets held for sale	—	(9,025)	—	(9,025)
Disposals	—	(17,297)	—	(17,297)
Adjustment – league levy refund received	—	(505)	—	(505)
Balance at 31 July 2005 and 1 August 2005	642	67,390	1,650	69,682
Acquisitions	**—**	**33,454**	**—**	**33,454**
Disposals	**—**	**(21,281)**	**(1,650)**	**(22,931)**
Adjustment – league levy refund received	**—**	**(1,145)**	**—**	**(1,145)**
Balance at 30 June 2006	**642**	**78,418**	**—**	**79,060**
Amortisation and impairment				
Balance at 1 August 2004	—	39,601	—	39,601
Amortisation charge for year	—	9,790	535	10,325
Reclassification as assets held for sale	—	(7,177)	—	(7,177)
Disposals	—	(8,654)	—	(8,654)
Balance at 31 July 2005 and 1 August 2005	—	33,560	535	34,095
Amortisation charge for the period	**—**	**16,185**	**1,115**	**17,300**
Disposals	**—**	**(18,864)**	**(1,650)**	**(20,514)**
Balance at 30 June 2006	**—**	**30,881**	**—**	**30,881**
Net book value				
At 1 August 2004	—	28,789	—	28,789
At 31 July 2005 and 1 August 2005	642	33,830	1,115	35,587
At 30 June 2006	**642**	**47,537**	**—**	**48,179**

Goodwill

Goodwill of £642,000 arose on the acquisition, in February 2005, of the remaining 50% of the shares of nufc.co.uk Limited. The purchase price of £1.35m was paid in two equal instalments in February 2005 and February 2006. Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units that are expected to benefit from the business combination.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The valuation of the recoverable amounts used for the purposes of the impairment tests are based on value in use calculations. The calculations use cash flow projections for a five year period, based on business plans approved by management. A weighted average cost of capital of 10% has been used to determine the discounted net present value of the cash flows.

No impairment arose as a result of the value in use calculations.

Other

Other intangible assets relate to the acquisition costs of former first team management. Following the termination of these contracts during the period ended 30 June 2006, the net book value was written down to £nil and subsequently treated as a disposal.

Amortisation of other registrations is shown within operating expenses in the income statement (see note 3).

9 Investments in subsidiaries and joint ventures

Company	Shares in subsidiary undertakings £'000
Cost	
At 1 August 2005 and 30 June 2006	**71,303**

Subsidiary undertakings	Principal activity
Newcastle United Football Company Limited	Professional football club
Newcastle United Enterprises Limited	General commercial
St. James' Park Newcastle Limited	General commercial
Newcastle United Football Club (International) Limited*	General commercial
nufc.co.uk Limited	Exploitation of internet and media rights
Newcastle United 1892 Limited	Dormant
Newcastle United Catering Limited	Dormant
Newcastle United Employment Limited	Dormant
Newcastle United Entertainment Limited	Dormant
Newcastle United Group Limited	Dormant
Newcastle United Licensing Limited	Dormant
Newcastle United Promotions Limited	Dormant
Newcastle United Publications Limited	Dormant
Newcastle United Sports Limited	Dormant
Newcastle United Sportswear Limited	Dormant
Newcastle United Telecoms Limited	Dormant
Newcastle United Television Limited	Dormant
Newcastle United Ventures Limited	Dormant
NUFC Limited	Dormant
The Football Channel Limited	Dormant

Joint venture	Principal activity
MGM Grand Newcastle (Holdings) Limited (see notes below on conditional arrangements)	Mixed use development

*This company is a subsidiary undertaking of Newcastle United Football Company Limited. It is registered in, and operates in, Gibraltar.

The Company owns 100% of the ordinary share capital in each of its subsidiary undertakings.

All subsidiary undertakings except as noted below are registered in, and operate in, England and Wales and have their registered offices at St. James' Park, Newcastle upon Tyne NE1 4ST.

During the year ended 31 July 2004 Newcastle United PLC and MGM MIRAGE ("MGM") entered into a joint venture agreement, MGM Grand Newcastle (Holdings) Limited, with the aim of building a new mixed use development on land adjacent to St. James' Park. MGM paid £5.0m for its share of the joint venture arrangement and one of Newcastle United PLC's subsidiary undertakings transferred land into the joint venture arrangement. In order for the development to progress a number of conditions need to be satisfied, including amongst others, the deregulation of the UK gaming laws and the obtaining of various planning consents and operational licences.

If it becomes apparent that any of these conditions will not be satisfied MGM can, at its option under this agreement, require Newcastle United PLC to purchase MGM's share of the joint venture for £5.0m in January 2008. Under this agreement, Newcastle United PLC can also, in January 2008, opt to purchase MGM's share of the joint venture arrangement for £5.0m if MGM has not exercised its own option.

To reflect the uncertainty surrounding the future conditions that need to be satisfied, the £5.0m receipt from MGM has been included in Non-current liabilities: Other Payables (note 15) and the land remains in the Group's non-current assets until such time as the options outlined above have expired or exercised or these conditions have been waived. MGM Grand Newcastle (Holdings) Limited has recorded neither a profit nor a loss in the period ended 30 June 2006 (31 July 2005: £nil).

10 Inventories

Group	2006 £'000	2005 £'000
Goods for resale	**1,740**	1,520

11 Trade and other receivables

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Trade receivables	**9,669**	9,749	**6**	3
Other receivables	**180**	73	**45**	25
Prepayments and accrued income	**3,869**	3,853	**31**	36
	13,718	13,675	**82**	64

Included within Group trade receivables is £1,612,000 (2005: £1,500,000) expected to be recovered in more than twelve months.

12 Cash and cash equivalents

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Bank balances	**—**	8,260	**10,500**	13,364
Restricted cash – debt service	**6,206**	6,206	**—**	—
Restricted cash – debt service reserve	**3,103**	3,103	**—**	—
Cash and cash equivalents per the Cash flow statements	**9,309**	17,569	**10,500**	13,364

Under the terms of the securitisation, funds have to be held in a designated debt service account to meet annual capital and interest repayment due on 30 September each year. An additional amount, equivalent to 50% of the annual repayment has to be held in a designated debt reserve account.

13 Assets classified as held for sale

	Property, plant and equipment £'000	Acquired players' registrations £'000	Total £'000
Balance at 1 August 2004	—	4,643	4,643
Reclassifications	331	1,848	2,179
Impairment charge	(37)	(3,754)	(3,791)
Balance at 31 July 2005 and 1 August 2005	294	2,737	3,031
Reclassifications	**—**	**—**	**—**
Impairment charge	**—**	**(1,422)**	**(1,422)**
Disposals	**—**	**(1,315)**	**(1,315)**
Balance at 30 June 2006	**294**	**—**	**294**

Property, plant and equipment

In May 2005 the Group began actively marketing for sale two leasehold properties. As such these were reclassified as assets held for sale. The properties are being sold as they are deemed to be surplus to the Group's future operating requirements and disposal is anticipated to be completed within one year. On classification as held for sale, a £37,000 impairment charge was recognised.

Acquired players' registrations

At 1 August 2004, the date of transition to IFRSs, the registration of Hugo Viana was reclassified as an asset held for sale. At the time of classification, the player's registration was the subject of an eleven month loan agreement with Sporting Lisbon. The loan agreement contained an option to purchase and, in the opinion of the Directors, sale of the registration was likely to occur within one year. At the time of classification, an impairment charge of £1,906,000 was recognised. Subsequent to the expiry of the loan agreement, Sporting Lisbon did not exercise the option to purchase the registration and during the period ended 30 June 2006, the registration of Hugo Viana was the subject of a ten month loan agreement with Valencia, again with an option to purchase. A further impairment charge of £1,422,000 was recognised prior to the sale to Valencia being concluded. During the year ended 31 July 2005, the registration of Laurent Robert was reclassified as an asset held for sale, following his temporary transfer to Portsmouth City which extended until the end of his contract. At the time of reclassification an impairment loss of £1,848,000 was recognised, which reduced the carrying value to £nil. In August 2005, Nicky Butt was reclassified as an asset held for sale when he went to Birmingham City on loan. Following his return to the Club in May 2006 his carrying value was again included within intangible assets.

Notes to the accounts continued

14 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings. For more information about the Group and Company's exposure to interest rate and foreign currency risk, see note 22.

Non-current liabilities

Group	**2006 £'000**	2005 £'000
Fixed interest senior loan notes	**42,091**	44,549
Term and other loans	**11,519**	4,959
Obligations under finance leases and hire purchase contracts	**213**	449
	53,823	49,957

Current liabilities

Group	**2006 £'000**	2005 £'000
Fixed interest senior loan notes*	**5,350**	2,624
Term and other loans	**5,082**	1,873
Obligations under finance leases and hire purchase contracts	**435**	626
	10,867	5,123

The fixed interest senior loan notes, and some term and other loans are subject to a number of financial covenants. Any breach of these covenants would result in these amounts being classified as repayable on demand.

Included with "Term and other loans" at 30 June 2006 is £11,417,000 (2005: £nil) secured on future sponsorship income.

Fixed interest senior loan notes

The Group has in issue £45,537,000 of fixed interest senior loan notes, maturing in September 2016. The loan notes comprise £35,157,000 of Class A1 notes which have a fixed interest rate of 7.36% and £10,380,000 of Class A2 notes which have a fixed interest rate of 7.65%. The notes are securitised on future income from ticket sales and corporate hospitality receipts.

A summary of the movements on the notes during the period is as follows:

	Capital £'000	(Costs)/interest £'000	Total £'000
At 31 July 2005	48,167	(994)	47,173
Adoption of IAS 32 and IAS 39*	(5)	3,251	3,246
At 1 August 2005	48,162	2,257	50,419

Analysed as:

	Class A1 notes £'000	Class A2 notes £'000	Total £'000
Capital balance outstanding	37,193	10,969	48,162
Interest accrual	1,722	535	2,257
	38,915	11,504	50,419
Payments made during period:			
Capital	(2,036)	(589)	(2,625)
Interest	(2,737)	(840)	(3,577)
Total	(4,773)	(1,429)	(6,202)
Interest charged in period	2,468	756	3,224
At 30 June 2006			
Capital balance outstanding	**35,157**	**10,380**	**45,537**
Interest accrual	**1,453**	**451**	**1,904**
Total	**36,610**	**10,831**	**47,441**

*Under IAS 32 and IAS 39, interest accrued on the loan notes at the balance sheet date is included in the loan balance. Under UK GAAP, this amount was included within accruals.

14 Interest-bearing loans and borrowings continued

Fixed interest senior loan notes continued

Subject to the Group meeting certain covenants, maturity of the notes is as follows:

	Class A1 notes 2006 £'000	Class A2 notes 2006 £'000	Total 2006 £'000
In one year or less, or on demand	**4,121**	**1,229**	**5,350**
Between one and two years	**2,346**	**684**	**3,030**
Between two and five years	**8,126**	**2,382**	**10,508**
In five years or more	**22,017**	**6,536**	**28,553**
	36,610	**10,831**	**47,441**

Under the terms of the notes, the Group is required to hold cash collateral against the notes. At 30 June 2006 this amounted to £9.3m (31 July 2005: £9.3m). These amounts are disclosed as restricted cash balances in note 12.

Finance lease liabilities

The minimum lease payments under finance leases fall due as follows:

Group	2006 £'000	2005 £'000
Within one year	**435**	626
Between one and five years	**256**	529
	691	1,155
Future finance charges on finance leases	**(43)**	(80)
Present value of finance lease liabilities	**648**	1,075

Terms and debt repayment schedule

As more fully explained in note 1, classifications of financial liabilities are determined on different bases in the current period and prior year, due to the transitional provisions of IAS 32 and IAS 39.

Analysis of debt in the year ended 31 July 2005:

Group	2005 £'000
Debt can be analysed as falling due:	
In one year or less, or on demand	5,123
Between one and two years	5,990
Between two and five years	11,849
In five years or more	32,118
	55,080

15 Trade and other payables

Non-current liabilities

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Trade payables	**7,957**	5,892	**—**	—
Other payables	**5,000**	5,000	**2,500**	2,500
Accruals	**543**	553	**—**	—
	13,500	11,445	**2,500**	2,500

Current liabilities

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Trade payables	**12,713**	17,947	**46**	71
Other taxes and social security	**6,434**	6,409	**26**	26
Other payables	**977**	824	**91**	91
Accruals	**5,645**	9,432	**287**	969
	25,769	34,612	**450**	1,157

Other payables in Non-current liabilities comprise receipts from MGM MIRAGE (note 9).

Notes to the accounts continued

16 Deferred tax assets and liabilities

Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000
Property, plant and equipment	**—**	—	**(2,084)**	(1,915)	**(2,084)**	(1,915)
Intangible assets	**—**	102	**(38)**	—	**(38)**	102
UK Corporation tax losses	**2,681**	2,190	**—**	—	**2,681**	2,190
Other items	**—**	—	**(559)**	(377)	**(559)**	(377)
	2,681	2,292	**(2,681)**	(2,292)	**—**	—

Movements in deferred tax during the period ended 30 June 2006 were as follows:

	Balance at 1 August 2005 £'000	Recognised in income £'000	**Balance at 30 June 2006 £'000**
Property, plant and equipment	(1,915)	(169)	**(2,084)**
Intangible assets	102	(140)	**(38)**
UK Corporation tax losses	2,190	491	**2,681**
Other items	(377)	(182)	**(559)**
	—	—	**—**

Deferred tax assets have been recognised to the extent that they will be utilised against the reversal of existing temporary differences. There is an unrecognised deferred tax asset of £2,910,000 (2005: £48,000) at the end of the period arising from unrelieved UK Corporation tax losses not utilised against deferred tax liabilities. This asset has not been recognised due to uncertainty surrounding its future recovery against taxable profits.

Movements in deferred tax during the prior year ended 31 July 2005:

	Balance at 1 August 2004 £'000	Recognised in income £'000	Balance at 31 July 2005 £'000
Property, plant and equipment	(1,950)	35	(1,915)
Intangible assets	46	56	102
UK Corporation tax losses	2,933	(743)	2,190
Other items	(1,029)	652	(377)
	—	—	—

17 Provisions

Current liabilities

Group	£'000
Balance at 1 August 2004	841
Provision made during year	248
Provision used during year	(547)
Balance at 31 July 2005 and 1 August 2005	542
Provision made during the period	**393**
Provision released during the period	**(91)**
Balance at 30 June 2006	**844**

17 Provisions continued

Current liabilities continued

In common with other football clubs the Group has historically reclaimed VAT on agents' fees. HMRC have recently determined that such VAT is not recoverable and have raised assessments on the Group's main trading subsidiary, Newcastle United Football Company Limited. The issue was heard at a VAT Tribunal during June and July 2006 and the decision, announced in August 2006, was in favour of HMRC. Newcastle United Football Company Limited has appealed to the Chancery Division of the High Court.

Full provision has been made to the maximum potential liability at the balance sheet date. Potentially irrecoverable VAT on agents' fees arising on the acquisition of players is included in intangible non-current assets as part of the cost of acquired players' registrations.

This issue is expected to be resolved in the 2007 financial year.

18 Deferred income

Non-current liabilities

Group	**2006 £'000**	2005 £'000
Capital grants	**3,011**	3,038
Other deferred income	**8,543**	3,043
	11,554	6,081

Current liabilities

Group	**2006 £'000**	2005 £'000
Capital grants	**94**	83
Other deferred income	**24,554**	26,226
	24,648	26,309

Other deferred income comprises sponsorship, bond, executive scheme and season ticket income.

The maturity profile of deferred income is as follows:

Group	**2006 £'000**	2005 £'000
Less than one year	**24,648**	26,309
One to two years	**2,620**	218
Two to five years	**3,568**	351
More than five years	**5,366**	5,512
	36,202	32,390

During the period £8.0m was received in respect of advance sponsorship payments which will be released to the income statement over the period of the contract.

19 Other financial liabilities

Non-current liabilities

Group	**2006 £'000**	2005 £'000
Forward exchange contracts	**149**	—

Current liabilities

Group	**2006 £'000**	2005 £'000
Forward exchange contracts	**30**	—

The forward exchange contracts have been fair valued at 30 June 2006 using the 'mark to market' basis.

20 Share capital

	2006 Number	2006 £'000	2005 Number	2005 £'000
Authorised				
Ordinary shares of 5p each	**186,442,232**	**9,322**	186,442,232	9,322
Allotted, called-up and fully paid				
Ordinary shares of 5p each	**133,107,121**	**6,655**	128,667,692	6,433

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

A share alternative was offered in respect of the 2005 final dividend of 2.04p per ordinary share. The alternative comprised the issue of new ordinary shares with a market value of 44.9p per existing ordinary share. Holders of 76% of ordinary shares elected for the share alternative, resulting in the issue of 4,439,429 shares with a nominal value of £221,971.

21 Capital and reserves

Group	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 August 2004	7,111	69,377	831	(43,574)	33,745
Profit for the period	—	—	—	620	620
Cancellation of deferred shares	(678)	—	—	678	—
Final dividend relating to the year ended 31 July 2004	—	—	—	(2,625)	(2,625)
Interim dividend relating to the year ended 31 July 2005	—	—	—	(1,325)	(1,325)
Balance at 31 July 2005	6,433	69,377	831	(46,226)	30,415
Adjustment in respect of adoption of IAS 32 and IAS 39 on 1 August 2005	—	—	—	(785)	(785)
Loss for the period	—	—	—	(12,033)	(12,033)
Shares issued in lieu of dividends and amounts thereon	222	(433)	—	1,994	1,783
Final dividend on equity shares relating to the year ended 31 July 2005	—	—	—	(2,625)	(2,625)
Balance at 30 June 2006	**6,655**	**68,944**	**831**	**(59,675)**	**16,755**

Company	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 August 2004	7,111	69,377	831	3,320	80,639
Profit for the period	—	—	—	4,420	4,420
Cancellation of deferred shares	(678)	—	—	678	—
Final dividend relating to the year ended 31 July 2004	—	—	—	(2,625)	(2,625)
Interim dividend relating to the year ended 31 July 2005	—	—	—	(1,325)	(1,325)
Balance at 31 July 2005	6,433	69,377	831	4,468	81,109
Loss for the period	—	—	—	(231)	(231)
Shares issued in lieu of dividends and amounts thereon	222	(433)	—	1,994	1,783
Final dividend on equity shares relating to the year ended 31 July 2005	—	—	—	(2,625)	(2,625)
Balance at 30 June 2006	**6,655**	**68,944**	**831**	**3,606**	**80,036**

22 Financial instruments

Policy

The Group holds and uses financial instruments to finance its operations and to manage its interest rate and liquidity risks. The Group primarily finances its operations using bank loans and other borrowing, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, liquidity risk and foreign exchange risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained fundamentally unchanged throughout the year.

Credit risk

The Group has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

Interest rate risk

The Group finances its operations through a mixture of retained profits and bank and other borrowings.

In respect of income-earning assets the following table indicates their effective interest rates at the balance sheet date:

	2006			2005		
	Fixed rates £'000	**Variable rates £'000**	**Total £'000**	Fixed rates £'000	Variable rates £'000	Total £'000
Sterling	**—**	**9,309**	**9,309**	—	17,569	17,569

Effective interest rates – Group

In respect of income-earning financial assets and liabilities and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature or, if earlier, are repriced:

	Weighted average effective interest rate %	**Total £'000**	0 to < 1 year £'000	1 to < 2 years £'000	2 to < 3 years £'000	3 to < 4 years £'000	4 to < 5 years £'000	5 years and over £'000
Interest earning assets								
Cash and cash equivalents	4.39	**9,309**	9,309	—	—	—	—	—
Interest-bearing liabilities								
Class A1 senior loan notes	7.59	**36,610**	4,121	2,346	2,519	2,704	2,903	22,017
Class A2 senior loan notes	7.88	**10,831**	1,229	684	736	793	853	6,536
Secured bank and other loans	7.63	**15,425**	4,421	4,250	3,884	2,726	38	106
Unsecured bank loans	9.01	**1,175**	661	276	194	44	—	—
Bank overdraft *	—	**5,528**	5,528	—	—	—	—	—
Hire purchase	8.18	**648**	435	197	16	—	—	—
		70,217	16,395	7,753	7,349	6,267	3,794	28,659

* The Group's bank overdraft bears interest based on a margin above LIBOR.

22 Financial instruments continued

Liquidity risk

The Group's policy is to maintain a balance of continuity of funding and flexibility through the use of overdrafts, loans and finance leases as applicable. The annual Group cash flow is cyclical in nature, with the majority of cash inflows being received prior to the start of the playing season.

The maturity profile of the Group's borrowings is shown on page 57.

The Group has various undrawn committed borrowing facilities. The facilities currently available in respect of which all conditions precedent had been met were as follows:

	2006 £'000	2005 £'000
Expiring in one year or less	**20,000**	20,000

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases, assets and liabilities which are denominated in a currency other than Sterling. The currency giving rise to this risk is primarily the Euro. The Group's policy towards currency risk is to eliminate all exposures that will impact on reported results as soon as they arise.

The Group enters into forward foreign currency contracts to eliminate the currency exposures that arise on transactions denominated in foreign currencies immediately as these transactions are undertaken. The Group classifies its forward exchange contracts as economic hedges and records them at fair value.

The net fair value of forward exchange contracts at 30 June 2006 was a liability of £179,000.

Changes in the fair value of forward exchange contracts are recognised in the income statement (see note 5). Both the changes in the fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of finance income and finance costs.

Fair values

The Directors consider that the carrying value of trade and other receivables approximates their fair value.

Fair values of the Group's financial liabilities, together with the carrying amounts shown in the balance sheets, are as follows:

Non-current liabilities

	2006		2005	
	Carrying value £'000	**Fair value £'000**	Carrying value £'000	Fair value £'000
Interest bearing loans and borrowings	**53,823**	**43,658**	49,957	41,716
Trade and other payables	**13,500**	**13,500**	11,445	11,445
Other financial liabilities	**149**	**149**	—	—
	67,472	**57,307**	61,402	53,161

Current liabilities

	2006		2005	
	Carrying value £'000	**Fair value £'000**	Carrying value £'000	Fair value £'000
Bank overdraft	**5,528**	**5,528**	—	—
Interest bearing loans and borrowings	**10,867**	**9,575**	5,123	4,638
Trade and other payables	**25,769**	**25,769**	34,612	34,612
Other financial liabilities	**30**	**30**	—	—
	42,194	**40,902**	39,735	39,250

Estimation of fair values

The following summarises the major methods and assumptions used in estimating fair values of financial instruments reflected in the table.

Derivatives

Forward exchange contracts are marked to market using listed market prices.

Interest-bearing loans and borrowings, and trade and other payables/receivables

Carrying amounts equal the fair value.

22 Financial instruments continued

Effect of first time adoption of IAS 32 and IAS 39 on 1 August 2005

The Group has taken advantage of the transitional arrangements of IFRS 1 not to restate corresponding amounts in accordance with IAS 32 and IAS 39. Instead, the following policies were applied in respect of financial instruments issued by the Group, investments in debt and equity securities, derivative financial instruments and hedging.

In the comparative period, all financial assets and liabilities were carried at cost (amortised as appropriate) less, in the case of financial assets, provision for any permanent diminution in value.

The following adjustments necessary to implement the revised policy have been made as at 1 August 2005 with the net adjustment to net assets, after tax, taken through the 2006 Statement of changes in equity.

The main differences between the 2006 and 2005 bases of accounting are shown and described below.

Effect on the balance sheet at 1 August 2005:

Group	As at 31 July 2005 £'000	Effect of adoption of IAS 32 and IAS 39 £'000	As at 1 August 2005 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	93,102	—	93,102
Intangible assets	35,587	—	35,587
	128,689	—	128,689
Current assets			
Inventories	1,520	—	1,520
Trade and other receivables	13,675	(533)	13,142
Cash and cash equivalents	17,569	4	17,573
Assets classified as held for sale	3,031	—	3,031
	35,795	(529)	35,266
Total assets	164,484	(529)	163,955
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	(49,957)	(508)	(50,465)
Trade and other payables	(11,445)	—	(11,445)
Deferred income	(6,081)	—	(6,081)
	(67,483)	(508)	(67,991)
Current liabilities			
Interest-bearing loans and borrowings	(5,123)	(2,737)	(7,860)
Trade and other payables	(35,154)	2,989	(32,165)
Deferred income	(26,309)	—	(26,309)
	(66,586)	252	(66,334)
Total liabilities	(134,069)	(256)	(134,325)
Net assets	30,415	(785)	29,630
EQUITY			
Share capital	6,433	—	6,433
Other reserves	831	—	831
Share premium account	69,377	—	69,377
Retained earnings	(46,226)	(785)	(47,011)
Total equity	30,415	(785)	29,630

The adoption of IAS 32 and IAS 39 on 1 August 2005 had no effect on the Company balance sheet.

22 Financial instruments continued

Effect of first time adoption of IAS 32 and IAS 39 on 1 August 2005 continued

Corresponding amounts for 2005 are presented and disclosed in accordance with the requirements of the Companies Act 1985 and FRS 4.

The nature of the main effects upon the Group balance sheet at 1 August 2005, and upon the 2006 income statement, Statement of changes in equity and Cash flow statements are as follows:

- Under UK GAAP loans and other interest-bearing borrowings were recognised at fair value (which would usually approximate to nominal value) and thereafter, at amortised cost. Under Adopted IFRSs the amortised cost is calculated using the effective interest method from the initial issuance of the debt.
- The associated interest expense is recognised on an accruals basis using the effective interest method.
- Transaction costs meeting the criteria under IAS 39 are capitalised by debiting the loan balance. The capitalised transaction costs are amortised to the income statement over the life of the transaction using the effective interest method.

There is a £267,000 reduction in equity at 1 August 2005 resulting from the fact that under FRS 4 amortisation costs were allocated to periods over the term of the debt at a constant rate on the carrying amount and not on an effective interest basis.

Under IFRSs St. James' Park Finance Limited is accounted for as a subsidiary of the Group. Under UK GAAP this company was not required to be consolidated. The impact of consolidation at 1 August 2005 is an increase in net assets of £9,000.

On 1 August 2005, trade receivables originally held at cost, have been revalued to fair value. This impacts mainly on the disposal of players' registrations on deferred terms. The net impact on reserves at 1 August 2005 is a charge of £527,000.

23 Contingencies

Under the terms of certain contracts for the signing of players, additional amounts may become payable to other football clubs. The maximum unprovided liability which may arise in respect of these players at 30 June 2006 is £968,000 (31 July 2005: £2,406,000).

The Company and certain of its subsidiary undertakings have debenture and composite arrangements in connection with banking facilities. The Company acts as guarantor, or surety, for various subsidiary undertakings in leasing, banking and other agreements entered into by them in the normal course of business. The Company's maximum unprovided liability in respect of these is £17,331,000 (2005: £7,843,000).

24 Dividends

	2006 £'000	2005 £'000
Ordinary shares		
2004 final (2.04p per share)	—	2,625
2005 interim (1.03p per share)	—	1,325
2005 final (2.04p per share)	**2,625**	—
	2,625	3,950

There was no 2006 interim dividend (2005: 1.03p per share). The Board does not propose a 2006 final dividend (2005: 2.04p per share).

25 (Loss)/earnings per share

The calculation of basic (loss)/earnings per share for the eleven months ended 30 June 2006 was based on the loss attributable to ordinary shareholders of £12,033,000 (2005: profit £620,000) and a weighted average number of ordinary shares outstanding during the eleven months ended 30 June 2006 calculated as follows:

	11 months ended 30 June 2006	12 months ended 31 July 2005
(Loss)/profit for the period (£'000)	**(12,033)**	620
Weighted average number of ordinary shares during the period/year ('000)	**131,193**	128,668

26 Commitments

(i) Capital commitments at the end of the financial year for which no provision has been made:

Group	2006 £'000	2005 £'000
Contracted but not provided for	**175**	176

(ii) Commitments under non-cancellable operating leases are as follows:

	Land and buildings	
Group	2006 £'000	2005 £'000
Expiry date:		
Within one year	—	—
Between one and five years	**749**	—
After five years	**44,586**	46,327
	45,335	46,327

The Company had no commitments at the beginning or end of the period.

During the period £1,003,000 was recognised as an expense in the income statement in respect of operating leases (2005: £1,099,000).

Notes to the accounts continued

27 Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 9) and their directors and executive officers.

Trading transactions with subsidiaries – Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are therefore not disclosed.

Trading transactions with subsidiaries – Parent Company

	Management fees receivable		Amounts owed by related parties		Amounts owed to related parties	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000
Newcastle United Football Company Limited	**1,800**	1,300	**2,097**	1,032	**—**	—
Newcastle United Football Club (International) Limited	**—**	—	**409**	409	**—**	—
Newcastle United Enterprises Limited	**—**	—	**—**	—	**1,410**	1,410
Newcastle United Ventures Limited	**—**	—	**5**	5	**—**	—
	1,800	1,300	**2,511**	1,446	**1,410**	1,410

Key management personnel

The key management personnel of the Group are the Directors and senior management shown on page 19. The interests of those who served during the year (including those of their immediate families) in the share capital of the Company, according to the register of Directors' interests are as follows:

	Ordinary shares of 5p each (beneficial interest)	
	2006	2005
D S Hall (1)	**55,342,223**	52,937,065
W F Shepherd (2)	**37,278,505**	34,355,318
B S Shepherd (2)	**37,278,505**	34,355,318
T J Revill	**10,454**	10,000
A Antonopoulos (1)	**55,342,223**	52,937,065
R Cushing	**12,307**	11,773
K Slater	**11,913**	11,396

Notes:

(1) At 30 June 2006 these shares comprise 38,315,167 shares owned by Wynyard (Guernsey) Limited, 6,386,399 shares owned by Cameron Hall Developments Limited and 10,640,657 shares owned by Cameron Hall Developments Limited Executive Pension Scheme which are undertakings connected with D S Hall and A Antonopoulos. Wynyard (Guernsey) Limited is a trust run by independent trustees for the benefit of the Hall family (including D S Hall and A Antonopoulos).

(2) At 30 June 2006 these shares comprise 37,278,505 shares owned by Shepherd Offshore Limited, a company connected with W F Shepherd and B S Shepherd.

27 Related parties continued

Key management personnel continued

Remuneration of key management personnel

Total remuneration for key management personnel including pension contributions and other non-cash benefits amounted to:

	11 months ended 30 June 2006 £'000	12 months ended 31 July 2005 £'000
Short-term employee benefits	**1,269**	1,316
Post employment benefits	**109**	119
	1,378	1,435

Transactions with key management personnel

Transactions between the Group and companies connected with key management personnel during the period were at arms length and are as follows:

	Rents payable		Ticket sales	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
S M P (Services) Limited	**341**	335	**—**	—
Shepherd Offshore Limited	**—**	27	**15**	13

S M P (Services) Limited is a company of which B S Shepherd is a Director and in which he has an interest.

Shepherd Offshore Limited is a company of which W F Shepherd and B S Shepherd are Directors and shareholders.

28 Accounting estimates and judgements

Critical accounting judgements in applying the Group's policies

Certain critical accounting judgements made in applying the Group's accounting policies are described below:

The preparation of financial statements under IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Certain critical accounting judgements made in applying the Group's accounting policies are described below:

Finance and operating leases

The inception of the Group's shop and warehouse leases has taken place over a number of years. They are combined leases of land and buildings. It is not possible to obtain a reliable estimate of the split of the fair values of the lease interest between land and buildings at inception. Therefore, in determining lease classification the Group evaluated whether both parts are clearly an operating lease or a finance lease. Firstly, land title does not pass. Secondly, because the rent paid to the landlord for the buildings is increased to market rent at regular intervals, and the Group does not participate in the residual value of the building it is judged that substantially all the risks and rewards of the building are with the landlord. Based on these qualitative factors it is concluded that the leases are operating leases.

Notes to the accounts continued

28 Accounting estimates and judgements continued

Goodwill

As described in note 8, management has made certain assumptions in calculating the recoverable amounts used for the purpose of the impairment tests on the goodwill arising on the acquisition of nufc.co.uk Limited.

Acquired players' registrations

In assessing whether the registration of any individual player requires reclassification to 'Assets held for sale' and, if so, whether any impairment charge is required, the Directors will apply the accounting policy detailed on page 41.

29 Subsequent events

On 24 July 2006 Newcastle United Football Company Limited ("the Club") acquired the registration of Damien Duff from Chelsea FC for £5.0m. On 24 August 2006 the Club acquired the registration of Obafemi Martins from Inter Milan for €15.0m.

On 9 August 2006 the Club sold the registration of Amady Faye to Charlton Athletic FC for £2.0m, including an amount of up to £0.5m contingent on player appearances. On 22 August 2006 the Club sold the registration of Jean-Alain Boumsong to Juventus for €4.8m.

30 Explanation of transition to IFRSs

As stated in Section 1 of the accounting policies, on page 39, these are the Group's first consolidated financial statements prepared in accordance with Adopted IFRSs. The significant accounting policies set out on pages 39 to 44 have been applied in preparing the accounts for the period ended 30 June 2006, the comparative information presented in these accounts for the year ended 31 July 2005, and in the preparation of an opening IFRSs balance sheet at 1 August 2004 (the Group's date of transition). In preparing its opening IFRSs balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP.

An explanation of how the transition from UK GAAP to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and notes.

30 Explanation of transition to IFRSs continued

Group

The reconciliations of equity as at 1 August 2004 (date of transition to IFRSs) and at 31 July 2005 (date of last UK GAAP financial statements) and the reconciliation of profit for 2005, as required by IFRS 1, have been included below:

Reconciliation of equity at 1 August 2004

	UK GAAP as reported 1 August 2004 £'000	IAS 38 Intangible assets £'000	IFRS 5 Non-current assets held for resale £'000	IAS 10 Events after the balance sheet date £'000	IFRSs 1 August 2004 £'000
ASSETS					
Non-current assets					
Property, plant and equipment	93,907	—	—	—	93,907
Intangible assets	34,890	(1,458)	(4,643)	—	28,789
Investments in joint ventures	147	—	—	—	147
	128,944	(1,458)	(4,643)	—	122,843
Current assets					
Inventories	1,231	—	—	—	1,231
Trade and other receivables	9,945	—	—	—	9,945
Cash and cash equivalents	26,192	—	—	—	26,192
Assets classified as held for sale	—	—	4,643	—	4,643
	37,368	—	4,643	—	42,011
Total assets	166,312	(1,458)	—	—	164,854
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowing	(52,672)	—	—	—	(52,672)
Trade and other payables	(6,551)	160	—	—	(6,391)
Deferred income	(27,080)	—	—	—	(27,080)
	(86,303)	160	—	—	(86,143)
Current liabilities					
Interest-bearing loans and borrowing	(10,674)	—	—	—	(10,674)
Trade and other payables	(27,927)	82	—	—	(27,845)
Deferred income	(6,447)	—	—	—	(6,447)
Proposed dividend	(2,625)	—	—	2,625	—
	(47,673)	82	—	2,625	(44,966)
Total liabilities	(133,976)	242	—	2,625	(131,109)
Net assets	32,336	(1,216)	—	2,625	33,745
EQUITY					
Share capital	7,111	—	—	—	7,111
Other reserves	831	—	—	—	831
Share premium account	69,377	—	—	—	69,377
Retained earnings	(44,983)	(1,216)	—	2,625	(43,574)
Total equity	32,336	(1,216)	—	2,625	33,745

Notes to the accounts continued

30 Explanation of transition to IFRSs continued

Group continued

Reconciliation of equity as at 31 July 2005

	UK GAAP 31 July 2005 £'000	IAS 38 Intangible assets £'000	IFRS 5 Non-current assets held for resale £'000	IAS 10 Events after the balance sheet date £'000	IFRSs 31 July 2005 £'000
ASSETS					
Non-current assets					
Property, plant and equipment	93,433	—	(331)	—	93,102
Intangible assets – Goodwill	642	(642)	—	—	—
Intangible assets – Other	39,176	(1,797)	(1,792)	—	35,587
	133,251	(2,439)	(2,123)	—	128,689
Current assets					
Inventories	1,520	—	—	—	1,520
Trade and other receivables	13,675	—	—	—	13,675
Cash and cash equivalents	17,569	—	—	—	17,569
Assets classified as held for sale	—	—	3,031	—	3,031
	32,764	—	3,031	—	35,795
Total assets	166,015	(2,439)	908	—	164,484
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings	(49,957)	—	—	—	(49,957)
Trade and other payables	(12,161)	716	—	—	(11,445)
Deferred income	(6,081)	—	—	—	(6,081)
Deferred tax liabilities	(143)	415	(272)	—	—
	(68,342)	1,131	(272)	—	(67,483)
Current liabilities					
Interest-bearing loans and borrowings	(5,123)	—	—	—	(5,123)
Trade and other payables	(35,334)	180	—	—	(35,154)
Deferred income	(26,309)	—	—	—	(26,309)
Dividends	(2,625)	—	—	2,625	—
	(69,391)	180	—	2,625	(66,586)
Total liabilities	(137,733)	1,311	(272)	2,625	(134,069)
Net assets	28,282	(1,128)	636	2,625	30,415
EQUITY					
Share capital	6,433	—	—	—	6,433
Other reserves	831	—	—	—	831
Share premium account	69,377	—	—	—	69,377
Retained earnings	(48,359)	(1,128)	636	2,625	(46,226)
Total equity	28,282	(1,128)	636	2,625	30,415

30 Explanation of transition to IFRSs continued

Group continued

Reconciliation of (loss)/profit for the year ended 31 July 2005

	UK GAAP 31 July 2005 £'000	IAS 38 Intangible assets £'000	IFRS 5 Non-current assets held for sale £'000	IFRSs 31 July 2005 £'000
Group turnover	86,982	—	—	86,982
Operating expenses	(80,928)	—	(37)	(80,965)
Profit from operations before player trading	6,054	—	(37)	6,017
Amortisation of players' registrations	(11,839)	391	1,658	(9,790)
Impairment of players' registrations	(3,041)	—	(713)	(3,754)
Profit on disposal of players' registrations	13,505	(124)	—	13,381
Group profit from operations	4,679	267	908	5,854
Finance costs	(5,020)	(594)	—	(5,614)
Finance income	484	—	—	484
Share of loss of joint venture	(104)	—	—	(104)
Profit on ordinary activities before taxation	39	(327)	908	620
Taxation	(143)	415	(272)	—
(Loss)/profit for the period	(104)	88	636	620

Parent Company

The reconciliations of equity as at 1 August 2004 (date of transition to IFRSs) and at 31 July 2005 (date of last UK GAAP financial statements), as required by IFRS 1, have been included below:

Reconciliation of equity as at 1 August 2004

	UK GAAP 1 August 2004 £'000	IAS 10 Events after the balance sheet date £'000	IFRSs 1 August 2004 £'000
ASSETS			
Non-current assets			
Investments	69,946	—	69,946
	69,946	—	69,946
Current assets			
Trade and other receivables	67	—	67
Amounts owed by subsidiary undertakings	4,471	—	4,471
Cash and cash equivalents	12,729	—	12,729
	17,267	—	17,267
Total assets	87,213	—	87,213
LIABILITIES			
Non-current liabilities			
Other payables	(2,500)	—	(2,500)
	(2,500)	—	(2,500)
Current liabilities			
Interest-bearing loans and borrowing	(2,250)	—	(2,250)
Trade and other payables	(414)	—	(414)
Amounts owed to subsidiary undertakings	(1,410)	—	(1,410)
Proposed dividend	(2,625)	2,625	—
	(6,699)	2,625	(4,074)
Total liabilities	(9,199)	2,625	(6,574)
Net assets	78,014	2,625	80,639

Notes to the accounts continued

30 Explanation of transition to IFRSs continued

Parent Company continued

Reconciliation of equity as at 1 August 2004 continued

	UK GAAP 1 August 2004 £'000	IAS 10 Events after the balance sheet date £'000	IFRSs 1 August 2004 £'000
EQUITY			
Share capital	7,111	—	7,111
Other reserves	831	—	831
Share premium account	69,377	—	69,377
Retained earnings	695	2,625	3,320
Total equity	78,014	2,625	80,639

Reconciliation of equity as at 31 July 2005

	UK GAAP 31 July 2005 £'000	IAS 10 Events after the balance sheet date £'000	IFRSs 31 July 2005 £'000
ASSETS			
Non-current assets			
Investments	71,303	—	71,303
	71,303	—	71,303
Current assets			
Trade and other receivables	64	—	64
Amounts owed by subsidiary undertakings	1,446	—	1,446
Cash and cash equivalents	13,363	—	13,363
	14,873	—	14,873
Total assets	86,176	—	86,176
LIABILITIES			
Non-current liabilities			
Other payables	(2,500)	—	(2,500)
	(2,500)	—	(2,500)
Current liabilities			
Trade and other payables	(1,157)	—	(1,157)
Amounts owed to subsidiary undertakings	(1,410)	—	(1,410)
Dividends	(2,625)	2,625	—
	(5,192)	2,625	(2,567)
Total liabilities	(7,692)	2,625	(5,067)
Net assets	78,484	2,625	81,109
EQUITY			
Share capital	6,433	—	6,433
Other reserves	831	—	831
Share premium account	69,377	—	69,377
Retained earnings	1,843	2,625	4,468
Total equity	78,484	2,625	81,109

30 Explanation of transition to IFRSs continued

Explanation of the IFRSs adjustments

Dividend recognition

Under IAS 10 "Events After the Balance Sheet Date", dividends are recognised as an appropriation of equity in the period in which they are approved (in the case of a final dividend) or paid (in the case of an interim dividend). Amounts previously accrued in the balance sheet are now removed, resulting in a reduced liability of £2.625m at 31 July 2005.

Intangible assets

(i) Acquisition of player registrations

Under IAS 38 "Intangible Assets", players acquired on deferred terms are recorded at the fair value at the date of acquisition. The related creditor is then increased to the settlement value on an effective interest rate basis over the period of deferral, with this value being charged as notional interest within 'Finance expenses' in the income statement. The net effect is a reduction in the creditor of £0.896m at 31 July 2005.

The increased interest is charged to finance costs over the deferral period and amounts to £0.594m for the year ended 31 July 2005.

The corresponding player registration value is also reduced by the notional interest; the lower intangible asset value results in a reduced charge to operating profit as the intangible asset is amortised over the length of the player's contract. The net effect on intangible assets is a reduction of £2.439m at 31 July 2005. Operating profit increased by £0.267m.

The differing rate at which the finance costs and amortisation are recognised in the income statement produces a deferred tax credit shown in income tax expense.

(ii) Other intangible assets

Under IAS 38 "Intangible Assets", goodwill of £0.642m is included as other intangible assets.

Non-current assets held for resale

Under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" if, at any time, it is considered that the carrying amount of an asset (including a player's registration) will be recovered principally through sale rather than through continuing use then the value of that asset is required to be reclassified as a 'Non-current asset held for resale' and disclosed as such on the balance sheet within current assets. At the time of reclassification the measurement of the asset is the lower of (a) fair value (less costs to sell) and (b) carrying value. Amortisation of the asset is suspended at the time of reclassification, although impairment charges still need to be made if applicable. The net effect is a reclassification from non-current assets to current assets of £3.031m at 31 July 2005.

There is a net increase in operating profit of £0.908m for the year ended 31 July 2005. These adjustments relate to the cessation of amortisation from the point of reclassification of assets held for sale and also an adjustment to the carrying value of relevant assets in order to measure them at the lower of carrying value and fair value less costs to sell.

Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Merchant Taylor's Hall, 30 Threadneedle Street, London EC2R 8JB on 19 December 2006 at 10.00am for the following purposes:

Ordinary business

1. To receive and adopt the accounts for the financial period ended 30 June 2006, together with the reports of the Directors and independent auditors thereon.
2. To re-elect D S Hall as a Director.
3. To re-appoint KPMG Audit Plc as independent auditors of the Company.
4. To authorise the Directors to agree the remuneration of the independent auditors of the Company.
5. To consider and approve the Directors' remuneration report for the financial period ended 30 June 2006.

Special business

To consider and if thought fit pass the following resolutions of which resolution 6 will be proposed as an ordinary resolution to be voted on by all shareholders entitled to vote and resolution 7 will be proposed as a special resolution to be voted on by all shareholders entitled to vote.

6. That in substitution for the authority granted to the Directors pursuant to an ordinary resolution passed at the Annual General Meeting of the Company held on 14 December 2005 the Directors be authorised for the purpose of Section 80 of the Companies Act 1985 (the "Act") to allot relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £2,666,756 provided that:

   6.1 (except as provided in paragraph 6.2 below) this authority shall expire on the conclusion of the next Annual General Meeting of the Company, but may be previously revoked or varied by an ordinary resolution of the Company; and

   6.2 the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

   All previous authorities under Section 80 of the Act be revoked, but such revocation shall not have retrospective effect.

7. That subject to the passing of and pursuant to the general authority conferred by the resolution numbered 6 in the notice convening this meeting the Directors be given power pursuant to Section 95 of the Act to allot equity securities (within Section 94 of the Act) for cash pursuant to the authority so conferred as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

   7.1 the allotment of equity securities in connection with any rights issue, open offer or other pre-emptive offer to holders of equity securities in proportion (as nearly as may be practicable) to their respective holdings of such equity securities, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever; and

Special business continued

7.2 otherwise than pursuant to paragraph 7.1 above the allotment of equity securities up to an aggregate nominal amount of £332,767 and shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or 15 months from the date of this resolution (whichever is earlier) except that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

All previous authorities under Section 95 of the Act are revoked, but such revocation shall not have retrospective effect.

By order of the Board

R Cushing
Company Secretary
Newcastle United PLC
St. James' Park
Newcastle upon Tyne NE1 4ST
27 October 2006

Notes:

The following notes explain your general rights as a shareholder and your right to attend and vote at this meeting or to appoint someone else to vote on your behalf.

1. Only those members registered on the Register of Members of the Company as at 10.00am on 17 December 2006 shall be entitled to attend and vote at the meeting convened above in respect of the number of shares registered in their names at that time.
2. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. Appointing a proxy will not prevent a shareholder from attending in person and voting at the meeting.
3. A form of appointment of proxy is enclosed. If you return more than one proxy appointment, that received last by the registrar before the latest time for the receipt of proxies will take precedence.
4. The appointment of a proxy and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated should be deposited with the Company's registrar at the address shown on the proxy form not later than 10.00am on 17 December 2006 or 48 hours before the time for holding any adjourned meeting or (in the case of a poll not taken on the same day as the meeting or adjourned meeting for the taking of the poll at which it is to be used).
5. The following documents are available for inspection from the date of this notice during normal business hours at the registered office of the Company on any business day until 18 December 2006 and they may also be inspected at Merchant Taylor's Hall, 30 Threadneedle Street, London EC2R 8JB from 9.00am on the day of the meeting until the conclusion of the meeting:
   (a) copies of Directors' service contracts with the Company; and
   (b) the register of interests of the Directors and their families in the share capital of the Company.
6. In accordance with the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members not later than 6.00pm on 17 December 2006 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting. Changes to entries on the register of members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

Corporate information

Company registration number
2529667

Company secretary and registered office
Russell Cushing
St. James' Park
Newcastle upon Tyne NE1 4ST

Independent auditors
KPMG Audit Plc
Quayside House
110 Quayside
Newcastle upon Tyne NE1 3DX

Financial advisers
Hawkpoint Partners Limited
41 Lothbury
London EC2R 7AE

Stockbrokers
Brewin Dolphin Securities Limited
Commercial Union House
39 Pilgrim Street
Newcastle upon Tyne NE1 6RQ

Solicitors
Dickinson Dees
St Ann's Wharf
112 Quayside
Newcastle upon Tyne NE99 1SB

Bankers
Barclays Bank PLC
71 Grey Street
Newcastle upon Tyne NE99 1LG

Registrars and transfer office
Lloyds TSB Registrars
54 Pershore Road South
Kings Norton
Birmingham B22 1AD

NUFC contacts

Club address	Newcastle United FC St. James' Park Newcastle upon Tyne NE1 4ST
Club contacts	
Switchboard:	0191 201 8400
Box office:	0191 261 1571
Conference and banqueting:	0191 201 8525
Corporate hospitality:	0191 201 8714
Customer services:	0191 201 8475
Lottery:	0191 201 8502
Fan contacts	
Junior magpies:	0191 201 8472
Club membership:	0191 201 8444
Travel club:	0191 201 8550
Shop	
St. James' Park Shop:	0191 201 8426
Mail order:	0870 442 1892
Community	
Football in the community:	0191 263 6585
Learning centre:	0191 201 8526
Media	
Press office:	0191 201 8420
Photography:	0191 201 8579
Fax contact	0191 201 8600
Website	www.nufc.co.uk

designed and produced by
the design portfolio marketing services.
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