

shareholders**united**

## **GLAZER'S FINANCING:**

**A DEBT MOUNTAIN THREATENS  
THE FUTURE OF OUR CLUB.....**

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**This Analysis of Glazer’s financing of the takeover and operation of Manchester United plc (MU) is the work of Shareholders United (SU), with input from private individuals who are members of SU and work in the financial sector, together with information provided by our legal and financial advisers. Errors and omissions are solely the responsibility of SU. SU has taken great care to verify and check all facts in this analysis, and all forecasts and projections are honestly based on valid and industry-standard assumptions.**

*Glossary of some key terms:*

**EBITDA** = earnings before interest, taxes, depreciation and amortisation – more often referred to as cash operating profits, used as a cash flow measurement esp. by banks to ensure sufficient cash to service debts

**PIK** = payment-in-kind (called preferred securities in the Offer Document,) sometimes referred to as ‘debt in drag’, a tax-efficient form of share favoured by hedge funds which pays dividends (interest) in the form of additional preferred securities

**Term debt** or **Senior Debt** = a loan for a fixed period of time, repayable in instalments or at the end of the term, usually secured on the assets of the borrower

**Securitisation** = the packaging of one or more of a company’s income-producing assets and/or income streams (e.g. from fixed price sponsorship contracts) in a negotiable security (such as a bond) which can be sold in units to multiple investors (and then on into the market), which provides a fixed rate of return from those assets and income streams over the life of the security, the face value of which in turn is repayable at the end of the fixed term by the issuer company to the then holder

For definition of other key financial and legal terms, please refer to the glossary at: <http://www.preferredgroup.com/Glossary/a1.aspx>

## 1. SUMMARY

These are the highlights of the SU analysis. Source material and raw data is contained in the 5 Annexes attached.

*Details of Glazer's business plan have been leaked to the Times. Based on those leaks, SU has reconstructed Glazer's business plan, attached as Annex 1. Key points have already been highlighted:*

- *Ticket price rises totalling 54% within 5 years*
- *Commercial revenues increased by 76% over the next 5 years*
- *Player net transfer budget capped at max. £27.3million*

*It is clear that even if this plan represented the whole picture, there are major doubts about his being able to achieve his targets – his revenue growth assumptions are over-optimistic in many eyes, and there are too many variables outside his control which could scupper the plan in any one year. And achieving his targets relies on compliant fans paying higher and higher prices for everything at Old Trafford – something which many have pledged to resist.*

*SU has no reason to believe that the plans are not genuine – they chime with many of the assumptions and projections we had already been making about life under Glazer.*

*But the leaks are just as interesting for what they do not reveal as for what they do. There will have been several variations on the model which have not been included in the leak e.g. a securitisation or sale & leaseback scenario, which any banker worth his salt will have prepared for his client. This makes us suspicious that the plans have been leaked from the Glazer side, to show the rosier possible picture of a club thriving and able to meet all its obligations and demands for on-the-pitch success.*

*The plans show that the only debt to be secured on the assets and income of Manchester United is the £373.9 million JP Morgan Senior Secured Loan facilities. This debt has been structured so that payments of interest and principal are 'light' in the first 7 years, allowing Glazer maximum time and cashflow in the early years to make his plan work. The transfer budget depends on free cash being available for this purpose rather than for debt service.*

*This is where the suspicion lies – how is Glazer going to service and/or refinance all of his debts (including the PIK), which are punitive in terms of their interest burden, while keeping enough cash in the company to rebuild the team with world-class players? There is not enough cashflow generated to do both.*

*The leaked plans show the £275 million PIK debt (preferred securities issued to the 3 hedge funds in Red Football Ltd) as remaining in place throughout their life of 15 years. But these PIK accrue compounded annual interest at a frightening rate (see Annex 2 and Table 2 below) – they are a ticking timebomb. It is not credible that Glazer has no strategy to redeem and get rid of these punitive securities as soon as possible, otherwise he risks destroying any equity gains he hopes to make at the end of the day. Plus he loses control of key segments of the MU business if he has not completely redeemed the PIK in 5 years time.*

*And significantly, there is no mention in the leaked plans of the potential sale & leaseback of Old Trafford, which would provide him with significant cash lump sum enabling him to refinance a chunk of the Senior Debt and/or the PIK..*

*So some big questions remain:*

- *How is Glazer going to service and/or refinance all of his punitive debt and pay for the rebuilding of the team?*
- *Will he quickly go for sale & leaseback of Old Trafford, allowing him to pay down much of the Senior Debt and refinance the PIK by loans taken out by the club?*
- *How will he cope with variables outside his control – such as failure to qualify for the Champions League in one year, or the withholding of custom by a significant element of the United fanbase?*
- *How far can he aggressively drive revenues to meet his over-optimistic growth assumptions? Will we see stadium naming rights, an explosion of sponsorships and ‘match presenting’ rights etc?*

*SU’s belief that the Glazer business plan is unworkable has been reinforced by the leak of these incomplete plans. If this is the best he can do, then supporters have a very realistic opportunity to buy their club back if and when Glazer is forced to disgorge it, either by his banks or by financial pressure.*

## **THE GLAZER DEBT MOUNTAIN GROWS.....**

*Table 1 & Annex 1: total debt (incl. PIK) assuming 100% drawdown + no refinancing*

<b>FY/End Debt (£M)</b>	<b>31.07.2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
PIK	275	326.6	387.9	461	548	651.6
Senior Secured Debt	265	257.1	249.2	241.3	233.4	225.7
Additional Secured Facilities	109	84.3	78.6	72.9	67.2	61.4
<b>Total</b>	<b>649</b>	<b>668</b>	<b>715.7</b>	<b>775.2</b>	<b>848.6</b>	<b>938.7</b>

**.....WHILE THE PIK ARE A TICKING TIMEBOMB.....**

*Table 2 & Annex 3: terms of PIK – interest roll-up and redemption cost*

<b>FY/End Value (£M)</b>	<b>31.07.05</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Annual compound 'interest'	-	51.6	61.4	73.1	87	103.6	123.5	147.2	175.4	209.2	249.5
Rolled up value	275	326.6	387.9	461	548	651.6	775.1	922.2	1097.7	1306.9	1556.4
Redemption premium	22.05	5.87	-	-	-	-	-	-	-	-	-
<b>Total Redemption Cost</b>	<b>297.05</b>	<b>332.4</b>	<b>387.9</b>	<b>461</b>	<b>548</b>	<b>651.6*</b>	<b>775.1</b>	<b>922.2</b>	<b>1097.7</b>	<b>1306.9</b>	<b>1556.4</b>

\*If PIK not all redeemed by 12 August 2010, Hedge Funds get control of MU's key business segments

*Why are the PIK so critical to the business plan and the financing model? Because they accrue 'interest' at between 14.7% and 20% annually, which is added to the face value, on a compound basis, instead of being paid to the hedge funds. So they become more & more expensive to redeem the longer they remain in issue. Glazer has the right to buy them back from the hedge funds at any time, but his business plan does not appear to envisage this. So how and when does he do this? He surely must redeem them before 12 August 2010, because on that date, if there are any PIK still in issue, the hedge funds can (i) force the sale of the club and (ii) block any decisions of Red or MU Boards on such key matters as player transfers & contracts, ticket price rises, merchandising, sponsorships etc. The hedge funds can basically take control of the business.*

**.....GLAZER PAINTS A ROSY, PIK-LESS FUTURE FOR MU.....**

*Table 3 & Annex 1: EBITDA & net cash assuming 100% drawdown of debt, plus annual debt service bill*

<b>FY/End EBITDA + Net Cash £m</b>	<b>31.07.2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
EBITDA (*forecast 2005)	48.2*	60.2	81.9	97.5
Annual Debt Service	-	63.6	42.2	41.1
Net Cash for Transfers	64.3	60.6	65.4	81.9

**.....BUT THE FUTURE LOOKS LIKE MELTDOWN IF THE PIK WERE CLUB DEBT.....**

*Table 4: EBITDA & net cash assuming 100% drawdown of debt, refinancing PIK (plus penalty) into MU on day 2*

<b>FY/End EBITDA + Net Cash £m</b>	<b>31.07.2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
EBITDA (*forecast 2005)	48.2*	60.2	81.9	97.5
Annual Debt Service	-	128.1	105.1	100.7
Net Cash for Transfers	64.3	(3.6)	(55.6)	(93.5)

#### **SUMMARY of the SUMMARY**

- The high interest rates he is paying for both Senior Debt and the PIK classify this deal as high risk, ‘junk-bond’ status
- The debt mountain which Glazer has taken on to acquire MU is growing at such a rate that the longer it stays in, the harder it is to repay
- This deal can only be done by keeping the **£275m** of PIK debt off the MU balance sheet – but Glazer has to refinance the PIK sooner rather than later – if he does not do this by 12.08.2010, the hedge funds can take control rights over the major part of the MU business (ticket prices, player transfers & contracts, sponsorships & merchandising) and put the club up for sale
- Our analysis is that Glazer will find it very difficult to refinance the PIK with his own equity, unless he sells the Tampa Bay Bucs, for example
- Glazer therefore has to try and use the club’s assets to refinance, with potentially disastrous effects on the company and the club – “potentially damaging” and “putting a direct and indirect strain on the business” to quote the MU board in February
- No prudent board of directors would allow their company to take on such punitive debt – and if they did, they would surely try to pay off that debt before splashing out on player transfers

- Glazer is planning to gamble, to ignore the growing debt mountain and make available some **£25 million** per year for players instead of reducing the debt risk – endangering the club in the style of the recent Leeds meltdown
- SU does not think this strategy is sustainable, especially in view of Glazer’s “aggressive” projections of EBITDA and commercial revenue growth for MU
- Nor do these projections take into account the impact of a widespread campaign of customer power and exercise of consumer choice by fans - the withholding by supporters of custom from a Glazer-owned MU and its sponsors, which is already beginning to bite (e.g. Vodafone and Nike recent public reaction) – this campaign is expected to grow over the next two years as Glazer is forced into (or chooses) unpopular, profit-based decisions on ticket prices and other commercial matters which cause more fans to give up watching and paying for their team
- It seems to us that the risks of failure of Glazer’s model and his business plan far outweigh the prospects of success – the margin for error is too narrow and the potential debt downsides too great for a company and a team struggling to regain and retain the supremacy it recently enjoyed over its rivals on and off the pitch
- We confidently forecast failure of the Glazer financing model and business plan **within 3 years** followed by one of the following:
  - a flotation of all or part of MU
  - an attempted sale of the club and/or its assets by Glazer
  - a forced sale of the club and its assets by the banks
- *That is why we call on all fans, from all over the world, to be prepared for that day, when supporters stand ready with a warchest to reclaim our club – or significant ownership stake in it*

## **2. HOW IS GLAZER FINANCING THIS TAKEOVER?**

The amount that Glazer is paying for MU is now well known, as is the amount of debt he is taking on to finance the acquisition and the ongoing business of MU. What we have not seen up to now is the terms on which the debt has been borrowed by Glazer and in particular the cost. In this analysis we have reconstructed what we think are some of the financial models on which Glazer and his banks decided to proceed with this deal.

*If it wasn't clear before, it is now obvious that Glazer is taking a huge gamble, not only with his own and the banks' money, but more importantly with the future of Manchester United itself.*

Looking at the sums again:

- **£272 million** in “equity” contribution from Glazer
- **£275 million** in PIK (debt equivalent) issued to 3 hedge funds by Red Football Limited (“Red”), his acquisition company
- **£265 million** in Senior Debt facilities loaned by JP Morgan and secured against the assets of MU
- **£109 million** in bridge loans (£18.9m), working capital facilities (£50m) and Capex facilities (£40m) - also secured against MU's assets

Total acquisition & operating finance on Day 1 = **£921m**

Total maximum available borrowings on Day 1 = **£649m**

But these figures do not reveal the true cost to Glazer of doing this deal.

1. His £272m “equity contribution” – we know that he borrowed a significant part (if not all) of the funds to acquire his initial 28.1% stake in MU. He now claims that none of this borrowing is in place, because he has given a charge over his MU shares to the hedge funds holding the PIK. It is true that you cannot normally use the same asset as security for more than one loan, so the hedge funds will have required Glazer to refinance his existing share stake. So what happened to the borrowing, which we understand was provided by Commerzbank? Perhaps he had the personal liquid wealth to repay these loans of perhaps up to \$450m? Unlikely, given that his wealth is largely tied up in assets like the Tampa Bay Buccaneers (Bucs) and shares in other companies. We have heard of no significant asset sales recently. One possibility is that he has secured the debt on his other US assets like the Bucs (allowed up to a max. \$125million, we understand). But it is hard to see free assets with a value of perhaps \$450m in Glazer's personal and corporate portfolio, that would be easy (and legal) to access for collateral.

Whatever his personal arrangements are, speculation is rife that Glazer has been in talks with Rupert Murdoch, who has a shared interest in seeing MU become a global behemoth in football, with matches being beamed to tens of millions of homes in Asia and the US. A man who once tried to buy MU and was pushed back by a combination of the fans and the competition authorities in the UK. Murdoch could provide Glazer with the means to refinance some debt, in exchange for giving him right of first refusal should the collective UK TV deal break up. Then Rupert would have hedged his bets and would get to provide the platform for United's TV rights whatever happened. It would be the smart move and Rupert is not known for his slowness in spotting an opportunity.

2. The **£265m** Senior Debt facilities and **£109m** ongoing business loans - the spreads paid on the £265m bank facilities (and the punitive PIK 'interest rates' on the preferred stock) confirm that Glazer has had to 'overpay' to get this deal funded and closed. Although football clubs per se would probably demand an additional risk premium versus typical LBO 7, 8 and 9 year bank debt spreads, Glazer appears to be paying about 0.5% over market on the bank facilities.

The **£50m** working capital facility, in addition to the bridging loan of £18.9m, are additional facilities which may have been put in place to help meet the enormous costs of Glazer's advisers in this hostile takeover – we believe that (excluding hedge fund fees and costs), Glazer will be paying **£40m** in advisers and financing fees.

The **£40m** Capex facility is clearly in place to release cash flow put aside by the previous board for stadium expansion – in line with the previous board's policy of a debt-free company, the expansion was to be funded out of own cashflows, not debt. Glazer needs the cash now, so even more debt has been taken on unnecessarily, in our view. But is the cash needed to fund a player transfer budget this year?

3. The **£275m** of PIK issued by Red to the hedge funds, the proceeds of which were used to buy Cubic's stake and to get to 75% - in order to get this deal done, Glazer has not so much sold our heart & soul to the devil, he has potentially thrown United into the shark pool. The hedge fund chiefs were able to extract punitive interest rates on this capital, without which he would not have been able to do this deal. The cost of the PIK and the redemption formulae are shown in Annexes 1 & 2. To summarise:

- 'Interest' on the PIK rolls up at **£50 million per year and rising**
- '**Interest**' at 20% and 14.7% is added to the PIK capital each year, thereby compounding the capital/redemption value
- There are redemption premiums payable each year up to 31 July 2007, at **£22m** in the 1<sup>st</sup> year to **£5.87m** in the 2<sup>nd</sup> year
- Cost of redeeming the PIK on 1 August 2006 = **£332.4 million** and rising year on year up to **£1,556 billion** in year 10

The hedge funds have the right to appoint 25% of the members of each of the Red and MU boards if Glazer does not reach 85% of his EBITDA targets of **£57.1m** in FY 2005-6 and **£89.1m** in FY 2006-7.

If Glazer has not redeemed the PIK by 12.08.2010, then the hedge funds can enforce their charge and (i) take blocking rights over the key revenue streams and business operations of MU and (ii) force Glazer to put MU up for sale.

For all these reasons, the PIK will have to be refinanced as soon and as cheaply as possible, which could put a further minimum **£340.4 million** of debt into United (3 May 2006 redemption date).

Total minimum needed to refinance all debt on Day 2 = **£671m** (£297m PIK, £265m Senior Debt, £109m addit. facilities)

Total minimum needed to refinance all debt on 03.05.06 = **£676.8m** (£321.8m PIK, £265m Senior Debt, £90m addit. facilities)

### 3. SECURITISATION & REFINANCING OPTIONS

- Red will look to quickly refinance the Senior Debt given the high spreads they carry and the need to release the security charge the lenders have over the Club's main assets, in particular Old Trafford. He can do this a couple of ways:
  - Rumours abound that Glazer is planning to sell and leaseback Old Trafford soon after he gains control of the club in its entirety. He can only do this with the consent of the JP Morgan Senior Debt syndicate – they will hold the deeds of the ground as secured asset for the Senior Debt Facilities. Raising c.£200m in this way would allow him to pay down a significant part of the Senior Debt and refinance the remainder, at the same time finding refinance for the PIK (or a substantial part of the PIK) which would then be assumed by MU and secured over the remaining assets.
  - Based on informal discussions with capital market professionals and notwithstanding the problems experienced with other football clubs' securitisations, we hear that MU, based on its historic attendance records, gate receipts and potential for increased ticket prices, could probably raise sufficient debt through a securitisation to refinance most if not all the Senior Debt. This could be done by issuing a bond wrapped by a monoline credit insurer and would achieve significantly lower interest costs (c. LIBOR + 80-100bp).
  - Clearly with a credit guarantee, Red could term the debt out over 15 years with a back-ended amortisation profile. This could save £7-8m a year in interest charges (based on the current bank debt pricing) and would improve the club's cash flow for investment in the squad.
- However, even assuming the EBITDA growth in the Glazer business plan, it is hard to see how Red will have the >£300m available to repay the PIK preferred stock when they are redeemable at the earliest in 2006. Another factor is that Glazer is historically someone who does not like to give up total control over or alienate his key assets - *a lengthy term securitisation would hand over control of key revenue streams and limit his options for sale of the business in future.*
- Assuming Nike do not exercise their option to discontinue their merchandising contract in 2006, Red may be able to monetise the remaining 10 years' guaranteed £23m payments – based on Nike's A2 credit rating Red might be able to raise c. 60-70% of the value upfront. Using the proceeds of these 2 transactions and free cash flow may yield sufficient funds to repay the PIK holders in Year 2. It should be noted, of course, that by securitising the 2 most stable revenue streams available to the Club (gate revenues and the Nike contract) the Club's operational flexibility will be severely restricted. With a current cost base of c. £110m, this would effectively reduce unencumbered EBITDA close to zero – Red clearly expect new commercial revenue streams to generate the cash flow necessary to remain competitive and creditworthy. A big leap of faith.....
- Perhaps Glazer will initiate a Tampa Bay Bucs practice – asking fans to pay a “Personal Seat Licence” equivalent to a season's worth of tickets at face value. This is similar to the infamous debenture schemes introduced by (among other) Arsenal and West Ham and which were roundly rejected by angry fans. Glazer would be ill-advised to try something like that at United.
- Glazer could also offer a fixed season ticket/LMTB price if the fans paid upfront for, say, 3 years tickets in advance. This would be a crude but cheap form of securitisation, which while bringing temporary cash flow relief, would severely limit cash flows in the second and third years.

## SECURITISATION – PROS & CONS

### **Pros**

Can pay down expensive debt  
Cheaper form of funding

### **Cons**

Reduces financial flexibility of club  
Reduces liquidity  
Securitisation is still debt  
Reduces value of company as revenue upside lies with banks  
Reduces attractiveness for another bidder when Glazer wants to flip  
Senior debt may become subordinated to securitisation = higher funding.

**ANNEX 1 - SU Model of Glazer Business Plan (£mn)**

Assume: PIKs Not Repaid, New Stand Season 2006-2007, Ticket Prices +10% pa; 12%pa uplift in commercial revenues

Year Ending July	Day 1 31/07/2005	Yr1 31/07/2006	Yr2 31/07/2007	Yr3 31/07/2008	Yr4 31/07/2009	Yr5 31/07/2010	Yr6 31/07/2011	Yr7 31/07/2012	Yr8 31/07/2013	Yr9 31/07/2014	Yr10 31/07/2015
<b>Outstanding Loans</b>											
PIK	275.0	326.6	387.9	461.0	548.0	651.6	775.1	922.2	1097.7	1306.9	1556.4
Term Loan 1	55.0	47.1	39.3	31.4	23.6	15.7	7.9	0.0			
Term Loan 2	62.5	62.5	62.5	62.5	62.5	62.5	62.5	62.5			
Term Loan 3	62.5	62.5	62.5	62.5	62.5	62.5	62.5	62.5	62.5	0.0	
Term Loan 4	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	0.0
Bridge Facility	18.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revolving Credit Facility	34.0	34.0	34.0	34.0	34.0	34.0	34.0	0.0	0.0	0.0	0.0
Capital Expenditure Facility	40.0	34.3	28.6	22.9	17.1	11.4	5.7	0.0	0.0	0.0	0.0
	<b>632.9</b>	<b>652.0</b>	<b>699.8</b>	<b>759.3</b>	<b>832.7</b>	<b>922.7</b>	<b>1032.6</b>	<b>1132.2</b>	<b>1245.2</b>	<b>1391.9</b>	<b>1556.4</b>
<b>Cash Outflow</b>		<b>Yr1</b>	<b>Yr2</b>	<b>Yr3</b>	<b>Yr4</b>	<b>Yr5</b>	<b>Yr6</b>	<b>Yr7</b>	<b>Yr8</b>	<b>Yr9</b>	<b>Yr10</b>
<b>Interest</b>											
Term Loan 1			4.1	3.6	3.0	2.4	1.8	1.2	0.6	0.0	
Term Loan 2			5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	0.0
Term Loan 3			5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	0.0
Term Loan 4			9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6
Bridge Facility			1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revolving Credit Facility			2.6	2.6	2.6	2.6	2.6	2.6	0.0	0.0	0.0
Capital Expenditure Facility			3.0	2.6	2.2	1.7	1.3	0.9	0.4	0.0	0.0
<b>Loan Repayments</b>											
Repayment Bridge			18.9								
Repayment Revolving Credit								34.0			
Repayment CapEx Facility			5.7	5.7	5.7	5.7	5.7	5.7			
Repayment Term 1			7.9	7.9	7.9	7.9	7.9	7.9			
Repayment Term 2									62.5		
Repayment Term 3										62.5	
Repayment Term 4											85.0
<b>Outflow</b>		<b>63.6</b>	<b>42.2</b>	<b>41.2</b>	<b>40.2</b>	<b>39.2</b>	<b>38.1</b>	<b>71.1</b>	<b>82.5</b>	<b>77.4</b>	<b>94.6</b>
<b>EBITDA</b>	<b>48.2</b>	<b>60.2</b>	<b>81.9</b>	<b>97.5</b>	<b>114.8</b>	<b>134.0</b>	<b>155.3</b>	<b>178.9</b>	<b>205.1</b>	<b>234.2</b>	<b>266.5</b>
<b>Depreciation and Amortisation</b>	<b>28</b>	<b>28.0</b>	<b>28.0</b>	<b>28.0</b>	<b>28.0</b>	<b>28.0</b>	<b>28.0</b>	<b>28.0</b>	<b>28.0</b>	<b>28.0</b>	<b>28.0</b>
<b>Tax Payable</b>	<b>6.1</b>	<b>0.3</b>	<b>7.6</b>	<b>12.6</b>	<b>18.1</b>	<b>24.1</b>	<b>30.8</b>	<b>38.2</b>	<b>47.2</b>	<b>57.4</b>	<b>68.7</b>
<b>Net Cash before Player Spend</b>	<b>42.1</b>	<b>-3.7</b>	<b>32.1</b>	<b>43.8</b>	<b>56.6</b>	<b>70.7</b>	<b>86.3</b>	<b>69.6</b>	<b>75.5</b>	<b>99.4</b>	<b>103.3</b>
<b>Cash Available for Player Spending</b>	<b>64.3</b>	<b>60.6</b>	<b>65.4</b>	<b>81.9</b>	<b>112.2</b>	<b>156.6</b>	<b>216.6</b>	<b>259.9</b>	<b>309.1</b>	<b>382.3</b>	<b>459.2</b>
<b>Net Player Spend</b>		<b>-27.3</b>	<b>-27.3</b>	<b>-26.3</b>	<b>-26.3</b>	<b>-26.3</b>	<b>-26.3</b>	<b>-26.3</b>	<b>-26.3</b>	<b>-26.3</b>	<b>-26.3</b>
<b>Year End Cash Balances</b>		<b>33.3</b>	<b>38.1</b>	<b>55.6</b>	<b>85.9</b>	<b>130.3</b>	<b>190.3</b>	<b>233.6</b>	<b>282.8</b>	<b>356.0</b>	<b>432.9</b>
<b>Total MU Debt</b>		<b>325.4</b>	<b>311.9</b>	<b>298.3</b>	<b>284.7</b>	<b>271.1</b>	<b>257.6</b>	<b>210.0</b>	<b>147.5</b>	<b>85.0</b>	<b>0.0</b>
<b>Total MU + PIKs</b>		<b>652.0</b>	<b>699.8</b>	<b>759.3</b>	<b>832.7</b>	<b>922.7</b>	<b>1032.6</b>	<b>1132.2</b>	<b>1245.2</b>	<b>1391.9</b>	<b>1556.4</b>
<b>Net Debt</b>		<b>292.1</b>	<b>273.7</b>	<b>242.7</b>	<b>198.8</b>	<b>140.9</b>	<b>67.2</b>	<b>-23.6</b>	<b>-135.3</b>	<b>-271.0</b>	<b>-432.9</b>
<b>Net MU + PIKs</b>		<b>618.7</b>	<b>661.6</b>	<b>703.7</b>	<b>746.8</b>	<b>792.4</b>	<b>842.3</b>	<b>898.6</b>	<b>962.3</b>	<b>1035.9</b>	<b>1123.5</b>
<b>Total MU Debt/EBITDA</b>		<b>5.4</b>	<b>3.8</b>	<b>3.1</b>	<b>2.5</b>	<b>2.0</b>	<b>1.7</b>	<b>1.2</b>	<b>0.7</b>	<b>0.4</b>	<b>0.0</b>
<b>EBITDA/Total Debt Service</b>		<b>0.9</b>	<b>1.9</b>	<b>2.4</b>	<b>2.9</b>	<b>3.4</b>	<b>4.1</b>	<b>2.5</b>	<b>2.5</b>	<b>3.0</b>	<b>2.8</b>
<b>ASSUMPTIONS</b>											
<b>Original EBITDA</b>	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2
<b>Incremental Ticket Revenue</b>		6.1	21.4	29.6	38.7	48.7	59.7	71.8	85.1	99.7	115.8
<b>Additional Commercial Revs</b>		5.8	12.4	19.7	27.9	37.1	47.4	59.0	71.9	86.3	102.6
<b>New EBITDA</b>	<b>48.2</b>	<b>60.2</b>	<b>81.9</b>	<b>97.5</b>	<b>114.8</b>	<b>134.0</b>	<b>155.3</b>	<b>178.9</b>	<b>205.1</b>	<b>234.2</b>	<b>266.5</b>
<b>Increase in OT Capacity</b>			11.5%								
<b>Rise in Ticket Price</b>		10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
<b>Matchday Revenues 2004</b>	61.2	67.3	82.6	90.8	99.9	109.9	120.9	133.0	146.3	160.9	177.0
<b>Average Price per ticket 2004</b>	36.3										
<b>Glazer Plan Assumption for Com Rev Grwth</b>		12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
<b>Commercial Revenues 2004</b>	48.7	54.5	61.1	68.4	76.6	85.8	96.1	107.7	120.6	135.0	151.3

ANNEX 2 - SU Model of Glazer Business Plan with PIKs as MU debt (€mn)

Assume: PIKs refinanced Day 2 by new 7 yr senior subordinated loan in MU (L+325), New Stand Season 2006-2007, Ticket Prices +10% pa; 12%pa uplift in comm

Year Ending July	Day 1 31/07/2005	Yr1 31/07/2006	Yr2 31/07/2007	Yr3 31/07/2008	Yr4 31/07/2009	Yr5 31/07/2010	Yr6 31/07/2011	Yr7 31/07/2012	Yr8 31/07/2013	Yr9 31/07/2014	Yr10 31/07/2015
<b>Outstanding Loans</b>											
PIK	275.0										
Term Loan 1	55.0	47.1	39.3	31.4	23.6	15.7	7.9	0.0			
Term Loan 2	62.5	62.5	62.5	62.5	62.5	62.5	62.5	62.5			
Term Loan 3	62.5	62.5	62.5	62.5	62.5	62.5	62.5	62.5	62.5	0.0	
Term Loan 4	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	0.0
Bridge Facility	18.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revolving Credit Facility	34.0	34.0	34.0	34.0	34.0	34.0	34.0	0.0	0.0	0.0	0.0
Capital Expenditure Facility	40.0	34.3	28.6	22.9	17.1	11.4	5.7	0.0	0.0	0.0	0.0
New 7 Year PIK refinance term loan (senior sub)		254.6	212.2	169.7	127.3	84.9	42.4	0.0			
	632.9	325.4	311.9	298.3	284.7	271.1	257.6	210.0	147.5	85.0	0.0
<b>Cash Outflow</b>		Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Yr8	Yr9	Yr10
<b>Interest</b>											
Term Loan 1			4.1	3.6	3.0	2.4	1.8	1.2	0.6	0.0	
Term Loan 2			5.0	5.0	5.0	5.0	5.0	5.0	5.0	0.0	
Term Loan 3			5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	0.0
Term Loan 4			9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6
Bridge Facility			1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revolving Credit Facility			2.6	2.6	2.6	2.6	2.6	2.6	0.0	0.0	0.0
Capital Expenditure Facility			3.0	2.6	2.2	1.7	1.3	0.9	0.4	0.0	0.0
New PIK term Loan (senior sub)			22.1	20.5	17.1	13.6	10.2	6.8	3.4		
<b>Loan Repayments</b>											
Repayment Bridge			18.9								
Repayment Revolving Credit								34.0			
Repayment CapEx Facility			5.7	5.7	5.7	5.7	5.7	5.7			
Repayment Term 1			7.9	7.9	7.9	7.9	7.9	7.9			
Repayment Term 2									62.5		
Repayment Term 3										62.5	
Repayment Term 4											85.0
New PIK term Loan (senior sub)			42.4	42.4	42.4	42.4	42.4	42.4	42.4		
<b>Outflow</b>		128.1	105.1	100.7	96.3	91.8	87.4	117.0	82.5	77.4	94.6
<b>EBITDA</b>	48.2	60.2	81.9	97.5	114.8	134.0	155.3	178.9	205.1	234.2	266.5
<b>Depreciation and Amortisation</b>	28	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0
<b>Tax Payable</b>	6.1	0.0	1.4	7.5	14.0	21.1	28.8	37.2	47.2	57.4	68.7
<b>Net Cash before Player Spend</b>	42.1	-68.0	-24.6	-10.6	4.6	21.1	39.1	24.8	75.5	99.4	103.3
<b>Cash Available for Player Spending</b>	64.3	-3.6	-55.6	-93.5	-115.2	-120.4	-107.5	-109.1	-59.9	13.3	90.2
<b>Net Player Spend</b>		-27.3	-27.3	-26.3	-26.3	-26.3	-26.3	-26.3	-26.3	-26.3	-26.3
<b>Year End Cash Balances</b>		-30.9	-82.9	-119.8	-141.5	-146.7	-133.8	-135.4	-86.2	-13.0	63.9
<b>Total MU Debt</b>		580.0	524.0	468.0	412.0	356.0	300.0	210.0	147.5	85.0	0.0
<b>Total MU + PIKs</b>		580.0	524.0	468.0	412.0	356.0	300.0	210.0	147.5	85.0	0.0
<b>Net Debt</b>		611.0	606.9	587.8	553.5	502.7	433.9	345.4	233.7	98.0	-63.9
<b>Net MU + PIKs</b>		611.0	606.9	587.8	553.5	502.7	433.9	345.4	233.7	98.0	-63.9
<b>Total MU Debt/EBITDA</b>		9.6	6.4	4.8	3.6	2.7	1.9	1.2	0.7	0.4	0.0
<b>EBITDA/Total Debt Service</b>		0.5	0.8	1.0	1.2	1.5	1.8	1.5	2.5	3.0	2.8
<b>ASSUMPTIONS</b>											
Original EBITDA	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2	48.2
Incremental Ticket Revenue		6.1	21.4	29.6	38.7	48.7	59.7	71.8	85.1	99.7	115.8
Additional Commercial Revs		5.8	12.4	19.7	27.9	37.1	47.4	59.0	71.9	86.3	102.6
<b>New EBITDA</b>	48.2	60.2	81.9	97.5	114.8	134.0	155.3	178.9	205.1	234.2	266.5
Increase in OT Capacity			11.5%								
Rise in Ticket Price		10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Matchday Revenues 2004	61.2	67.3	82.6	90.8	99.9	109.9	120.9	133.0	146.3	160.9	177.0
Average Price per ticket 2004	36.3										
Glazer Plan Assumption for Com Rev Grwth		12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Commercial Revenues 2004	48.7	54.5	61.1	68.4	76.6	85.8	96.1	107.7	120.6	135.0	151.3

## ANNEX 3 - PIK TERMS & REDEMPTION COSTS

		Redemption Premium/penalties			
		Redeemed before		After	
	FA	02/05/2006	13/05/2006	13/05/2007	13/05/2007
<b>RA</b>		1.10	1.10	1.05	1.00
Class A	210	16.71			
Class A2	0	0.00			
Class B	65	5.34	5.36	5.87	0.00
		22.05			

	1	2	3	4	5	6	7	8	9	10
A-Class Interest Rates	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
B-Class Interest Rates	14.7%	14.7%	14.7%	14.7%	14.7%	14.7%	14.7%	14.7%	14.7%	14.7%
A-Class Interest	42.0	50.4	60.5	72.6	87.1	104.5	125.4	150.5	180.6	216.7
B-Class Interest	9.6	11.0	12.6	14.4	16.5	19.0	21.8	25.0	28.6	32.8
<b>Total PIK Interest</b>	<b>51.6</b>	<b>61.4</b>	<b>73.1</b>	<b>87.0</b>	<b>103.6</b>	<b>123.5</b>	<b>147.2</b>	<b>175.4</b>	<b>209.2</b>	<b>249.5</b>
A-Class Debt	210	252.0	302.4	362.9	435.5	522.5	627.1	752.5	903.0	1083.6
B-Class Debt	65	74.6	85.5	98.1	112.5	129.0	148.0	169.8	194.7	223.3
<b>Total PIK Debt</b>	<b>275</b>	<b>326.6</b>	<b>387.9</b>	<b>461.0</b>	<b>548.0</b>	<b>651.6</b>	<b>775.1</b>	<b>922.2</b>	<b>1097.7</b>	<b>1306.9</b>

				02/05/2006	02/05/2006	13/05/2006	13/05/2007	13/05/2007
Sub-75% Trigger Date	02/05/2006	13/05/06 + 81 days + 9 mnths	DFP1	0.0978226				
75% Trigger Release Date	13/05/2005		DFP2	0.6672086				
First Anniversary Date	11/05/2006		DFP3	0.0723265	0.07232652	0.0726329	0.0859115	0.089106
Second Anniversary Date	11/05/2007		DFP4	0.0747463	0.07474628	0.075003	0.0860284	0.088657
Advanced A Maturity Date			DFP5					
Delayed B Maturity Date	31/03/2025		DFP6					
Standard Maturity Date	30/04/2020		DFP7					
Subscription Date	12/05/2005	<b>ASSUMED</b>	DFP8	0.0654155	DFP1*DFP2 = 0.065235			
Redemption Date	02/05/2006	Variable!!	DFP9					
Initial Issue Date	12/05/2005	<b>ASSUMED</b>	DFP10					

	<b>Time (days)</b>	<b>Time (Years)</b>		
T1	4590	12.75		
T2	799	2.22		0.065268 0.0654155
T3	5388	14.97	based on Subscription Date	
T3	5038	13.99	based on Redemption Date	
T4	1770	4.92	based on Subscription Date	
T4	6808	18.91	based on Redemption Date	
T5		0.00		
T6		0.00		
T7		0.00		
T8	7158	19.88		

## **PREFS REDEMPTION FORMULAE**

**Adjusted Subscription Price** on any date means:

- For Class A Securities and Class A2 Securities:  $FA * DFP3$ .
- For Class B Securities:  $FA * DFP4$

**Redemption Price** on any date before the Sub-75% Trigger Date and on any later date if the Sub-75% Trigger does not occur:

- For Class A Securities and Class A2 Securities:  $FA * DFP3 * RA$
- For Class B Securities: In the period up to and including 31/7/07:  $FA * DFP4 * RA$
- In the period after 31/07/07:  $FA * DFP3 * RA$

**Redemption Price** on and after the Sub-75% Trigger Date if the Sub-75% Trigger occurs:

- For Class A Securities and Class A2 Securities:
  - Redeemed before the 75% Trigger Release Date:  $FA * DFP5 * RA$
  - Redeemed after the 75% Trigger Release Date:  $FA * DFP6 * RA$
- For Class B Securities: Not applicable as none issued.

Where:

FA= Face Amount

$DFP = 1 / (1 + 0.2)^{(T1 + T2)}$

DFP1=  $1/(1+0.2)^{T1}$   
DFP2=  $1/(1+0.167)^{T2}$   
DFP3=  $1/(1+0.2)^{T3}$   
DFP4=  $1/(1+0.147)^{T4}$   
DFP5=  $1/(1+0.21)^{T5}$   
DFP6=  $1/(1+0.2)^{T6}$   
DFP7=  $1/(1+0.21)^{T7}$   
DFP8=  $1/(1+0.147)^{T8}$   
DFP9=  $1/(1+0.21)^{T9}$   
DFP10=  $1/(1+0.2)^{T10}$

T1= Time (in years) from 31/7/07 to Standard Maturity Date

T2= Time (in years) from Initial Issue Date to 31/7/07

T3= Time (in years) from the Subscription Date or the Redemption Date, as the case may be, to the Standard Maturity Date.

T4= Time (in years) from the Subscription Date or the Redemption Date, as the case may be, to the Delayed B Maturity Date

T5= Time (in years) from the Redemption Date to the Advanced A Maturity Date

T6= Time (in years) from the Redemption Date to the Intermediate A Maturity Date

T7= Time (in years) from the Initial Issue Date to the Advanced A Maturity Date

T8= Time (in years) from the Initial Issue Date to the Delayed B Maturity Date

T9= Time (in years) from the 75% Trigger Release Date to the Advanced A Maturity Date

T10= Time (in years) from the 75% Trigger Release Date to the Intermediate A Maturity Date

RA = For redemptions on or before the First Anniversary Date pursuant to Clauses 4.2(a)(i), 4.2(b) or 4.2(d)(iii) of the Agreement: 1.10; for redemptions of Class A Securities or Class A2 Securities after the First Anniversary Date and on or before the Second Anniversary Date pursuant to Clauses 4.2(a)(i), 4.2(b) or 4.2(d)(iii) of the Agreement: 1.05; and in all other circumstances: 1.00.

**Sub-75% Trigger** means the failure by Bidco to acquire at least 75% of the Ordinary Shares of MU on or before the Sub-75% Trigger Date

**Sub-75% Trigger Date** means the day falling 9 months after the 81st day after the day on which the Offer is made.

**75% Trigger Release Date** means the day on which Bidco acquires at least 75% of the Ordinary Shares of MU.

**First Anniversary Date** means the day falling on the first anniversary of the Initial Issue Date

**Second Anniversary Date** means the day falling on the second anniversary of the Initial Issue Date

**Advanced A Maturity Date** means the date (calculated on or after the Initial Issue Date) as at which  $FA*DFP= FA*DFP7$

**Delayed B Maturity Date** means the date (calculated on or after the Initial Issue Date) as at which  $FA*DFP1*DFP2= FA*DFP8$

**Intermediate A Maturity Date** means the date (to be calculated on or after the 75% Trigger Release Date) as at which  $FA*DFP9=FA*DFP10$

**Standard Maturity Date** means 30 April, 2020

**Subscription Date** means the date of the Closing (as defined in the Subscription Agreement) on which the relevant Security is subscribed pursuant to the Subscription Agreement.

**Redemption Date** means the date on which the relevant Security (or part thereof) is redeemed pursuant to this Agreement.

**Clause 4.2(a)(i)** is the *cross-acceleration redemption event*

**Clause 4.2(b)** is the *voluntary redemption by RJV following the end of the Certain Funds Period*

**Clause 4.2(d)(iii)** is the *disposal redemption event*

## **ANNEX 4 - SUMMARY OF FINANCING TERMS & CONDITIONS**

Our investigation was carried out at the offices of Allen & Overy LLP, 40 Bank Street, Canary Wharf, London E14 5NR legal advisers to Red, over a period beginning on 24 May 2005 and ending on 27 May 2005 where we reviewed certain of the material financing documents described in Appendix IV(7) of the offer memorandum provided in connection with the Transaction.

### **1 Summary**

- The preferred security holders (the Hedge Funds, “**Holders**”) may step in and enforce their rights over 30% of the shares of Red Football Joint Venture Limited (“**RJV**”) (and 30% of the shareholder loans owed by RJV to Red Football Shareholder Limited (“**Red Shareholder**”)) if the preferred Prefs (the “**Prefs**”) are not redeemed in full by 12 August 2010. In this case, the Holders are also able to appoint 30% of the directors on the board of each group company.
- The Holders may appoint 25% of the directors on the board of each group company in the event that the group does not meet 85% of estimated EBITDA forecasts. It is estimated that EBITDA will increase by 56% in the financial year ending 31 July 2007 (see “Preferred Prefs - Director Designation Rights (Earnings)” below).
- In the event that the Holders enforce their charge over 30% of the shares of RJV, dealings in player contracts, sponsorship, merchandising and management contracts and decisions on stadium closure and ticket prices will require the approval of 75% of the board of the relevant company. Directors appointed by the Holders will therefore be able to influence and possibly veto decisions on these matters.
- Facility D provided under the Senior Credit Agreement is the largest of the acquisition facilities (amounting to £85,000,000) and subject to the highest interest rate (6.5% over LIBOR). This facility is subject to a prepayment penalty of 3% in the first year, 2% in the second year and 1% in the third year.
- The Prefs must be redeemed if there is any material reduction in the interest of Red in MU. The documentation does not state with any clarity what constitutes a material reduction for this purpose.
- The Holders have the option to purchase the senior debt in the event that there is a default under the Senior Credit Agreement and an acceleration notice is served.
- Red must use its best endeavours (but is not obliged) to delist MU and re-register it as a private company and complete the whitewash procedure by 31 March 2006. If the whitewash procedure is not completed by 31 March 2006 then Red must prepay the senior facilities in an amount up to £150m depending on inter alia the level of Red’s shareholding in MU at that time.

## 2 Preferred Securities (Prefs)

- **Maximum issuance:** The Prefs may be issued up to a maximum aggregate principal amount of £275,000,000 and are issued in three classes: Class A, Class A2 and Class B. The aggregate principal amount of Prefs issued will vary depending on the number of shares of MU owned by Red at closing (from an aggregate principal amount of £275m in the case of 100% ownership to £194m in the case of 74.99% ownership).
- **Base Subscribed Amount:** Class A Prefs will be issued up to a maximum principal amount of £210,000,000 (the “**Base Subscribed Amount**”) and thereafter Class B Prefs will be issued up to a maximum principal amount of £275,000,000. Where a “true-up” notice is served in accordance with the true-up agreement entered into by the parties, Class A2 Prefs will be issued in respect of any amounts subscribed in addition to the Base Subscribed Amount. A copy of the true-up agreement was not made available in the data room but it is our understanding that a true-up notice may be served if Red Football does not reach a 75% shareholding in MU (which it already has).
- **Allocated portion:** The Security Holders are required to subscribe for each issue of Prefs in the following proportions: Perry Capital Limited (37.82%); OZ Management LLC (18.91%); and Citadel Horizon S.ar.L (43.27%).
- **Security:** The Prefs are secured by a charge (the “**Charge**”) granted by Red Shareholder over inter alia (a) the shares of RJV and (b) the rights of Red Shareholder in any shareholder loans made by Red Shareholder to RJV. The Prefs also benefit from a guarantee provided by Red Shareholder.
- **Fees:** A bridge funding fee of 1% is payable to each manager at the end of the certain funds period in respect of any Prefs subscribed for by that manager in excess of its agreed portion. If the ownership of MU shares is more than 50% but less than 75% of the total issued share capital of MU at the end of the certain funds period, RJV will not pay the bridge funding fee but rather a fee of 1% of the aggregate subscription price obtained by the relevant manager during the certain funds period. Other fees payable in respect of the issuance of Prefs are contained in certain fee letters between First Allied Corporation and the managers. These fee letters were not present in the data room.
- **Redemption**
  - **Early redemption deadline:** Red Shareholder must ensure that RJV redeems all of the Prefs in each class by no later than 12 August 2010 (the “**Early Redemption Deadline**”). If the Early Redemption Deadline is not met then the Security Holders may enforce their charge over 30% of the RJV shares and shareholder loans.
  - **Voluntary redemption:** Following the end of the certain funds period, RJV may redeem the Prefs in whole or in part in cash in an amount equal to 100% of the redemption price set out in the Investor Agreement plus any relevant gross-up payment. The Prefs must be redeemed in the order: Class B then Class A2 then Class A.

- *Redemption upon change of control:* RJV is obliged to redeem the Prefs in the event that (a) the principals (including Red Football Limited Partnership (“**Red Partnership**”), Malcolm I. Glazer and his family) cease to control Red Shareholder, (b) RJV ceases to be a direct wholly-owned subsidiary of Red Shareholder, (c) Red ceases to be a wholly-owned subsidiary of RJV, (d) Red Football Junior Limited (“**Red Junior**”) ceasing to be a wholly-owned subsidiary of Red or (e) Red ceasing to control MU (following completion of the acquisition) or any material reduction Red’s interest in MU. The threshold as to what constitutes a “material reduction” for the purposes of (e) is not clear.
- *Redemption upon cross-acceleration or non-payment of material indebtedness:* RJV must redeem the Prefs upon demand following the acceleration or non-payment of any of the following indebtedness: (a) any indebtedness outstanding under the Senior Credit Agreement (or any refinancing thereof), (b) any new issuance of indebtedness to refinance certain classes of the Prefs or (c) any other indebtedness of RJV or its subsidiaries in an aggregate principal amount of at least £20m.
- *Redemption upon failure to obtain 75% shareholding:* If Red does not own at least 75% of the shares of MU by 12 May 2008 then the Class A and Class A2 Prefs shall be redeemed in part by RJV in cash in an amount equal to 50% of the redemption price at that date plus any additional withholding tax gross-up amounts.
- *Further redemption events:* RJV must redeem the Prefs in the event of inter alia: (a) the insolvency (including any moratorium on indebtedness or the commencement of negotiations with creditors) of Red Shareholder, RJV, Red, MU or any material subsidiary; (b) a corporate reconstruction or reorganisation of Red Shareholder, RJV, Red, MU or any material subsidiary without the consent of the Majority Security Holders; or (c) a sale or disposal of all or substantially all of the assets of MU and its subsidiaries (including a disposal by Red of all or substantially all of the MU shares).
- **Board observer appointment:** The Majority Security Holders (holding at least 66.67% of the aggregate outstanding Prefs at the relevant date) (the “**Majority Security Holders**”) are entitled to elect a single representative in a non-voting observer capacity to attend all board meetings of Red, RJV, MU and any other relevant company notified by the Majority Security Holders. A different representative may be appointed by the Majority Security Holders for each board.
- **Director Designation rights**
  - *Earnings:* If the Consolidated EBITDA of the MU group (derived from MU’s consolidated audited financial statements) for both of its first two financial years running from 1 August 2005 to 31 July 2007 is less than 85% of forecasted levels then Red Shareholder must ensure upon request that 25% (rounded upwards as appropriate) of each of the boards of RJV, Red, MU and any other material subsidiary is constituted by directors appointed by the Security Holders. The forecasted Consolidated EBITDA levels set out in the Investor Agreement are: (a) £57.1m in respect of the financial year ending 31 July 2006 and (b) £89.1m in respect of the financial year ending 31 July 2007.

- *Enforcement of Charge:* If the Majority Security Holders have taken steps to enforce the charge provided by Red Shareholder over the shares of RJV, then Red Shareholder must ensure upon request that 30% (rounded upwards as appropriate) of each of the boards of RJV, Red, MU and any other material subsidiary is constituted by directors appointed by the Security Holders.
- *Enforcement of security:* The Charge is enforceable in inter alia the following circumstances: (a) a failure to meet the Early Redemption Deadline; (b) the insolvency of Red Shareholder; (c) a request by Red Shareholder to appoint a receiver; (d) a failure to comply with inter alia board observer or director designation obligations or certain covenant obligations in the Charge or Investor Agreement (and certain covenants adopted from the Senior Credit Agreement).
- *Facilitation of sale:* Where the Charge is enforced after 1 September 2010 following a failure to meet the Early Redemption Deadline (or where the Charge is enforced in whole or in part in all other circumstances), Red Shareholder and its subsidiaries must: (a) enable a data room to be set up, provide relevant confidential information to potential purchasers of the MU group and reasonable access to management to answer questions; (b) comply with certain adopted covenants under the Senior Credit Agreement; and (c) only agree to carry out certain additional matters (see below) with the approval of not less than 75% of the board of the relevant company.

Additional matters specified for the purpose of (c) above include: the renewal, renegotiation, signing or termination of player contracts; the transfer, disposal or lending of players; the renegotiation of sponsorship, merchandising or management contracts; the closure or partial closure of the stadium; and any alterations in ticket prices.

- *Option to purchase:* The Security holders (together with the Facility D Lenders under the Senior Credit Agreement and the providers of any other indebtedness subordinated to the Senior Creditors) have the option to purchase the senior debt if a default occurs under the Senior Credit Agreement and an acceleration notice is served.

### 3 Senior Credit Agreement

- *Facilities:* Facility amounts and maturities are as set out in the offer document.
- *Capex facility:* Up to a maximum of (a) £32m is available to finance the expansion of the stadium up to a total capacity of 76,117 people and (b) £8m is available to finance the repayment of facility A2 or any prepayment of the term facilities in connection with excess cashflow in accordance with the terms of the Senior Credit Agreement.
- *Voluntary prepayment:* The voluntary prepayment or cancellation of outstanding commitments under the Senior Credit Agreement requires the giving of five business days' notice. Any prepayment must be made in a minimum amount of £1m. Facility D is subject to a prepayment fee of 3% in the first year on the aggregate principal amount prepaid, reducing to 2% in the second year and 1% in the third year.

- **Offer:** The offer to purchase the shares of MU (the “Offer”) is split into: (a) the A Offer consisting of an offer to buy 28.9% of the shares of MU from the Cubic Expression Company Limited; and (b) the B Offer consisting of an offer to buy all of the ordinary shares of MU not already owned by Red.
- **Certain funds period:** The certain funds period begins on the date of the Senior Credit Agreement and ends on the earlier of: (a) the date on which the Offer is withdrawn by Red or (if prior to the Unconditional Date) is referred to the Competition Commission or on which the European Commission initiates competition proceedings in relation to the Offer; (b) the date falling 180 days after the date of the Senior Credit Agreement; (c) the date falling four months after the date on which the Offer is made if, by that date, Red has not given a s.429 notice to buy out minority shareholders; (d) the date falling 10 business days after the expiry of the six week period after the date on which the s.429 notice is given by Red; or (e) inter alia 81 days after the posting of the offer document where the Unconditional Date has not yet occurred.
- **Interim Reduction Date:** Red must use its reasonable endeavours to procure (a) the delisting of the MU shares from the London Stock Exchange and re-registration of MU as a private company and (b) the completion of the whitewash procedure in respect of the relevant companies, in each case by 31 March 2006. If the whitewash procedure is not completed by 31 March 2006 then Red must prepay the senior facilities in an amount up to £150m depending on inter alia the level of Red’s shareholding in MU at that time.
- **Enforcement of preferential security charge**
  - **Early Redemption Deadline:** There is no default under the Senior Credit Agreement if the preferential security charge is enforced (and a change of control occurs) between 1 September 2010 and 31 December 2010 where the Early Redemption Deadline has not been met. Red must submit to the majority lenders for their approval a revised business plan, capital structure and shareholder agreement.
  - **Minority enforcement:** If enforcement of the preferential security charge is taken in respect of less than 50% of the RJV shares, this does not constitute a change of control or default under the Senior Credit Agreement during a period of four and one-half months after the date on which the enforcement action is commenced. This exception does not apply if enforcement action is taken in respect of 50% or more of the RJV shares under the preferential security charge.

## **ANNEX 5 - SU FORECASTS AND ASSUMPTIONS – THE 3 YEAR VIEW**

As stated by the MU Board in its response to Glazer's proposals and now outlined in more detail in the PIK documents, Red Football ("Red's") business plan appears very aggressive. In particular, the documents anticipate EBITDA in FY2006 of £57.1m and FY2007 of £89.1m. Our view on these forecasts, and the medium term financial performance of MU is outlined below:

### FY2005

- We forecast Manchester United ("MU") EBITDA for FY2005 to be about £10m lower than FY2004 at around £48m, principally due to a projected fall in media revenues of approximately £14m
- MU's qualification in third position in the FAPL in 2004 coupled with the impact of the success of their UK peers in Europe will reduce their European broadcasting and participation revenues by at least £6m
- The reduced value of the BSkyB domestic broadcast package, their lower FAPL finishing position and reduced share of total games under the new BSkyB agreement will reduce UK media revenues by approximately £8m
- The reduction in media revenues will be partially offset by small increases in gate receipts and commercial revenues
- Operating costs including player wages are likely to remain broadly flat on FY2004, though increasing as a % of turnover
- MU management similarly indicated that FY2005 results would be lower than FY2004 in their interim results presentation in March 2005

### FY2006

- Assuming stable costs going forward, Red will have to increase revenues by approximately £10m to achieve its targeted EBITDA in 2006.
- This will prove a challenging target given that many revenue streams are either fixed (e.g. Nike and Vodafone contract) or dependent on factors outside of the control of MU (e.g. 2005 FAPL finishing position and subsequent UEFA revenue pool distributions)
- We believe that media revenues are likely to remain flat in 2005. This means that of those revenues within their control, Red will focus on increasing the commercial and sponsorship revenues (effectively 100% margin)
- In order for the benefit of these increases to flow through into FY2006, several commercial contracts will have to be negotiated/re-negotiated rapidly over the coming months; Red will likely need incremental commercial revenue in FY2006 of £5m, assuming ticket price increases as below

- The current board had already announced ticket price increases for FY2006 (total £6m additional revenue) and it is unlikely that Red will change these increases

#### FY2007

- Red's FY2007 EBITDA target appears far more challenging on the basis of the MU's existing revenue streams, on-field performance and the current competitive environment
- Assuming a third placed FAPL finish and continued qualification for the UEFA Champions League, Red will still have to generate an additional £32m in revenue to achieve their target. There is a significant sensitivity in failure to win the qualification games for UEFA Champions League which would in itself reduce revenue and EBITDA by approx. £15m
- Clearly the business plan does not anticipate failure to qualify for UEFA Champions League. This cannot be assumed as easily given the competitiveness of Chelsea and Arsenal as well as the increasing cash flow constraints imposed by the debt service burden which will limit playing squad investment in the future
- Glazer is expected to raise average ticket prices to rise by 10% raising approximately £15m (assuming attendances remain at full capacity and completion of the stadium expansion of an additional 7,600 seats).
- The Glazers are known to believe that they can attract more top-tier sponsors to United – the Club currently earns about £7m a year from its stable of platinum sponsors. Red believe that this can be significantly increased through (i) signing a smaller number of high-paying partners; (ii) rolling out the MU brand more aggressively via more commercial distribution channels; and (iii) segmenting commercial and sponsorship contracts by region
- We believe that this is over-optimistic. Key sponsorship contracts are already locked in and whilst we believe that Red can generate incremental commercial revenues, we do not see how they can generate the targeted net annual increase in the time-frame envisaged. It should also be borne in mind that sponsorship values are also dependent on continued strong performance and success, something which is clearly not as assured as in previous years
- In order to achieve close to this increase, Red would need a series of transformational commercial contracts, including potentially, for example, a naming rights deal around Old Trafford. Despite the widely reported 'success' of Arsenal's Emirates deal (worth £3.5m p.a. for 15 years), we remain far from convinced that United would necessarily command a comparable value given that the stadium already commands worldwide recognition as Old Trafford or 'The Theatre of Dreams'. Naming Rights sponsors traditionally prefer to sponsor newly built stadia to ensure clarity of association (Reebok Stadium, Emirates Stadium)