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Analysis of Financial Fair Play and how football clubs have adapted their financial structure to the new rules.

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Abstract

This paper, entitled "Analysis of Financial Fair Play and how football clubs have adapted their financial structure to the new rules", refutes the Financial Fair Play, a set of rules that has governed the football financia system for years now, trying to understand how football clubs have absorbed these rules and how over time they (and their financial structures) have adapted to the numerous changes that have occurred.

Firstly, there is a brief introduction on the football landscape, immediately followed by a first chapter on the history of Financial Fair Play: from its introduction to the numerous reforms born to cover some regulatory gaps, up to the Addendum, a document issued by UEFA with extreme urgency, aiming at safeguarding football clubs from the pandemic crisis and from probable situations of non-compliance with the Financial Fair Play criteria.

Secondly, whole chapter is dedicated to the detailed description of the legislation: what it is, what are its short- and long-term objectives (both financial and non-financial goals), the different criteria to be met by European clubs (especially the so-called monitoring requirements) and the principles on which it is based, the sanctions in case of violation, and so and so forth.

The third chapter contains the results achieved (and not) by this legislation. An analysis of the numerous criticisms received over the years and the examination of some possible solutions that have been hovering around the Financial Fair Play for a long time, such as the introduction of a Salary Cap style system, widely used overseas but not very well seen in our continent. The chapter concludes with the illustration and discussion of several cases of application of Financial Fair Play over the years, and the decisions taken in particular situations: the case of Manchester City (first excluded from the UEFA competitions for hidden sponsorship payments, and then "saved by TAS"), the possible "cover-up" of the PSG case, the cases of voluntary agreement and settlement agreement in Italy (Milan, Inter and Roma). The purpose of this part is to discuss the choices made by UEFA, investigating why these choices were made (and not others), trying to understand the internal dynamics of the decisions taken by the European football body par excellence.

Finally, a fourth chapter contains the analysis of how some clubs have adapted to the regulation and whether or not they have complied with Financial Fair Play requirements during the last football seasons: I have analysed and interpreted their financial reports from three different years (considering the most recent complete data available), comparing them with the parameters to be met under UEFA's financial regulations, discussing whether indeed these parameters have been met for five of Europe's most important clubs, one for each of Europe's major national leagues (Juventus - Italy, Bayern Munich - Germany, Real Madrid - Spain, Manchester City - England, and PSG - France).

The final conclusions encapsulate what emerged from the individual case studies analysed in the previous chapter, showing a comparison between the different clubs examined and a general analysis of the pros and cons of Financial Fair Play as a sustainable football financial system.

Summary

Introduction

"All we want is for clubs, richer or less rich, not to spend more than they earn and to achieve budget parity, the only sure method for them to survive. To this end, with the unanimous support of all stakeholders and with the aim of helping clubs, we have defined financial fair play criteria that we will begin to apply rigorously this season"[1]. Using these words, on 25 August 2011 the formerly UEFA (that means *Union of European Football Associations*) President Michel Platini announced the beginning of the 2011/2012 football season, highlighting the importance and the necessity of introducing rules to ensure a sustainable budget, "so that passion rhymes with reason"[2].

We were at the height of the revolutionary project that UEFA had been carrying out since 2009, a plan which provided for the institution of a reference manual that would have included monitoring criteria to be met by each club registered with a UEFA member association. The primary objective was to improve the economic and financial capacity of football clubs by encouraging them to operate mainly using its own revenues. This could only happen through the implementation of a specific discipline for the management of clubs' financial statements, that was exactly what the new UEFA regulations were planned to do.

In the last few years, the debt accumulated by the clubs had reached exaggerated proportions and Michel Platini's ideas were aimed precisely at reducing this debt in the long term, in the name of rigor and financial equilibrium and fair competition, key principles of his thinking and of his revolution.

But what were the circumstances which led to the need for intervention by the highest European football body to prevent an economic and financial catastrophe in the European football system?

The final purpose of this work is to analyze and understand how football clubs have adapted their financial structures over the years to the parameters established by the UEFA Association ten years ago, which have been continually modified to meet new situations or to cope with extraordinary events (as has now happened with the pandemic situation we are experiencing), respecting and satisfying these requirements in the pre-established reference period. Failure to comply with these requirements could have led to sanctions of varying degrees in the short term and, in larger perspective, thus contributing to the progressive decline.

Before going deep with the manual, officially known as the *UEFA Regulations on Club Licensing and Financial Fair Play*, it is necessary to explore and analyze the historical period that preceded its adoption: knowing more about the historical moment immediately before the advent of Financial Fair Play will certainly help to better understand how and why this decision was taken, what were the key factors that convinced the major UEFA representatives to act in order to avoid worse damage. The exponential increase in players' salaries which is believed to have started with the Bosman rule, the advent of the so-called *sheikhs* in the world of football, the increasing use of leverage buyout and a considerable annual increase in the monetary value of

[1] *"The importance of financial fair play", UEFA announcement, 25 August 2011*
[2] *"The importance of financial fair play", UEFA announcement, 25 August 2011*

players' transfers are just some of the elements that have contributed to an economic situation in the world of football that is certainly not the most prosperous. In the first years of the new millennium, especially in the main European championships, there has been an increasing use of debt by club owners to increase their sportive competitiveness, hoping for victories that would have brought income into the coffers of the clubs through which to pay off the debts contracted and the related interest: otherwise, the club could have gone bankrupt (in some cases it has happened).

After this short historical introduction, we will focus on the impact and evolution that the Financial Fair Play has had since its launch; whether and how the European economic football scenario has changed; whether the solutions adopted by the body have been adequate to achieve the objectives initially set, for example balanced budgets and the economic sustainability of clubs. We will also explore the innovations introduced by the various UEFA Financial Fair Play updates, such as the adoption of the balanced budget constraint in 2013, the possibility to access a voluntary agreement and the related-party regulation with the 2015 update, or the redefinition of the transparency principle with the recent 2018 *Ceferin reform*. This first part will conclude with a look at the new Addendum of 2020, published as an annex to the latest version of the manual, which aims to provide guidelines that clubs have to follow in order to deal more easily with the Covid-19 emergency, temporarily facilitating the strict ordinary requirements in force.

The following chapter will be dedicated to a detailed analysis of the UEFA Club Licensing and Financial Fair Play Regulations in all its relevant parts. We will deepen the economic and financial, sporting, and non-sporting aims and objectives that the highest European football body had set to achieve (both in the short and long term) with the implementation of this new document by each member association, which must be respected by all clubs that are registered to a member association who want to obtain the UEFA license, which allows clubs to participate in European competitions if other conditions are met, such as qualification through their national reference league. We will explain the actual function of this license, and the two main roles involved in its release: the licensor, which is assigned by UEFA to a body indicated by the member association, and the licensee, i.e., the individual club applying for the license. We will then report and comment the five criteria that the football clubs must comply with and the monitoring requirements to be met periodically. Finally, we will give ample space to the annexes, which are as important as the document itself, since they elaborate on some of the issues mentioned above such as the voluntary agreement or related party transactions.

In the third chapter of this work, we will discuss the results achieved and those missed by the regulation during this decade of activity: we will examine the numerous criticisms received from institutional bodies as well as from the clubs themselves, which have not hesitated several times to appeal or denounce the UEFA body. Then, we will give a look to the problems that have been solved with the 2018 reform and those that remain unsolved, for which we will propose some ideas that can be considered as possible solutions. In addition, a paragraph will be dedicated to the interesting comparison between two widely used systems: the Salary Cap, mainly adopted by the American sports leagues (NBA above all), and the European Financial Fair Play. Finally, we will examine the best-known cases in which financial fair play has been applied (or has not been applied), or has only been partially applied, causing a stir outside. Among the most relevant cases we will talk about there is the very recent one of Manchester City (second time that the club is involved for violation of Financial Fair Play), very close to the exclusion from UEFA competitions for the 2020/2021 season, due to alleged hidden sponsorship payments; the club has not incurred any sanction thanks to the positive outcome of the appeal to Tas presented by the English club's management. PSG in 2014 was forced to reach and sign a settlement agreement (we will talk about it later) with UEFA, and it was also involved in a situation of suspicious sponsorship; the Italian cases of the two Milanese clubs, respectively Inter, which in 2015 entered into a settlement agreement to rebalance its accounts, and Milan in 2019, which reached an agreement with UEFA, through the Tas of Lausanne, to sign an agreement (so-called *Consent award*) providing for the voluntary acceptance by the *rossoneri* of the exclusion from UEFA competitions for one year, with the final aim of falling within the parameters in the following year. The purpose of this last chapter is to understand the logic of the actions taken by the highest European football body, what are the guidelines followed in taking certain decisions, whether these actions have been consistent over the years, whether there are discrepancies between cases.

The fourth and final chapter of this paper proposes to discuss some cases of compliance with the financial requirements of the UEFA Club Regulations of some of the most important clubs in Europe, by investigating their financial statements related to the last three years (which is the aggregate reference period), i.e., the football seasons 2016/2017, 2017/2018, and 2018/2019, and verify whether they have met the UEFA parameters in force. These clubs are Juventus, Bayern München, Manchester City, Real Madrid, and Paris Saint-Germain: the choice of these clubs is because we will have a reference for each of the five most important European leagues (Serie A, Bundesliga, Premier League, LaLiga and Ligue1); moreover, these clubs are among the most important in terms of revenue produced and income/expense ratio. We will briefly discuss the recent history of these clubs, underlining especially decisive economic events; then, we will analyze their financial structures, trying to understand how they have adapted to the evolution of Financial Fair Play over the years, and how important and influential is also the geographical context.

The concluding chapter will summaries the analyses of club financial structures carried out in the previous paragraph, comparing them, and examining similarities or differences. Once this is done, I will try to give a personal opinion and response on the success or otherwise of Financial Fair Play to date in its aim of making the world of football more economically and financially sustainable, whether and how this regulation has affected the individual financial structures of the clubs involved and, more generally, the football sector itself over time.

Chapter 1 – Birth and Evolution of Financial Fair Play

1.1 Reasons that led to the birth of Financial Fair Play

The role of the "owner-fans" and the leveraged buyout.

In the Article 2 of the UEFA Club Licensing and Financial Fair Play Regulations we find the definition of the goals that the federation aims to reach, both in sports and economic-financial fields.

"These regulations aim:

a) to further promote and continuously improve the standard of all aspects of football in Europe and to give continued priority to the training and care of young players in every club;
b) to ensure that clubs have an adequate level of management and organisation;
c) to adapt clubs' sporting infrastructure to provide players, spectators and media representatives with suitable, well-equipped and safe facilities;
d) to protect the integrity and smooth running of the UEFA club competitions;
e) to allow the development of benchmarking for clubs in financial, sporting, legal, personnel, administrative and infrastructure-related criteria throughout Europe.

Furthermore, these regulations aim to achieve financial fair play in UEFA club competitions and in particular:

a) to improve the economic and financial capability of the clubs, increasing their transparency and credibility;
b) to place the necessary importance on the protection of creditors and to ensure that clubs settle their liabilities with employees, social/tax authorities and other clubs punctually;
c) to introduce more discipline and rationality in club football finances;
d) to encourage clubs to operate on the basis of their own revenues;
e) to encourage responsible spending for the long-term benefit of football;
f) to protect the long-term viability and sustainability of European club football."[3]

Globally and economically-financially speaking, UEFA's interests and goals are very important and ambitious.

The main problem to solve was the disparity between the clubs, especially from a financial point of view. This disparity, which emerged mostly in modern football, stems from the desire of the clubs to continuously strengthen themselves, to invest also by leveraging debt and debt; this has led the clubs to "face situations of indebtedness due to the enormous expenses incurred to strengthen the team in the football market"[4]. Most likely, the "straw that broke the camel's back" was Real Madrid's transfer campaign in the summer of 2009, when they spent about 250 million euros, hoarding some of the best players around at the time, paying their

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[3] *UEFA Club Licensing and Financial Fair Play Regulations, Edition 2018, Article 2 - Objectives*
[4] *https://it.wikipedia.org/wiki/Fair_play_finanziario*

high tags (e.g., 94 million euros spent on Cristiano Ronaldo or 65 million spent on Kaka are only two of them), taking on the burden of exorbitant salaries at the time.

Just one year before, UEFA published alarming data regarding the economic-financial stability in the old continent's football industry: in fact, were recorded operating losses for 578 million euros (+11.6% compared to the previous year) despite an increase in revenues of 10.6% in the same year; this has created a significant negative balance sheet gap. In addition, a 2009 review always conducted by UEFA showed that more than half of Europe's clubs (655) suffered a loss compared to the previous year. This analysis also showed that "a small proportion were able to sustain heavy losses year-on-year as a result of the wealth of their owners"[5] and that "at least 20% of surveyed clubs were believed to be in actual financial peril"[6]. Therefore, the only clubs able to face such alarmism would have been those held by tycoons, capable of paying part or all their debts thanks to their personal finances. But what has led to such a situation?

Some of the reasons were explained by the House of Commons in a report on Football Governance for 2010-2012 (citing a research conducted by the Wall Street Journal), where it is highlighted that much depends on the ownership that manages the club: owners are defined as very optimistic about their management and vision of the club, who take for granted the relationship between total club salaries and club victories, and who very frequently use loans (getting into debt) in search of success; but there are also examples of clubs that aim for the long term, the hope of success in the future, relying on short-term loans or investments. Such actions are often at least influenced by fans, who always ask to the management to invest in strong and important players, the so-called *football stars*. This underlines the unsustainable nature of the clubs' management exerted by the owners (usually tycoons or sheikhs), who disregard the economic side, focusing exclusively on a possible return in terms of image and popularity of their person, which could be realized through sporting achievements. So, the high level of investments that has characterized the elite (and not only) of European football in recent years has almost always been justified by investors' desire to keep their club competitive, both nationally and internationally, defining it as something necessary to achieve this goal. Many owners, many club managers, tend to operate most of the time in a risky way, perhaps overestimating themselves in the national territory; as a result, situations of disproportionate expenses arise compared to the income that is then generated by the club itself, as the 2008 data reported above.

Another worrying situation emerges when someone takes on a huge debt to acquire a club; this debt will probably end up burdening on the club itself. In practice, new owners borrowed a huge amount of money (millions and millions) to buy the club, and then they use the club future's earnings to pay the initial debt and the related interests. This practice is called *leveraged buyout*. "The world's richest club, Manchester United, was bought in this way by the Glazer family in 2005 after which the club, previously very profitable, remains several hundred millions of pounds in debt. Since 2005, more than £300 million which might otherwise have been spent on players, improving facilities or simply kept as a contingency has been taken out of Manchester

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[5] *https://en.wikipedia.org/wiki/UEFA_Financial_Fair_Play_Regulations*
[6] *https://en.wikipedia.org/wiki/UEFA_Financial_Fair_Play_Regulations*

United and spent on interest, bank fees and derivative losses (While Manchester United FC Limited was almost debt free, its ultimate holding company "Red Football Shareholder Limited" had a negative equity of £64.866 million in its consolidated balance sheet on 30 June 2010)".[7]
The leveraged buyout model is common for normal business initiatives, where the overall impact of a company's collapse is not particularly significant, as other companies will fill the gap in the market. Leveraged BuyOuts (LBOs) have sometimes been defended by those who use them as mechanisms to bring more efficiency and financial discipline to target companies, but there are also examples where they have enlarged an existing debt problem. For football fans, who find themselves paying much higher prices for match tickets, LBOs are anathemas; perhaps representing the exact opposite of the rich benefactor model, taking money away from the club and providing few (if any) positive changes to their team as no new players are bought and no facilities or stadiums are built or improved. As with debts taken on seeking to strengthen the team, an unexpected failure (such as failing to qualify for the Champions League) can cause significant financial problems for debt-laden clubs in the LBO. For these "emotional stakeholders", their club is not a normal business but rather an intrinsic part of their life and often of great social and cultural importance to the local community.

The value of salaries and the Bosman case

We have seen how club managers take the relationship between wages and sports results for granted: the higher the level of wages, the higher the quality of the rose available, the higher the trophies, victories, and results. But why are players' salaries considered fundamental today?
A key moment in this sense is represented by the famous Bosman ruling, on 15 December 1995, which "changed the world of football forever". The lawsuit, which began about five years earlier, involved Jean Marc Bosman (a player of the Belgian RFC Liège team), the team itself, the Belgian Football Federation and UEFA. A transfer was refused to Bosman from the club in which he was playing to the French team of Dunquerke; a choice motivated by the insufficient economic compensation offered. When his contract with the Belgian club ended, he was already out of the squad and was receiving a reduced salary compared to the one previously established. The player's lawyer presented his situation as "a case of "restriction of trade" and "free movement of workers" in the Union"[8]. On 15 December, the EU Court of Justice ruled in Bosman's favor, contradicting the system in force up to that moment and considering Bosman's case a violation of Article 39 of the Treaty of Rome, assimilating the players to other workers.
As a result, all EU players were allowed to transfer free of charge to other teams (within the EU) at the end of their contract and were also given the opportunity to sign a pre-contract (so called zero-parameter) with other clubs starting six months before the natural end of their employment relationship. The latter two changes are

[7] *https://en.wikipedia.org/wiki/UEFA_Financial_Fair_Play_Regulations*
[8] *https://www.calcioefinanza.it/2015/12/15/cosa-dice-la-sentenza-bosman/*

considered "two key steps, also to understand what has been in the last 20 years the evolution of the relationship of strength between companies and footballers with the escalation of the role of attorneys from simple intermediaries to real creators of entire purchasing campaigns"[9]. But what did this mean for the football market? What were the consequences in terms of wages, investments, and club finances?

It was a real revolution: footballers increased their bargaining power vis-à-vis clubs, clubs that can now see the expiry of players' contracts as an opportunity to be seized. In fact, many times, the non-renewal of a player (especially in the case of stronger ones) unleashes real and propitious millionaire auctions among the clubs, which aim at the economic advantage deriving from hiring a footballer without paying the cost of his valuation (and maybe even a possible future resale, especially in the case of young players or stars, thus realizing considerable capital gains to be recorded in the balance sheet) to the club that holds him, or having him in advance paying him much less than his real market value, because his contract is expiring and they risk to earn nothing at the natural end of their contractual relationship with the club.

Intermediaries (agents, attorneys, investment funds) are becoming increasingly important during negotiations, and salaries are beginning to rise. "In the five major European championships, the total number of engagements rose from one billion euros in 1995 to 6.8 billion in 2013/14, growing in percentage terms more than turnover (from 2 to 11.3 billion euros). The use of foreign players in Serie A is also impressive, with 301 out of 553 players in 2014/15 (54.4%). From what were two ten-day windows in July and October, the transfer campaign now has common dates in Europe, and lasts all summer until 1 September and the whole month of January"[10]. How much has the Bosman case affected this increase in the value of players' salaries? Certainly, it has influenced a lot, just as it has been fundamental for the circulation of footballers and for the rules regarding their membership. But it was not decisive: football was business both before and after the Bosman ruling and in the mid-1990s "the escalation was already underway: sponsorships were looking for new spaces and forms of visibility even then and players were overpaid in proportion to the times. Even when one analyses the current oligarchy that governs European football, one speaks of a system whose rules (written and unwritten) came after the Bosman ruling, but it cannot be said that they were in any way dictated or influenced by that ruling"[11].

Economic and financial situation in football in the 2000s

"Once upon a time there was football where the word "penalty" meant only the eleven-metre shot, "fair play" meant the correct behavior of a player on the pitch and "stability" was the tactical balance between the various departments (defense-midfield-attack). There was nothing to do with the clubs' balance sheets, income and expenditure. All this until the summer of 2009"[12]. As we have seen before, summer 2009 was a crucial moment

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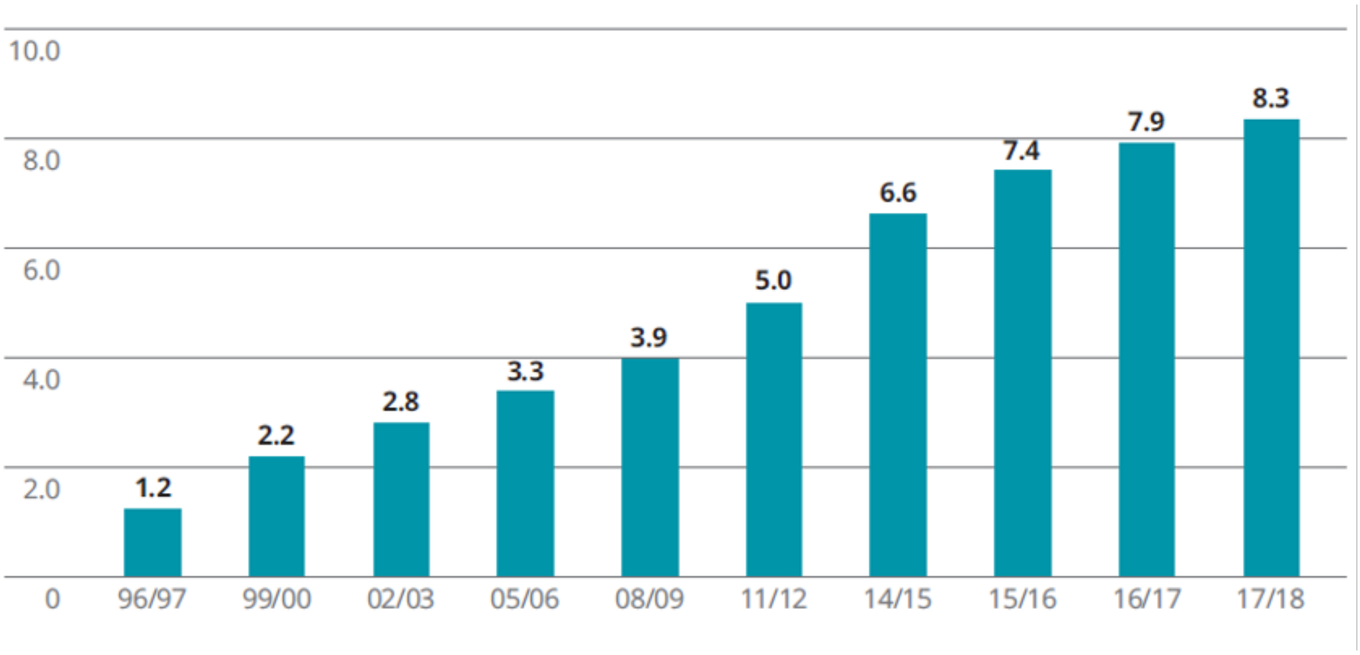
[9] *https://www.calcioefinanza.it/2015/12/15/cosa-dice-la-sentenza-bosman/*
[10] *https://giocopulito.it/sentenza-bosman-calcio/*
[11] *https://www.calcioefinanza.it/2015/12/15/cosa-dice-la-sentenza-bosman/*
[12] *https://giocopulito.it/il-fair-play-finanziario-il-trattato-di-maastricht-del-calcio-europeo/*

in European football from both an economic and a financial point of view, characterized by the crazy expenses of the then and still current president of Real Madrid Florentino Perez, who was obsessed with taking back the first-team scepter both on the national (at that time dominated by Guardiola's historic Barcelona) and international level. Those 250 million spent, however, were not very much appreciated by the major representatives of UEFA; among them the president Michel Platini, who said several times that football could not go on like this, and that clubs should not spend more than what they earned. Afterward, there was the adoption of Financial Fair Play, and the introduction of concepts such as financial rigor, stability, austerity. Football clubs had to demonstrate their financial soundness through the compliance with the parameters contained in this new package of rules, aimed at ensuring the financial stability of clubs around Europe.

The intention of this reform was to get European football on its feet from the huge and deep economic deficit in which it found itself. Precisely, "according to data recorded in 2008, 47% of European clubs reported losses, in many cases "significant" (i.e., more than 20% of income), with an overall figure (relating to the 718 clubs that played in the first European divisions) of around 1.7 billion euros in losses"[13]. But "the vast majority of the overall European football debt is owed by only three of the biggest leagues: the English Premier League, the Italian Serie A and the Spanish Primera División, commonly known as La Liga"[14].

If we consider the clubs' revenues during the 1990s, we note that the level has risen exponentially, from "only" 1.2 billion recorded in 1996/1997, to 8.3 billion in 2018/2019. The graph[15], from Deloitte's "Football Money League" analysis, helps us to better understand the financial evolution of the football sector since 1996/1997 until today.[16]



[13] *https://www.calcioefinanza.it/2019/06/10/fair-play-finanziario-come-funziona/*
[14] *https://en.wikipedia.org/wiki/UEFA_Financial_Fair_Play_Regulations*
[15] *Top 20 Football Clubs' Revenues 1996/1997-2017/2018 season (Deloitte, Football Money League, 2019). The table was created considering the revenue figures of the Top 20 clubs in Europe from 1996/1997 to 2017/2018.*

Before the advent and implementation of Financial Fair Play, 55-60% of UEFA football clubs were in a loss-making situation, and only 25% had their own stadium, an important source of revenue. Clubs were in an extremely serious and worsening economic and financial situation: the aggregate losses of European football in 2010 amounted to €1.6 billion, despite the increase in revenues, which were systematically absorbed by the high costs incurred. In 2010, European professional football clubs faced costs for the remuneration of their players amounting to an average of 64% of their revenues, with the peak reached in Italy, where this percentage was as around 74%. However, even though aggregate European club losses virtually tripled between 2007 and 2010, from €534 million to €1.6 billion, revenues generated by European football clubs grew by 30% from €10 billion to €12.8 billion between 2007 and 2010.

According to a report produced by the CIES Football Observatory on the transfers made during the summer session of the market regarding the first 5 European championships (Premier League, Serie A, Ligue 1, Bundesliga, and Liga) in the last decade (precisely from 2010 to 2019), "it can be noted that 9 of these have spent more than one billion euros for the purchase of players in the last ten years. Moreover, all the UEFA Champions League finalists since 2005 are among the twenty clubs that have invested the most over the last decade"[17].

To better understand the situations and events that have led to the need to regulate the financial structures of modern football clubs, we will analyze the five leagues mentioned above in more detail.

1. *Premier League*

The following list[18] shows that among the top 15 European teams, six are English teams, for a total of 7 billion euros spent over 10 years. The same analysis shows the balance of club purchases/sales: the two Manchester teams (City and United), respectively, occupy the first and the third place for negative balance (-1.091 billion for the *Citizens* and -833 million for the *Red Devils*).

[17] *https://www.calcioefinanza.it/2019/09/09/club-che-hanno-speso-di-piu-sul-mercato/*

[18] *CIES Football Observatory Monthly Report n°47 – September 2019. The table analyses the volume of transfers (transfer fees) of the top 15 European clubs in the decade 2010-2019.*

But let's go back to the seasons just before the adoption of Financial Fair Play.

For the 2008/2009 season, according to a Deloitte study, the debt contracted by the 20 teams in the English league amounted to around £3.1 billion. Indeed, "at the time of the introduction FFP, several Premier League clubs were known to be spending considerably above their income". Companies such as West Ham, Everton, Portsmouth, faced major financial difficulties, net losses of millions, negative equity and, in the specific case of Portsmouth, the non-payment of players, a disbanded company with an income tax debt that led to a subsequent liquidation petition from HM Revenues & Customs. However, it is important to point out that even in the English second division have been huge financial problems, mainly due to the obsessive desire to join the *League of Greats*, the first national championship. “The 2010–2012 parliamentary report into English football noted that, "Much of the overspending [by non-Premier league clubs] is as a result of the desire to get into the 'promised land' of the Premier League or indeed to simply stay there... the prevailing reasoning amongst Football League sides seems to be that excessive levels of spending can be sustained for a few years within which time promotion must be achieved. After that, Premier League revenues can be used to pay off all the debts accrued".

A reasoning that certainly did not do many of these companies any good.

2. Serie A

Among the teams that have spent the most in terms of transfers in the last decade, in fifth place we find the 1st of four Italian teams, Juventus, which has registered investments for 1.272 billion euros, followed by Internazionale Milano (10th place, 968 million), Roma (11th place, 895 million), and Milan (13th place, 853 million). The total amounts to about 4 billion, only 57% of the 7 billion spent in England.

In December 2010, many Italian clubs recorded a net loss compared to the previous season: AC Milan for 70 million, Genoa for 17, Fiorentina for 9.6 and many others; only few clubs registered a profit at the end of the same year, including Napoli, Lazio, and Udinese.

If we look at a longer period, some Italian clubs have been loss-making for years now, such as Internazionale Milano, which had accumulated losses of about 1.3 billion euros over the last sixteen years; Lazio "on 20 May 2005, Lazio agreed a 23-year repayment plan to pay back a €140 million overdue tax bill. The club recovered, however, showing a net asset/equity of €10,500,666 in its consolidated accounts on 30 June 2011, while net financial debt of the group (*Italian: Posizione finanziaria netta*) was €9.01 million".[19] The other main team in Rome, AS Roma, was certainly noo better off than *biancocelesti*: at the time, the club led by the parent company *ItalPetroli* had a huge debt to the UniCredit bank. "On 30 June 2010, AS Roma SpA had a negative equity (total liability greater than total asset) of €13.2 million on the consolidated balance sheet, which ultimately led to the group ("Roma 2000") being sold to group of investors led by American billionaire Thomas R. DiBenedetto (25%). Before the formal handover on 30 June 2011, the club had a net financial debt of €53.831 million, with a negative equity of €43.984 million"[20].

3. La Liga

As we said before, a crucial event for birth of Financial Fair Play was Real Madrid's 2009 transfers campaign, led by President Florentino Perez with the aim of bringing the *Blancos* back to the top of the world stage not only in terms of turnover, heritage (the richest club in the world according to Forbes magazine) or number of fans, but also and above all in terms of victories and trophies. A number that should certainly be highlighted is the growth in revenues of around 8% (the highest in Europe) for the Spanish La Liga just before the *Galacticos* campaign went down in history; extra revenues that went mainly to the two dominant clubs in Spain (Real Madrid and Barcelona), thanks to their great ability to get separate television deals.

Purchases of players such as Kakà, Benzema, Cristiano Ronaldo, not only caused very high financial outgoings, but also their salaries (very high for the time) weighed heavily on the Real Madrid's balance sheets, resulting in a net debt at 30 June 2009 of about 326.7 million euros; while net debt at 30 June 2008 (exactly one year before) was 130 million. "The net asset/equity, however, increased from €195.9 million to €219.7 million"[21].

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[19] *https://en.wikipedia.org/wiki/UEFA_Financial_Fair_Play_Regulations*
[20] *https://en.wikipedia.org/wiki/UEFA_Financial_Fair_Play_Regulations*
[21] *https://en.wikipedia.org/wiki/UEFA_Financial_Fair_Play_Regulations*

On the other hand, Barcelona, the other great dominant team in Spanish football, has continued to spend over the years, albeit to a lesser extent in the run-up to 2009: in fact, on 30 June 2009, Barcelona's net asset/equity was €20.844 million. In total, the Spanish La Liga's debt amounted to around £2.5 billion; club owners, therefore, spent much more than they cashed in.
During summer 2010 many Spanish teams of lesser rank were facing difficult financial situations: Villareal was unable to pay its players because the owner (who at the same time owned a company working in ceramics from which he drew the money to later invest in the Spanish team) was affected by the European credit crisis; Deportivo La Coruna had about 120 million euros in debt; the other Madrid team, Atletico Madrid, had about 300 million euros in debt. A separate case was represented by Valencia, which in 2009 was reported with a debt of 547 million euros: "In 2007, during a property boom, Valencia's management decided to build a new 70,000 capacity stadium, despite doubts that it could attract enough fans to regularly fill it. Construction of the "*Nou Mestalla*" was to be funded by the sale of the existing ground; however, two years into the project, work ground to a halt when the club could not find a buyer following the Spanish property crash.[29] Despite an impressive display on the field, Valencia was forced to temporarily halt work on a new stadium and delay wages when its bank denied it more credit, forcing management to sell some of their top players, including David Silva and David Villa".[22] In the Spanish secondary leagues, finally, there were combined debts of around £507 million to the Spanish tax authorities, and other amounts due to state bodies.

4. Ligue 1 and Bundesliga

Ligue 1 and Bundesliga, which are the top football leagues in France and Germany respectively, have for many years been subject to regulations not far away from the current Financial Fair Play rules.
In France, there is a body that monitors and supervises the accounts of all French professional clubs to ensure the utmost financial prudence on the part of the owners. This body, the *Direction Nationale du Contrôle de Gestion (DNCG)*, has also provided sanctions for those who fail to comply with these directives; sanctions such as embargoes on transfers, reduction of playing teams, relegation or even expulsion from the league. From this point of view, the French league can certainly be an example despite its much lower income compared to the Italian, Spanish, or English league: French clubs have recorded small profits over the years, which were mainly derived from the growth and development of young players, later sold to other teams at a significant price. Suffice it to say that Lille (not exactly a rich club), in the four-year period 2005-2009 made more than 164 million euros in profits.
In Germany, each team at the end of the season must apply to the German Football Federation (DFB) for a license to participate in the following football season. This Federation can access all the transfer documents and accounts of each club, so that it can ascertain that there is no danger of insolvency for the club in question, and then approve and grant the license for the following year. "The DFB have a system of fines and points

[22] *https://en.wikipedia.org/wiki/UEFA_Financial_Fair_Play_Regulations*

deductions for clubs who flout rules and those who go into the red can only buy a player after selling one for at least the same amount. In addition, no individual is allowed to own more than 49% of any Bundesliga club".[23] But, although such measures and restrictions were already in force before the adoption of Financial Fair Play, there were some German clubs that had to deal with economic and financial problems. One of the most successful clubs in German history, Borussia Dortmund, had a debt of around 118.8 million euros in 2004: in fact, after some important victories (both on national and international fields, like the victory of Champions League in 1997), the German club had based its future strategy on investments mostly in foreign players. This plan led Borussia Dortmund into bankruptcy, escaping for miracle liquidation in 2006; from then on, Borussia Dortmund changed its strategy, restoring its financial structure also thanks to the sale of young players grown up at home.

1.2 The first Financial Fair Play and subsequent reforms

The original form: 2009 Edition

The Financial Fair Play (FFP) is a project set up by the UEFA Executive Committee to prevent professional football clubs from spending more than they earn, which could threaten their long-term survival. The aim is to get clubs to pay off their debts, so that they can become economically and financially self-sustainable in the long period, thus ensuring the overall well-being of football and, simultaneously, respecting the rules.

Initially, the Financial Control Committee of Union of European Football Associations (UEFA) agreed to do so in September 2009. The new package of rules provided for the adoption of sanctions against clubs that exceed a certain level of expenditures on a three-yearly basis, within a pre-established budgetary framework. These sanctions went from disqualification from European competitions for one or more years, to fines, withholding of prizes or bans on player transfers: it's recent the case of Chelsea, which had the incoming market blocked for two consecutive sessions (summer 2019 and winter 2020). Although works began in 2009, the introduction and adoption of the new UEFA regulations started only from the 2011-12 football season.

"Fifty per cent of clubs are losing money and this is an increasing trend. We needed to stop this downward spiral. They have spent more than they have earned in the past and haven't paid their debts. We don't want to kill or hurt the clubs; on the contrary, we want to help them in the market. The teams who play in our tournaments have unanimously agreed to our principles…living within your means is the basis of accounting but it hasn't been the basis of football for years now. The owners are asking for rules because they can't implement them themselves – many of them have had it with shoveling money into clubs and the more money you put into clubs, the harder it is to sell at a profit"[24]. Using these words, President of UEFA Michel Platini

[23] *https://en.wikipedia.org/wiki/UEFA_Financial_Fair_Play_Regulations*
[24] *https://en.wikipedia.org/wiki/UEFA_Financial_Fair_Play_Regulations*

announced the advent of Financial Fair Play, also saying that an independent committee will be set up to analyze the situations of individual clubs and judge whether clubs have broken the rules.

At the beginning of this paper, we have listed the financial objectives set out in Article 2 of the UEFA document, which reaffirm the duties and responsibilities of UEFA and which we can summarize in the following list:

1) Giving the financial system of companies an order and rationality.
2) Stimulating the self-sustainability of companies, especially in the long term.
3) Stimulating infrastructure growth.
4) Stimulating growth in the youth sectors.
5) Encourage the company to compete only within its own revenues.
6) Ensuring that companies honour their financial commitments on time.
7) Reduce pressure on wage demands and transfers.
8) Limiting the effects of inflation in the football world.

The official UEFA Financial Fair Play manual was also released, which helps clubs to better understand the new rules, explaining them in detail.

The independent commission announced by Michel Platini to oversee all Financial Fair Play proceedings was named Financial Control Panel (or CFC Panel), consisting of eight independent experts and a chairman (Jean-Luc Deahene, former Belgian Prime Minister). "The task of the CFC Panel is to ensure that UEFA's club licensing system is properly implemented in all 53 member associations... and that clubs have met the criteria defined in the UEFA Club Licensing Regulations. Furthermore, the CFC Panel will be decisive in the implementation and evaluation of the Financial Fair Play Concept, which was unanimously approved by the UEFA Executive Committee in September. As a result, the CFC Panel will have an important role to play in fostering financial fairness in European competitions and the long-term stability of football in Europe, combined with the objective of stimulating long-term investment [development of youth football and improvement of sporting structures] against short-term speculative expenditure"[25].

In previous seasons, many clubs reported repeated and increasing financial losses and experienced a sharp drop in liquidity, which have led to delayed payments to other clubs, employees, and social/tax authorities. Therefore, UEFA decided to introduce, with the unanimous support of professional clubs and all relevant bodies, appropriate measures to achieve the above objectives necessary for the survival of football itself. Among these we can see the obligation for clubs to reach budget parity or a surplus in a specific period: clubs cannot repeatedly spend more than they earn; they are also obliged to pay employees and transfers in a timely manner. Clubs that are highly risky because they do not meet certain indicators must also provide the required balance sheets and a detailed strategic plan to solve the problem.

[25] *"The Financial Control Panel is born", article UEFA, 12 November 2009*

The Financial Fair Play procedures, as mentioned above, are established based on a multi-year assessment, to have a long-term vision. These measures exceed the criteria of the UEFA club licensing system in force and are designed primarily and specifically to assess the short-term financial situation of football clubs and are administered by the governing bodies of each UEFA member association.

The budget parity requirement is at the heart of FFP, consisting of a series of parameters and indicators, including the viability of the business as a going concern, positive shareholders' equity, breakeven result, debt sustainability and balance in the balance of player transfers.[26] According to UEFA and to the new regulations, a balanced budget is defined as the difference between the so-called "significant revenues" (e.g., box office revenues, TV rights, commercial activities, sponsorships, advertising, capital gains realized and market operations, plus financial income and other operating revenues) and "significant costs" (e.g., costs of goods and services, wages and salaries, amortization of players' tags, temporary acquisitions, financial expenses and dividends, other operating costs). If this difference gives a positive or zero result (e.g., a surplus or a breakeven situation), the club obtains the UEFA license by the federation. If this difference turns out to be negative, the club in question would risk penalties that could go so far as to exclude it from UEFA competitions for one or more years. In any case, a "deviation" threshold is accepted: in fact, a tolerance margin which allows clubs to close at a loss without losing the license is given; this threshold can be exceeded by 5 million euros in the three-year period considered, but, if the loss is fully covered by the club owner or by a related party, the threshold can be raised up to 30 million aggregate losses in the three-year period.

The introduction of the Club Financial Control Body (CFCB): 2012 Edition

The Financial Control Panel (or CFC Panel) was approved on 11 November 2009 and announced in a UEFA statement the following day. UEFA President Michel Platini, announcing the birth of this new UEFA body, first appointed the head, Jean-Luc Dehaene, who in turn, as the new president, appointed 8 independent experts to help him. On the same day, the new body held its first meeting, defining a new work's program for the upcoming season (2009/2010 season) and examining the expected future challenges.

The primary aim of the CFC Panel (and a top priority for UEFA) is to ensure greater transparency and equality within European competitions, by monitoring and supervising the new Financial Fair Play system. "With the introduction of financial fair play, the work done by the CFC Panel will be crucial to preserve the stability and good health of European club football in the medium to long term"[27]; this statement from Platini underlined the key role that the new organism would have had in achieving this.

But, on 30 June 2012, the UEFA Executive Committee approved the creation of a new body to replace the Club Financial Panel Control, appointing its members for at least the next 3 years (30 June 2015). This new group, known as the Club Financial Control Body (or CFCB), would still play a crucial role in the supervision and control of the licensing process and the application of Financial Fair Play. It aims to ensure the correct

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[26] *https://www.calcioefinanza.it/2019/11/18/fair-play-finanziario-e-plusvalenze/*

[27] *"The Financial Control Panel is born", article UEFA, 12 November 2009*

application of both systems. Unlike its predecessor, the CFCB "may take disciplinary action and any appeals against its decisions must be lodged with the Court of Sports Arbitration in Lausanne"[28]. This body may therefore impose disciplinary sanctions in the event of non-compliance with the requirements; it may also decide on the suitability of European clubs to participate in UEFA competitions.

The first to chair the CFCB was José Narciso da Cunha Rodrigues, judge at the Court of Justice of the European Union (CJEU). At its side, there would have been two sub-bodies, called the Investigatory Chamber and the Adjudicatory Chamber. The head of the Adjudicatory Chamber would have been the President of the CFCB himself, Judge Rodrigues; while the main representative of the Investigative one would have been the former President of the newly dissolved body (the Club Financial Panel Control), Jean-Luc Dehaene, backed by the 8 independent experts who, together with him, composed the former panel. The Investigation Unit will deal with all the phases considered preliminary to the proceedings; the Adjudicatory Unit will deal with the judicial phase. We therefore note that UEFA did not destroy its previous work, but it tried to improve and strengthen it through the creation of a larger body with sanctioning and deliberative powers, added to the previous supervisory and control tasks.

As mentioned above, the UEFA Club Financial Control Body (or CFCB) plays the fundamental role of supervising the application of Financial Fair Play Regulations: the body is competent to determine whether the individual association and the individual club have complied with the licensing criteria or have met the requirements of FFP, and then decide on such situations. The CFCB is also a true administrator of justice: it can impose disciplinary measures in the event of non-compliance with the parameters set out in the UEFA rules, both on club licensing and Financial Fair Play.

As far as the Investigative Chamber is concerned, it supports the work of the Club Financial Control Body regarding the monitoring and investigation phase of the proceedings. It is led by the Chief Investigator (who is also the CFCB Chairman), and at least three other members. The Chief is committed to ensuring the proper functioning of the chamber itself, assisted by his deputy. "An investigation can be opened ex officio or upon request. The CFCB chief investigator establishes the facts and collects all relevant evidence. He leads the investigation proceedings himself or assigns this role to other member of the investigatory chamber. At the end of the investigation, the CFCB chief investigator, after having consulted with the other members of the investigatory chamber, may decide to dismiss the case; conclude, with the consent of the defendant, a settlement agreement; or apply, with the consent of the defendant, disciplinary measures limited to a warning, a reprimand or a fine up to a maximum amount of €200,000; or refer the case to the Adjudicatory Chamber"[29].

Finally, the Adjudicatory Chamber shall rule on the matters submitted by the Chief Investigator, the President of the body itself or directly by a request of an interested party.

The chairman of the CFCB heads the arbitration body, supervises its work, and he is assisted by at least three other members, two of whom also act as vice-chairmen of the Club Financial Control Body. "The proceedings

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[28] *"UEFA Club Financial Control Body Appointed", article UEFA, 30 June 2012*

[29] *https://www.uefa.com/insideuefa/protecting-the-game/club-financial-controlling-body/*

are conducted by the CFCB chairman who informs the defendant of the opening of the judgement stage. The adjudicatory chamber makes its final decision in the presence of at least three of its members, including the CFCB chairman, who have attended the deliberations, and by simple majority. The adjudicatory chamber may take the following final decisions: to dismiss the case; to accept or reject the club's admission to the UEFA club competition; to impose disciplinary measures; to uphold, reject, or modify a decision of the CFCB Chief Investigator. Disciplinary measures include among others the following: a warning; a reprimand; a fine; deduction of points; withholding of revenues from a UEFA competition; prohibition on registering new players in UEFA competitions; restriction on the number of players that a club may register for participation in UEFA competitions, including a financial limit on the overall aggregate cost of the employee benefits expenses of players registered on the A-list for the purposes of UEFA club competitions; disqualification from competitions in progress and/or exclusion from future competitions; withdrawal of a title or award"[30].

Increase in deficit, Voluntary Agreement and "related parties": 2015 Edition

We have seen that a margin of tolerance is provided for clubs which deviate the financial rules related to budget parity, so that they do not lose their UEFA license. This threshold can be exceeded by € 5 million considering three years; but, if the loss is filled by funds belonging to the owner himself or to related parties, this aggregate loss can reach € 30 million (always on a three-year basis).

In 2015, the Belgian lawyer Jean-Louis Dupont, the same as in the Bosman case, occurred about 20 years earlier, was partially successful in his appeal (later lost to the Supreme Court) against UEFA where he considers illegitimate the part of the financial regulations referring to the maximum deficit that can be accumulated by European clubs (set at 30 million over a three-year period, net of virtuous expenses). "According to the lawyer, imposing a limit on a football club's deficit is contrary to the principle of free competition and, therefore, financial fair play is a rule that cannot be applied"[31]. The *Tribunal de Première Istance de Bruxelles* declared the suspension of this rule, and the raising of the threshold from 30 to 45 million, as provided for in the previous regulation. UEFA's response was not long in coming: in fact, it immediately appealed and blocked the enforceability of the measure.

In the previous months, members of the European Club Association (ECA) held talks with UEFA President Michel Platini on possible changes to the Financial Fair Play, aimed at encouraging investment by new foreign members in European football, the introduction of spending caps for players, incentives for the development of youth sectors and suggestions on debt monitoring. The purpose was to soften the rigid financial system, making it more flexible, more suited to the economic situation of the moment (different from the one of five years before) and more predisposed to the arrival of foreign investors. This is the testimony of the then ECA vice-president and director of Milan's sports organization, Umberto Gandini: "Financial fair play has brought

[30] *https://www.uefa.com/insideuefa/protecting-the-game/club-financial-controlling-body/*
[31] *https://www.ilfattoquotidiano.it/2015/06/24/fair-play-finanziario-non-applicabile-in-ue-lavvocato-dupont-stoppa-platini/1810971/*

some common sense in the management of European football clubs. It has been a success in terms of reducing the overall losses of European football. On the other hand, however, there is the fact that some clubs have crystallized as a result of this, there are investors who would like to come into play but are held back by this very mechanism. In Europe at the moment there are only 5-6 big clubs, what UEFA should aim for is to have at least 20 big clubs"[32].

Specifically, what the European Club Association was asking for was:

1) An increase in the maximum deficit threshold (the so-called *Welcome package*): to establish new maximum loss thresholds for companies managed by foreign investors, to encourage their investments. The current rules were not very functional: in fact, the regulations in force were tailored to possible inflation that would hit Europe during the crisis, and this led to the early adoption of Financial Fair Play back in 2009.
2) Introduction of the Salary Cap for footballers, the spending ceiling. One of the main reasons that led to the creation of the Financial Fair Play was the desire to curb the excessive increase in players' salaries, which has risen disproportionately in recent years, causing financial problems for several European clubs. However, the crisis and the larger revenues of football clubs have favored an increase in the level of salaries rather than a reduction in them.
3) The obligation to allocate 5% of revenues to youth sectors, to nurseries, carrying out a development process that the principles of FFP had set out to do, but some of which had not been realized. As UEFA had excluded the costs for youth football facilities from the break-even rule, the clubs used this cost exclusion to reduce their losses, not to invest in youth sectors.
4) The clubs' request to include debt among the parameters of Financial Fair Play, proposing as a solution a net financial debt not three times higher than the value of the club's net assets.
5) Exclude taxes on labor from the calculation of personnel costs, with the aim of equating football clubs, even if they belong to different tax regimes. This request came mainly from Italy, where the president of Juventus, Andrea Agnelli, and the vice-president of Milan, Adriano Galliani, had been complaining about the weight of IRAP (Regional Tax on Productive Activities) on the accounts of Serie A clubs.
6) Stop Third Party Ownership (or TPO), i.e., so-called third parties, such as investment funds, which was a growing phenomenon in recent years. The transactions in which TPOs are involved are unclear at the end of the year, difficult to track accurately and to understand the effect on club budgets. TPOs would have been officially excluded from FIFA as of 1 May 2015.

A few months later, President Platini himself confirmed imminent changes in the Financial Fair Play, which would later be discussed at an Executive meeting in Prague on 29 and 30 June of the same year. The French executive announced a reduction in the sanctions linked to the financial regulations, a loosening of the constraints, especially regarding players' purchases and salaries.

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[32] *https://www.calcioefinanza.it/2015/01/13/fair-play-finanziario-modifiche-proposta-club-eca-uefa-inter-roma-milan/*

This statement opened the UEFA press release on 30 June 2015, announcing the new version of Financial Fair Play valid for the next three years: “The UEFA Executive Committee has approved the 2015–18 UEFA Club Licensing and Financial Fair Play Regulations at its meeting in Prague. These updated regulations come after a two-year collaborative and consultative process involving key stakeholders including the European Club Association (ECA) via a dedicated UEFA-ECA Working Group. They will encourage more growth and development, inclusivity and market stimulation through a careful broadening and refinement of the requirements, taking into consideration the economic environment and the experience gained over the last five years”[33].

The Federation advanced an important opening to foreign investors, who were ready to "contribute to the strong and healthy growth of club football in Europe". The new changes would have also considered the disadvantages due to sudden economic shocks, serious structural deficiencies of the internal market in which the individual club operates; it would have addressed situations of recent corporate restructuring, takeover, or sustainable investment by strengthening the monitoring of clubs in these circumstances through the application of strict conditions.

Karl-Heinz Rummenigge, president of the ECA, released these words on the subject: “The financial fair play rules are a very important tool for clubs to control their economic situation. The new version of the rules is perfectly in line with the Financial Fair Play principles, develops the system further and strengthens those principles. Therefore, ECA calls on clubs to keep on supporting the financial fair play system and to work within the framework of the new financial fair play rules”[34].

All's well that ends well; but let's look specifically at the most important innovations introduced by this update:

- From 1 July 2015, clubs would have been able to have a larger deficit than that allowed until then (i.e., 30 million euros) within a 4-year plan based on a plausible revenue growth. Precisely, “if the 30-million-euro deficit has not been exceeded so far, it can be exceeded now, provided the dry loss is foreseen within a four-year plan based on a serious revenue growth forecast. In other words, more freedom for clubs that have shown they can manage themselves, less freedom for those already sanctioned”[35].
- The most important innovation is the introduction of the Voluntary Agreement (which goes alongside the Settlement Agreement), available only to clubs not yet qualified for European competitions “that have a development project to propose to UEFA by 31 December, with which they declare themselves volunteers for a prior agreement. The financial supervisory body must then decide on the case by the following spring, and whether the investments (infrastructure or purchases of players) that generate the red in the budget deserve to be granted a trial period of up to four seasons (as opposed to three that

[33] *“Club Licensing and FFP Regulations Approved”, article UEFA, 30 June 2015*
[34] *“Club Licensing and FFP Regulations Approved”, article UEFA, 30 June 2015*
[35] *https://www.itasportpress.it/primo-piano/uefa-ecco-il-nuovo-fair-play-finanziario/*

are granted at the moment)"[36]. By development project we mean a detailed plan of investments and economic returns, demonstrating how any investments each year will be a source of future revenues, in line with the core principle of Financial Fair Play, i.e., not spending more than what is collected.

What is the main advantage? Any restrictions will be no longer applied from the first year.

However, the requirements to apply for a Voluntary Agreement are very strict; we will discuss them in detail in the next chapter. Such an agreement cannot be signed by companies that have already signed a Settlement Agreement in the last three years or by companies involved in infringement proceedings that have not yet fallen within the established parameters. Therefore, the new Voluntary Agreement has been made up mainly for the clubs who could assess the credibility of the submitted plan, giving them confidence for longer. It "will be an additional option for clubs that believe that they have economic potential to grow economically in the medium term, but to do so they believe it is necessary to implement a plan of strong investment in a particular season"[37].

What is the difference between the two? "In practice, the difference between the Settlement Agreement and the Voluntary Agreement is that in the first case you are caught in a foul, "arrested" and sentenced, while in the second case you "spontaneously" and preventively hand over to the UEFA for a "crime" that you think you will commit (higher expenses and overruns of the "break-even") promising good conduct that will bring the company back into financial equilibrium in the medium term and thus avoiding ending up "on trial""[38].

- The third novelty, already anticipated by the title of the paragraph, concerns the issue of "related parties", i.e., suspicious sponsorships, which may take place through agreements with companies, including those controlled by the same ownership that controls the club. In the Financial Fair Play regulations, UEFA has provided that revenues from related party transactions (such as sponsorships) should not be included in "Relevant revenues" if they exceed market values (fair value). However, there was no reference to a precise parameter, and fair value is a subjective indicator, although established by independent experts. With the 2015 update, the body established that "any sponsor representing more than 30% of a club's turnover will be investigated"[39]. A case which speaks for itself is that of Paris Saint Germain, involved in that year in such a situation, whose sponsorship by the Qatar Tourism Authority was not considered adequate by UEFA (€200 millions of sponsorship per year for 474 million of annual turnover), i.e., not in line with the market values of that period. This led to a settlement with UEFA and a relative low penalty for the French club.

In conclusion, the words of UEFA President Platini best express the renewed body's ambitions after this new reform: "The new regulations are an expansion and a strengthening of financial fair play. The overall

[36] *https://www.calcioefinanza.it/2015/06/30/nuovo-fair-play-finanziario-2/*
[37] *https://www.tifosobilanciato.it/2015/07/15/un-po-di-chiarezza-sul-fair-play-finanziario/*
[38] *https://www.tifosobilanciato.it/2015/07/15/un-po-di-chiarezza-sul-fair-play-finanziario/*
[39] *https://www.calcioefinanza.it/2015/06/30/nuovo-fair-play-finanziario-2/*

objectives of financial fair play remain the same. We are just evolving from a period of austerity to one where we can offer more opportunities for sustainable growth and development”[40].

The “*Ceferin reform*”: 2018 edition

In December 2015, a tile arrives for UEFA, but also for FIFA. The president of the world's largest football body (FIFA - *Fédération Internationale de Football Association*), Sepp Blatter, and UEFA's eternal opponent, President Michel Platini, were sentenced by FIFA's Ethics Committee to 8 years' disqualification with immediate effect, founded guilty of corruption and abuse. Corruption and abuse explained by "two million Swiss francs paid by Blatter to Platini in 2011 for a consultancy carried out for FIFA between 1998 and 2002 ... a payment that had no legal basis in the agreement signed between the parties"[41]. Neither Blatter nor Platini were able to provide legal proof of this payment, which had no legal basis, and which violated laws and regulations. Among other things, Platini had just declared his intention to run for the FIFA presidency in the next elections: UEFA’s head has recurrently referred indirectly to this condemnation as a sort of excuse not to let him participate to these elections. However, after having repeatedly claimed to be innocent, the two presidents appealed to the Tas de Lausanne, which later accepted their request.

On 9 May 2016, the final judgement by the Tas de Lausanne arrived: the disqualification of the French president of UEFA was reduced to 4 years, and the fine from 80,000 to 60,000 francs. "The Tas recognised the validity of an oral contract between FIFA and Platini for the two million for a consultancy in 2011, but is not convinced of its legitimacy"[42]. As soon as he heard the outcome of the appeal, Michel Platini announced his resignation as president of UEFA: the association would have decided on the 18th of the same month who would have been his successor

On 14 September 2016, the Platini era definitively ended at UEFA: the Frenchman had been the main promoter of rigor and financial balance and had been leading the organization since 2007. On the same day, Aleksander Ceferin, president of the Slovenian Federation and nicknamed "The President of the small ones", was announced as the new UEFA head.

About a month earlier, UEFA reached an agreement with the European Club Association (ECA) for the reform of the Champions League, which would have been valid from the 2018/2019 football season. This reform provided for "the elimination of the preliminaries for the four main European leagues (Liga, Bundesliga, Premier League and Serie A), which will thus have four insured seats each, for a total of sixteen (compared to the current eleven) out of a total of 32"[43]. By using this system, European clubs of the so-called Super league have been favored, and the consequences have been paid for by the small and medium-sized clubs, which have seen their chances of entering the group stage of the highest European competition considerably reduced: a

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[40] *“Club Licensing and FFP Regulations Approved”, article UEFA, 30 June 2015*
[41] *https://www.repubblica.it/sport/calcio/esteri/2015/12/21/news/fifa_conndanna_blatter_e_platini-129907683/*
[42] *https://www.cdt.ch/sport/calcio/tas-ridotta-la-squalifica-di-platini-da-6-a-4-anni AUCDT154884?_sid=II0Q1nDU&refresh=true*
[43] *https://www.ultimouomo.com/il-presidente-delle-piccole/*

defeat both on a sporting and economic level, with the loss of revenues deriving from TV rights and not only. The new president had already expressed his opposition to this reform, even before his election, supporting the formula then in force; this sort of electoral promise was decisive for his victory.
On Friday 9 December 2016, the UEFA Executive Committee, meeting in Nyon, approved the reform initially proposed in August and resulting from the UEFA-ECA agreement, which provided for 26 group stage qualifications through positioning in national championships and only 6 seats available through the preliminaries. As mentioned above, this represents a defeat for the smaller federations and (in part) for the new president Ceferin, who has repeatedly expressed his opposition to the reform. Nevertheless, he managed to get some aspects introduced from which small clubs in particular would benefit, as well as those countries that only had a few places available to participate in European competitions. “A contribution of ten million euros will be allocated as "additional solidarity distribution for teams in the first qualifying rounds”, i.e., rounds in which teams from Eastern Europe and other small European countries almost exclusively participate. Part of the scoring system for UEFA coefficients has also been modified: the new system will no longer include the coefficient of national associations, which weighed twenty percent. This change, writes UEFA on its website, “was made in order to avoid giving an unfair advantage to the clubs of the associations with the highest ranking and a consequent penalty to clubs with very good individual performance but a low coefficient of the association to which they belong”. Furthermore, the coefficient used to establish the club ranking “will be calculated on the basis of the results of the last five years to reflect the current strength of the clubs and will not contain bonus points for titles won in the past”[44].
Ceferin also decided in 2018 to put his hand on Financial Fair Play, with the intention to correct some of the remaining lacks presented in the manual. The so-called *Ceferin Reform*, which came into force on 1 June 2018, included two key concepts: transparency and solidity. “Ceferin's idea is to avoid and totally exclude all those systems designed by the clubs to circumvent controls, fraudulent accounts and move expenses to the following year... the clubs will be forced to publish on their website the budgets, in which the expenses for the commissions guaranteed to agents and intermediaries will be included: in fact, the club will write the "aggregate" amount spent on the purchase, adding to the real amount the commissions and anything else. ..Everyone had complained that the penalties of the FFP always arrived in the season following the incriminated one, and this will no longer be the case: if the club has a deficit balance of over 100mln, UEFA will intervene by checking the accounts and the feasibility of that market and asking for guarantees on the respect of the parameters of the Financial Fair-Play. If there are not enough guarantees, sanctions and the obligation to return the deficit in the following session ... Stop also the fake loans to disguise the purchase: if the amount of the "redemption" is very high and the desire to circumvent the rules is clear, the purchase will be immediately entered in the balance sheet by UEFA ... And stop also the transfers to clubs "friends" to make capital gains and reduce the deficit: the sale "overvalued" will still be entered in the balance sheet with the

[44] *https://www.ilpost.it/2016/12/10/riforma-champions-league-2018/*

market value, in case of crazy figures. It will not even be possible to anticipate the revenues of the market pool for the following year, and we will try to reduce the overall debt: there will be a debt squeeze, waiting for the salary cap, which is Ceferin's real idea and could become reality within a couple of years"[45]. "These changes were made to regulate certain practices used to "dilute" the effects of market transactions over time: loans with easily activated redemption rights (emblematic is the Mbappé case, borrowed from Paris Saint-Germain with redemption set at 180 million once salvation is achieved), or transfers between so-called "related parties", i.e. clubs referring to the same property"[46].

Many measures have been taken by UEFA to avoid further unpleasant and widely criticized situations that have arisen in recent years: the crazy expenses of PSG and Manchester City, the stops to minor clubs that risked bankruptcy due to unsustainable deficits (such as the Fenerbahce case), Milan case that risked exclusion from the European competitions. The inclusion of expenses for commissions promised to agents and intermediaries will help to better understand relations with TPOs, and the commissions actually paid to agents (such as the Juventus-Raiola case for Pogba or Inter-Joorabchian for Joao Mario and Gabigol). Many had complained about the competence of the Financial Fair Play sanctions, imposed only in the season following the one charged: the proposed solution will certainly increase the investigation of clubs that, according to UEFA, move in the market in a suspicious way.

Therefore, Financial Fair Play changed its face, with a more rigid and selective one. As we can read in an article published by Panorama[47], the previous Financial Fair Play worked by reducing the economic impact of the football system, which in the early 2000s had losses of 1.7 billion euros per season and debts covering half of the revenues, without closing out investments from outside. In addition, it sanctioned those who did not comply with the regulations more and more severely. This has caused, as a side effect, the crystallization of power relations, making already rich clubs progressively richer, increasing the gap with small and medium sized clubs. It is also fault of a Champions league built for just for few clubs, moving money only and always in the same direction. The new measures planned were centered on an increase in the transparency of the roles involved in the football system, on a harmonization of the counting and budget regulations between the different tax systems present in European countries, and finally on a reduction in the intervention time in case of suspected violations. UEFA's objective is to create an even more functional and binding system for monitoring the budgetary position of each individual participating club, directing it towards the sustainability of its management, also through incentives for the development of youth and women's football (e.g., better protection and education of young players, through a child protection policy, new medical prescriptions, and advanced development programs).

Along with this new reform, UEFA aims to use a more proactive approach, to anticipate financial problems, through the introduction of several new indicators (such as the sustainable Debt/GDP ratio for debt monitoring,

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[45] *https://www.ilsole24ore.com/art/uefa-scatta-nuova-riforma-fair-play-finanziario-dettagli-AEC1SRuE?refresh_ce=1*
[46] *https://www.fanpage.it/sport/calcio/come-funziona-il-fair-play-finanziario-e-come-cambiato-dal-2011-a-oggi/*
[47] *https://www.panorama.it/sport/fair-play-finanziario-uefa-regole-come-cambia*

and the player transfer deficit indicator, which will improve the monitoring of individual club transfer expenses) that will allow for greater rigor and control and will tend to avoid club-rigged accounts and fake loans.

1.3 UEFA's response to Covid-19: The Addendum

The impact of the virus on the football system and UEFA's response

The current world pandemic situation has shocked everyone. For months now we have been living with deaths, increasing contagion, riots and demonstrations that are tearing us apart, also and above all internally. The Covid-19 is changing everything profoundly, and the world of football is no exception, particularly in terms of its economic implications.

In the middle of the 2019/2020 football season, clubs have had to face matches postponed or played behind closed doors, quarantine and isolation, cases of positivity, asymptomatic cases, or cases of false positivity, all in an increasingly uncertain situation.

All of this has led to serious negative economic consequences for all the stakeholders involved in the football world: matches played behind closed doors and therefore without the presence of the fans (and, consequently, also without the revenue from ticket sales), closed stores which meant huge losses related to merchandising, companies in serious economic difficulty forced to find an agreement with their players to reduce the amount of players' salaries and mitigate losses. Many clubs in Europe have already moved in this last direction: in Italy, the first to do so was Juventus, which saved about 90 million on the 2019/20 season's budget thanks to players and coach, which have given up the last four months' salary and thus considerably relieving liabilities of the season's balance sheet. Gradually most clubs, both in Italy and in Europe, reached very similar agreements with their players and employees.

There are many variables that now affect and probably will affect future teams' budgets: the absence of fans in the stadiums for a long time could put sponsors away from clubs, which may face internal crises (economic or otherwise), reducing investments in football sector.

This is a new situation for everyone, there is no precedent to appeal to; each competent body must and will have to take decisions as it sees fit. UEFA has certainly not backed down and has tried to meet the clubs in this tragic time. As was widely predictable, it was impossible for the clubs to meet the targets set in the Financial Fair Play for the season 2019/2020, as well as to draw up a credible business plan for the following season. Thus, UEFA decided to adapt the financial rules to the current situation, to prevent clubs from incurring penalties and sanctions due to the failure to meet the three-year break-even constraint.

On 18 June 2020, the UEFA Executive Committee met by videoconference, and approved a series of temporary emergency measures to help all clubs. These new measures were issued as an addendum to the

licensing and Financial Fair Play regulations and consider the negative effects that COVID-19 has had (and is having) on club finances.
"Such measures were developed and unanimously supported by all stakeholders within the UEFA Emergency Working Group on Legal, Regulatory and Financial matters which comprises representatives of UEFA, the ECA, European Leagues and FIFPRO Europe.
The newly adopted emergency measures aim at:

- providing flexibility while ensuring that clubs continue to fulfil their transfer and salary obligations on time;
- giving clubs more time to quantify and account for unanticipated loss of revenues;
- neutralising the adverse impact of the pandemic by allowing clubs to adjust the break-even calculation for revenue shortfalls reported in 2020 and 2021, while at the same time protecting the system from potential abuses;
- ensuring equal treatment of clubs where the impact of COVID-19 may be realised in different reporting periods due to clubs' various fiscal year ends and domestic league calendars;
- addressing the actual problem which is revenue shortfall due to COVID-19 and not financial mismanagement;
- retaining the spirit and intent of financial fair play for football's long-term viability."[48]

After listing the goals that it is proposed to reach with the new measures adopted, the article published by the European organization focuses on the expected changes.
The most important one concerns the decision by UEFA to consider the 2019/2020 football season and the following one (2020/2021) as a single season, with a view to Financial Fair Play. Therefore, in the three-year period initially planned by the continental federation (2017/2020), where individual clubs must not exceed a liability of € 30 million given by the difference between significant revenues and virtuous costs to fall within the parameters of FFP, an additional year is added (2017/2021); the financial results of the *2019/2021* season to be delivered to UEFA will be calculated as an average of profits/losses reported at the end of each of the two seasons. Therefore, there is a move from a normal three-year period to an *extended three-year period*. This maneuver represents a breath of fresh air for the clubs, which not only "will thus be able to discount in this way many of the possible losses of this two-year period, but also because UEFA's judgement on the current season is thus suspended, leaving the clubs free to play at least in this market session"[49]. Clubs will no longer have to sell their players in order to fall within the parameters of Financial Fair Play (this would have been the scenario in the event of UEFA's adoption of a non-interventionist policy), but they will even be able to spend in the market session, but still in a conscious way, trying to predict what will actually be in the future of their clubs, what the losses will be and how to cover/support them.

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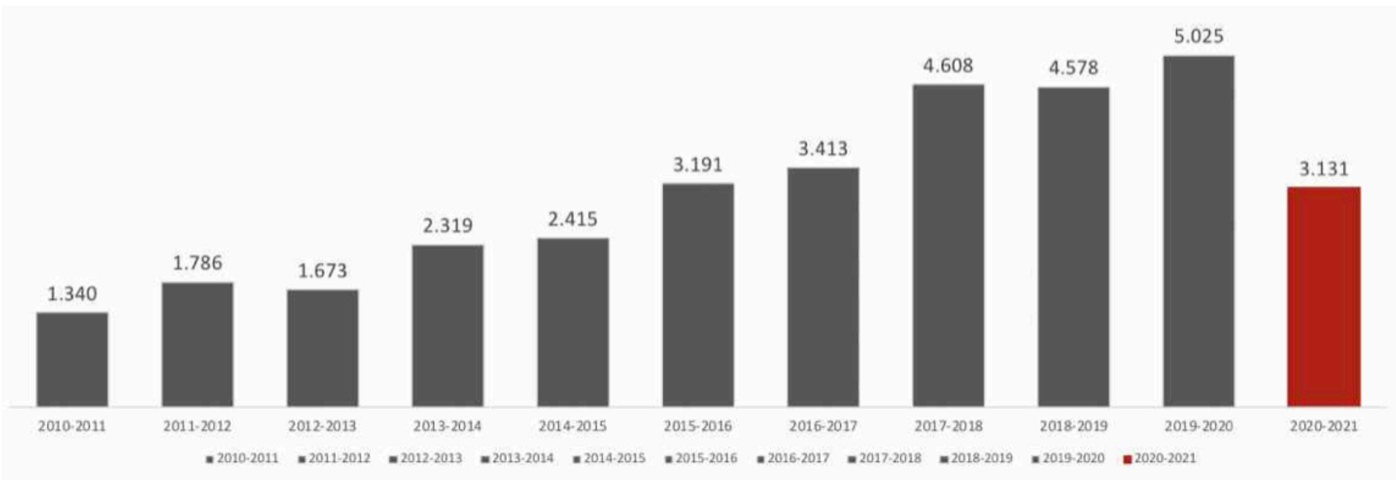
[48] *"Temporary emergency measures for Financial Fair Play", article UEFA, 18 June 2020*
[49] *https://www.ultimouomo.com/fair-play-finanziario-covid-calciomercato/*

UEFA, to further assist clubs deeply affected by the pandemic, announced that if some clubs at the end of the enlarged three-year period will not have satisfied FFP standards, they may not be sanctioned. In which cases? Only when the clubs can prove to the UEFA Panel that their non-compliance with the parameters is solely due to the COVID-19 pandemic. Finalized to demonstrate this, "the tool given to clubs is the possibility of comparing revenues from pre-Covid years with subsequent years in order to analyse those items that may have been penalised more than others (think of match revenues, sponsor revenues and merchandising, but also stadium revenues for events not strictly match-related for clubs owning a stadium capable of generating profits seven days a week)"[50].

A shrewd summer market session

The favorable conditions put forward and formalized by the highest European football body to the clubs guaranteed a transfer market session in terms of numbers partially comparable to the previous ones (in terms of transfers and money spent); however, everything was based on the prudence, the uncertainty and difficulty of the period we are experiencing today.

The economic-financial crisis resulting from the Covid-19 situation was mainly manifested with a drop of almost 2 billion euros during the football transfers campaign for the 2020/2021 season. If we consider the main five European leagues, during the last market session about 3.13 billion euros were spent, which, compared to 5.025 billion euros spent during the previous campaign (2019/2020), show a reduction of 1.89 billion euros, resulting in a decrease of about 38%. The volume of revenues diminished significantly compared to the 2019/2020 season: the impact of the lockdown and the game played behind closed doors had surely influenced heavily, bringing zero revenues for clubs in the form of tickets sold and services offered at the stadium. Similar levels of expenditure were not recorded from 2015/2016 (when investments amounted to 3.191 billion) and 2016/2017 (investments amounted to 3.413 billion).



[50] *https://www.ultimouomo.com/fair-play-finanziario-covid-calciomercato/*

The graph[51] shows that the amount spent during the purchase campaign in the last three years has risen hugely. Much has changed with the record transfer that involved the Brazilian footballer Neymar, who moved from Barcelona to Paris Saint Germain for about 222 million euros, much higher than any amount ever spent for a transfer; from then on, the market values have been upset, certainly conditioned by the enormity of this transfer.

Of the 3.13 billion spent in this last market session, 1.27 billion came from the teams participating in the "most beautiful championship in the world", the Premier League. In fact, the football market for English teams is the one that has suffered the least from the post-Covid-19 crisis, spending only 280 million euros less than last year (decrease of 18%), if compared to the Spanish league (decrease of 69%, from 1.32 billion to 412 million spent) and the Italian league (decrease of 38%, from 1.18 billion to about 726 million). The only one to have increased its investments was the French championship (i.e., mainly due to PSG), with an increase of almost 59%, going from 237 million spent in 2019/2020 to 404 million in the 2020/2021 season.

Suffice it to say that the most expensive transfer of this last market session was made by Chelsea (the club that spent the most) with German Kai Havertz, bought from Bayer Leverkusen for 80 million euros. Last year, 7 players were paid more than him, or at least as much as him, with the transfer of Joao Felix from Benfica to Atletico Madrid at the top of that list (€126 million). It should be noted that the clubs have been very cautious, prioritizing sales before buying, and operating a lot in terms of capital gains. One example is the transfer of Hakimi to Inter for 40 million euros after the Milanese company defined the sale of Icardi to PSG for 50 million; or the Pjanic-Arthur exchange between Juventus and Barcelona, valued at 60 and 72 million respectively, which allowed the two clubs to record important capital gains.

Despite a trend already outlined, the “watering down” of the constraints provided for by the Financial Fair Play has made many teams, especially those managed by a property capable of filling possible budget holes, which have sometimes operated in a direction contrary to that recommended by UEFA as well as contrary to the world crisis that is being experienced.

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[51] "The football market at the time of Covid-19", article in "Football and Finance". The data collected refer to the volume of investments made by Top 5 league clubs during the summer sessions of the football market, from 2010/2011 to 2020/2021.

Chapter 2 – UEFA Club Licensing and Financial Fair Play Regulations

2.1 General Provisions

Aims and objectives

At the beginning of the new millennium, many professional clubs complained that there was no system in place to regulate some of the most common issues in the football world, such as transparency, financial instability, past due debts, inadequate and uncontrolled stadiums, and low investments into the young sector. Similar structures (such as the club licensing systems) existed only in a small number of countries within the European Union, and therefore recently born; this led, within a few years, to the elaboration and the approval by the UEFA Executive Committee in 2002 of the first club licensing manual, the *UEFA Club Licensing and Financial Fair Play Regulations*, as the result of a pilot project ran by eight different associations. These licenses, necessary to participate in UEFA club competitions, were to be issued only when clubs have satisfied the set of criteria laid down in the manual.

The first manual was released in 2004, two years after the approval of the first version of the document, and today it represents much more than a licensing system: it is a fundamental variable to consider when clubs decide to act. This factor is also integrated into the strategic plans of the associations affiliated to the project, with the aim of improving the governance of European football and increasingly developing the clubs themselves. This is witnessed by Michele Uva, former vice-president of UEFA (he left his position as manager in October 2020), member of the Executive and Club Licensing Committee chairman, who spoke at the 2017 annual workshop of the UEFA Club Licensing and Financial Fair Play Regulations, held in Montenegro, using these words: "When club licensing was introduced in 2004, it aimed primarily to raise minimum standards in European football governance following a large number of cases of mismanagement that have even, in some cases, unfortunately led clubs to ruin. However, we have gone a long way since then, and a great deal has been achieved […] I only ask that we now all continue to show such great dedication, and keep looking ahead in order to tackle anything that would go against these objectives."[52]

UEFA Club Licensing and Financial Fair Play Regulations is a constantly evolving set of rules, which is continuously adapted to the changeable landscape for which it was designed, the same for everyone and based on the satisfaction of the clubs themselves, with minimum requirements to be observed.

[52] https://www.uefa.com/insideuefa/protecting-the-game/club-licensing/

Nowadays, the club manual sets out 39 distinct criteria that clubs applying for a license must meet; they are structured around five pillars:

1. Sporting Criteria
2. Infrastructure Criteria
3. Personnel & Administrative Criteria
4. Legal Criteria
5. Financial Criteria

This is confirmed by paragraph 2 of the first article, called *Scope of application*: "These regulations govern the rights, duties and responsibilities of all parties involved in the UEFA club licensing system (part II) and define in particular:

a) the minimum requirements to be fulfilled by a UEFA member association in order to act as the licensor for its clubs, as well as the minimum procedures to be followed by the licensor in its assessment of the club licensing criteria (chapter 1);
b) the licence applicant and the licence required to enter the UEFA club competitions (chapter 2);
c) the minimum sporting, infrastructure, personnel and administrative, legal and financial criteria to be fulfilled by a club in order to be granted a licence by its licensor as part of the admission procedure to enter the UEFA club competitions (chapter 3)."[53]

By scrolling down the article, we can find some indications regarding the monitoring process, whose control is entrusted to the Club Financial Control Body (CFCB); the manual defines the role and regulate the tasks of this body, in addition to the procedures that the parties involved must follow in order to obtain the license, and the minimum monitoring requirements that licensees must meet to access the European competitions. The percentage of successful licenses' application for the 2017/2018 football season was around 88%: this demonstrates the familiarity and the compliance developed by individual associations and clubs with UEFA regulations and its requirements.

However, the key objectives set up by the introduction of Financial Fair Play were not easily to be solved, especially in the short-term. Although *eradicating all evils* from the world of football is practically impossible, the ambitions of the new club licensing system are very significant, and they are listed in Article 2 of the manual:

"These regulations aim:

a) to further promote and continuously improve the standard of all aspects of football in Europe and to give continued priority to the training and care of young players in every club;
b) to ensure that clubs have an adequate level of management and organisation;
c) to adapt clubs' sporting infrastructure to provide players, spectators and media representatives with suitable, well-equipped and safe facilities;

[53] *UEFA Club Licensing and Financial Fair Play Regulations, Article 1 - Scope of application*

d) to protect the integrity and smooth running of the UEFA club competitions;
e) to allow the development of benchmarking for clubs in financial, sporting, legal, personnel, administrative and infrastructure-related criteria throughout Europe."[54]

Below, we can find the economic and financial purposes set out by UEFA in view of the adoption of Financial Fair Play: "

a) to improve the economic and financial capability of the clubs, increasing their transparency and credibility;
b) to place the necessary importance on the protection of creditors and to ensure that clubs settle their liabilities with employees, social/tax authorities and other clubs punctually;
c) to introduce more discipline and rationality in club football finances;
d) to encourage clubs to operate on the basis of their own revenues;
e) to encourage responsible spending for the long-term benefit of football;
f) to protect the long-term viability and sustainability of European club football."[55]

UEFA member associations are very different from each other, both in terms of management and infrastructures, and therefore they need a range of flexibility in the application of regulations, in order to adapt them to the local environment in which the association operates. Such flexibility is granted to the 55 associations involved in the implementation of the licensing regulations; however, UEFA must ensure that the system is applied correctly and consistently throughout the European continent.

On the other hand, while the applicants have to meet certain requirements in order to obtain a license, the UEFA bodies themselves must guarantee certain quality standards in the system management, focusing on professionality and continuous improvement. Regarding this, in 2003 UEFA issued the first edition of the *Club Licensing Quality Standard*, aimed to promote the credibility of the system itself by correctly applying the fundamental processes provided for, the established deadlines, sanctions, etc., while guaranteeing confidentiality and equal treatment, pivotal principles of the federation.

UEFA Club Licensing Manual over the years has not only had a significant impact on a sporting level, but also on a social one, going beyond football. "This is largely depicted through the obligation for all clubs to have a written youth development programme, and an established medical care of players… This is also the case with the improved standards and quality of sporting infrastructure seen in many parts of Europe, and increased financial transparency and management with the introduction of overdue payables criteria".[56]

Despite the important results achieved since the introduction of Financial Fair Play, Europe's leading football organization continues to look forward, trying to do better and better, facing football predominant issues, and maintaining rising standards.

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[54] *UEFA Club Licensing and Financial Fair Play Regulations, Article 2 - Objectives*
[55] *UEFA Club Licensing and Financial Fair Play Regulations, Article 2 - Objectives*
[56] *https://www.uefa.com/insideuefa/protecting-the-game/club-licensing/*

2.2 UEFA Club Licensing

The role of the licensor

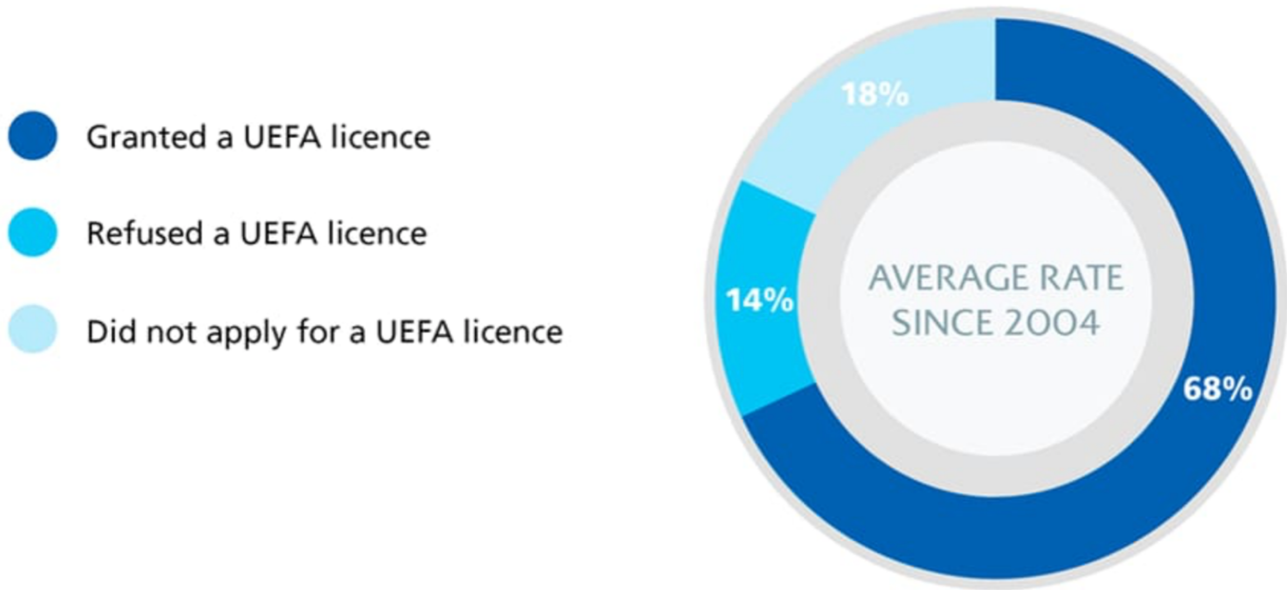
As mentioned in the previous paragraph, UEFA established the licensing system in 2004, which is now adopted by the 55 participating associations. This new instrument was (and still is) aimed at establishing a set of equal rules and regulations for the whole European football framework. How does this system work?

First, clubs qualifying for UEFA competitions must necessarily apply for a participation license, as without it they cannot participate in tournaments for which they have qualified.

The license indicates the compliance by the individual participating club with the UEFA standards.

The licensor's role is carried out by the member association (which, in turn, can delegate to the affiliated league); he assesses each application considering the five criteria listed above (i.e., sporting, infrastructure, personnel and administrative, legal, and financial criteria).

However, licensors hold a certain flexibility in the application of the rules laid down by UEFA. Firstly, the minimum standards must in any case be respected by all the member associations; however, managers can freely adapt them to their needs or to the national context: for example, they can introduce new criteria, require higher standards, or apply the rules also to those clubs who qualify for national competitions). A single system, therefore, capable of be applied to different scenarios according to needs.



The chart[57] tells us that since 2004 about 68% of the clubs' applications to obtain a UEFA were successful; only 14% of them did not lead to the issue of a license, and just the 18% of clubs have never applied for.

Article 5 (*Responsibilities*) lists the licensor's duties:

"In particular the licensor must:

a. establish an appropriate licensing administration as defined in Article 6;
b. establish at least two decision-making bodies as defined in Article 7;
c. set up a catalogue of sanctions as defined in Article 8;
d. define the core process as defined in Article 9;
e. assess the documentation submitted by the licence applicants, consider whether this is appropriate and define the assessment procedures in accordance with Article 10;
f. ensure equal treatment of all licence applicants and guarantee them full confidentiality with regard to all information provided during the licensing process as defined in Article 11;
g. determine whether each criterion has been met and what further information, if any, is needed for a licence to be granted."[58]

The licensor must therefore appoint a licensing manager, whose role will be:

- to prepare, implement and develop the existing system.
- to be administratively supportive of the decision-making bodies.
- to follow, assist and advise club license holders.
- to inform UEFA of any extraordinary event that could lead to a change in the information previously delivered.
- to be the point of contact of his association with the corresponding departments of the other members and with UEFA itself.

The two decision-making bodies referred to in point b) are respectively the First Instance commission and the Appeal body. The first "decides on whether a licence should be granted to an applicant on the basis of the documents provided by the submission deadline set by the licensor and on whether a licence should be withdrawn."[59] The latter, on the other hand, decides on the appeals lodged by the companies that have received the refusal or revocation of the license; it decides based on the documentation provided by the applicant company and on the decision already taken by the first instance committee, within the pre-established terms and parameters. Obviously, these bodies must be impartial, refrain in case of conflict of interest with the license applicant and not be simultaneously license manager.

For example, In Italy the licensor role is entrusted to the football control organization body, named FIGC (*Federazione Italiana Giuoco Calcio*); it defines the procedure for issuing licenses and, at the same time,

[57] *"New report: how european football associations implement UEFA's club licensing system", article UEFA, 6 July 2020. The graph is based on the total number of European clubs able to apply for a UEFA license, the actual number of applications made and the number of refusals.*

[58] *UEFA Club Licensing and Financial Fair Play Regulations, Article 5 - Responsibilities*

[59] *UEFA Club Licensing and Financial Fair Play Regulations, Article 7 – The decision-making bodies*

appoints the bodies of the system, which are: the *UEFA and Financial Fair Play licensing office*, who plays the role of licensing manager and therefore takes care of the tasks listed in the article 5, and the *experts*, which are five (one for each principle envisioned by UEFA), and their task is to assess the compliance of licensing clubs with the criteria set out in the Manual based on the documentation submitted by clubs themselves and present the reports to the *First Instance committee* and, in case of an appeal procedure, to the *Second Instance commission.*

1. The First Instance commission firstly decides on the license applications considering the documentation provided by the applicant (i.e., companies) and the report prepared by each individual expert, but it also comments on a possible revocation of the license;
2. The *Second Instance commission* is the body that conclude the appeals filed against the decisions of refusal or revocation of the license of the First Instance Commission: it judges based on the reasons put forward by the First Instance Commission, the documentation provided by the applicant company and the report prepared by each single expert.[60]

Sanctions may vary according to the graveness Article 16 violation, which we will analyze in a moment. These penalties range from a simple warning to a fine, up to the obligation to provide evidence: it is the national competent bodies that must impose these penalties on licensees (or license applicants), who may also refer to breaches of national disciplinary rules concerning forged documents, failure to comply with deadlines, etc.
In addition, the licensor must define the process of control and issuing the license (point d) of the list) to the applicant companies. Article 9 sets out the minimum steps of this process, which we report here:
"The core process consists of the following minimum key steps:

a) Submission of the licensing documentation to the licence applicants;
b) Return of the licensing documentation to the licensor;
c) Assessment of the documentation by the licensing administration;
d) Submission of the written representation letter to the licensor;
e) Assessment and decision by the decision-making bodies;
f) Submission of the list of licensing decisions to the UEFA administration."[61]

This process must be certified annually by an independent body appointed by UEFA.
The licensor shall define all the evaluation procedures, except in the case of those used to verify compliance with the financial criteria; these procedures follow specific indications provided for in Annex IX.

[60] *FIGC - Manuale delle Licenze Uefa, Edizione 2018*
[61] *UEFA Club Licensing and Financial Fair Play Regulations, Article 9 – The core process*

License applicant and license

If on side we have the licensor, on the other side we find the license applicant: the licensee.

The licensee can only be a football club (as a legal entity) which participates in national and international events, and which is a registered participant of a UEFA member association or has a contractual link with a registered member; for the license to be properly issued, the relationship between the registered member and the legal entity applying for the license, at the time the relevant season begins, must be of at least three years' duration.

The applicant must provide the licensor with all the documents relevant for the issue of the license and, of course, all the information necessary to demonstrate that the established obligations have been met. Article 13 (paragraph 2) specifies the type of information that must be submitted: "This includes information on the reporting entity/entities in respect of which sporting, infrastructure, personnel and administrative, legal and financial information is required to be provided."[62]

The license expires annually and cannot be transferred. It may, however, be withdrawn by the competent body if one of the conditions initially laid down for its issue is no longer met or if the licensee breaches any of the obligations under national licensing regulations. In the event of withdrawal, UEFA must be promptly informed by the member association in question.

What happens if a club qualified for a UEFA competition has never gone through a licensing process or it has received a license but of a lower or non-equivalent level, i.e., not valid for the purpose of participating in the competition for which the club has qualified? In this case, the licensor may issue an extraordinary license upon request of the licensee: "Based on such an extraordinary application, UEFA may grant special permission to the club to enter the corresponding UEFA club competition subject to the relevant UEFA club competition regulations. Such an extraordinary application applies only to the specific club and for the season in question."[63]

Club licensing criteria

As already mentioned, licensing criteria are requirements that the club must comply with in order not to incur any sanction. These principles must be respected by clubs seeking to obtain a license to participate in UEFA competitions (except for the Women's Champions League, which criteria are specified into Annex XIII).

The main feature (see Article 16bis - *General*), which should certainly be emphasized, is that any breach of one of these criteria does not compromise the possible issue of a license to the club, but it could lead to the application of one of the sanctions set out by the licensor, as provided for in Article 8 previously viewed.

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[62] *UEFA Club Licensing and Financial Fair Play Regulations, Article 13 – General responsibilities of the licence applicant*

[63] *UEFA Club Licensing and Financial Fair Play Regulations, Article 15 – Special permission*

1. *Sporting Criteria.*

   Articles 17 to 23bis outline the sporting requirements that European football clubs must necessarily meet, and we have already mentioned them: development of the youth sector, compliance with the rules, racism, football health.

   The first article refers to the safeguarding and development of young players: the license applicant must submit a detailed development plan for the youth sector, which must be approved by the licensor once the implementation has been verified and the quality assessed. This prospectus must include all the points provided for in paragraph two of Article 17, including the organization of the youth sector, of the staff, the infrastructures used, the financial resources planned/used, educational programs, etc. A minimum number of teams within the youth sector is also identified; each of them (except for Under-10s teams) must participate in official national, local, or regional competitions recognized by the national competent body and by UEFA member association.

   As far as health care is concerned, every year all players over 12 years of age must undergo a medical examination to prove their real possibility to play competitive sport; for the first team, it must be done in accordance with national regulations and in line with the provisions of the UEFA Medical Regulations.

   From 10 years of age, registration with the member association (or with the affiliated league) is required in accordance with the FIFA Regulations on the Status and Transfer of Players. The latter regulations also provide that each individual professional player must have a contract with the club applying for the license, otherwise the license will not be issued.

   A central theme is the fight against racism: for years, UEFA has been implementing a strong policy against all forms of racial discrimination. The organization, together with the FARE network, jointly published a guide on good practice against racism in European football in 2003. Article 23 - *Racial equality and anti-discrimination practice* states that: "The licence applicant must establish and apply a policy to tackle racism and discrimination in football in line with UEFA's 10-point plan on racism as defined in the UEFA Safety and Security Regulations."[64] The standard puts greater emphasis on the role of the highest European body in the fight against racial discrimination.

2. *Infrastructure Criteria.*

   This mini pillar, as it contains only three indications, provides precise information to European clubs about the infrastructure they must have, both for UEFA competitions and for simple training sessions. In particular, the rule requires the club applying for the license to have a stadium which must be in the territory of the UEFA member association to which it refers and it must be approved by the latter. This stadium, even if not owned and obtained through the conclusion of a contract with the owner(s), must

[64] *UEFA Club Licensing and Financial Fair Play Regulations, Article 23 – Racial equality and anti-discrimination practice*

be usable to play all its home matches in European competitions throughout the season; moreover, the structure must meet the minimum requirements of the UEFA Stadium Infrastructure Regulations, to be classified at least as a category 2.

The provisions concerning training facilities are very similar: they must be available to the license applicant for the entire duration of the football season for which the license has been issued, considering the youth development program presented. The same applies to the stadium in terms of property/rental.

Article 26 - *Training facilities - Minimum infrastructure* outlines the minimum requirements (defined by the licensor) for considering suitable training facilities: "

a. relevant indoor/outdoor facilities;
b. the specificities of those facilities (i.e. number and size of football pitches);
c. dressing room specificities;
d. the medical room and its minimum equipment (i.e. defibrillator and first aid kit);
e. floodlighting;
f. any other relevant requirements identified by the licensor."[65]

3. *Personnel and Administrative Criteria*

The third section contains all the criteria that clubs must meet in terms of administration and human resources; in fact, UEFA defines some fundamental roles that clubs must necessarily cover within their organizational chart.

The minimum requirements set out in the manual are as follows (there may be more than one person per role):

a) a secretariat with a certain number of staff, with a certain office, open to the public and equipped with communicative accessories (such as email address, fax, telephone, website).
b) a general manager who is responsible for the operational management of the club.
c) a financial manager who is responsible for managing financial matters and who is suitably qualified.
d) a media officer, who is qualified (a journalist's or media officer's diploma, or a recognition of competence issued by the licensor) and authorized to manage media relations.
e) a doctor responsible for medical assistance during matches and training; he is also the person in charge of doping prevention.
f) a physiotherapist who is generally responsible for the medical treatment of the first team both during matches and training sessions.
g) a doctor/physiotherapist exclusively for youth teams.

[65] *UEFA Club Licensing and Financial Fair Play Regulations, Article 26 - Training facilities - Minimum infrastructure*

h) a qualified security officer, who oversees protection and safeguard.

i) qualified stewards for the management and safety of the public during home matches.

j) a figure who acts as a point of contact with team supporters, acting as an intermediary between administrative staff and fans.

k) a person who is responsible for access to and provision of facilities and services for the disabled.

l) a qualified head coach (with the highest level of UEFA coaching license or equivalent non-UEFA license) is responsible for the football management of the first team.

m) an assistant to the head coach of the first team, who helps him/her in football matters and who has the second highest level of UEFA coaching license or equivalent non-EUFA coaching license.

n) a head of the youth sector, who is responsible for the implementation of the plan presented for its development, the daily activities carried out by young people and the technical aspects of the sector.

o) a qualified coach for each team in the youth sector who, as for the first team, is responsible for the football events of the team in question and with stricter criteria regarding the UEFA license to be held to be able to practice.

In case of a vacant role (dismissal, termination of contract, etc.) during the season, "the licensee must ensure that, within a period of a maximum of 60 days, the function is taken over by someone who holds the required qualification."[66], with an extension of a further 60 days in the event of an accident or illness that does not allow the figure to resume his position in good time.

4. *Legal Criteria.*

Among the legal criteria laid down in the UEFA Club Licensing and Financial Fair Play Regulations, the first one (Article 43 - *Declaration in respect of participation in UEFA club competitions*) requires the club applying for a license to make a valid legal declaration which recognizes:

- As legally binding all regulations of UEFA, FIFA, and the UEFA member association.
- The club will compete at national level in tournaments recognized by the UEFA member association to which it refers.
- That at international level the club will participate in competitions recognized by UEFA or FIFA.
- That the club will respect and abide by the licensor's licensing rules.
- That it will comply with the rules contained in the UEFA Club Licensing and Financial Fair Play Regulations.
- That it will be liable in case of non-compliance with the latter.

[66] *UEFA Club Licensing and Financial Fair Play Regulations, Article 42 – Duty of replacement during the season*

These outlined above are the ones to be highlighted, but there are many others in addition which underline the importance of this declaration, that must be submitted "by an authorised signatory of the licence applicant no more than three months prior to the deadline for its submission to the licensor"[67].

In addition to the legal declaration, the club must submit a copy of its (valid) certificate of corporation and a public register extract (such as the business register).

If the licensor is a football club, it must also provide a written contract of assignment with a registered member that provides for compliance with all the regulations of UEFA, FIFA, and the relevant member association; the inability to assign its right to participate in national and international competitions; the forfeiture of this right if the club ceases to be a member association.

Finally, the license applicant must present precise information on his legal structure and it must be approved by the management; this information must contain details on the license applicant: any subsidiaries, associated entities, entities exercising direct or indirect control over the applicant up to the final controller, who holds 10% or more of direct or indirect ownership or voting rights, on anyone who has significant influence over the applicant. And, if deemed relevant and necessary, the licensor may request further information from the licensee other than that already presented.

In addition to information on the legal structure of the group, the license applicant must submit information on the share capital, total assets, total revenues, and total equity.

5. *Financial Criteria*

The final pillar contains the financial criteria that clubs applying for a license must meet. Within them, we find one of the milestones of the Financial Fair Play already mentioned several times: the club applying for the license must not have overdue debts to other clubs, to employees and to social and tax authorities (articles 49, 50 and 50bis).

First, clubs are required to provide the licensor with the so-called *reporting perimeter*, i.e., the entity or group of entities whose financial information has to be provided. This report must include the licensor, its subsidiaries (if any), any entity (if any) regardless of whether it is included in the legal structure of the group, whether it generates revenues/services or bears costs related to football activity (i.e., hiring and paying staff, buying and selling players, ticketing, sponsorship and advertising, broadcasting, merchandising, financing, youth sector, etc.).

An entity is excluded from the report if:

- it is unrelated to the company's football activities, assets, or brand.
- it is irrelevant with respect to the other subjects included in the report.
- the football activity carried out by this entity is already included in one of the subjects already included in the report.

[67] *UEFA Club Licensing and Financial Fair Play Regulations, Article 46 – Legal group structure and ultimate controlling party*

In addition, the license applicant must submit a statement confirming that all costs and revenues relating to the football activities carried out and explained in detail have been included in the report; moreover, any exclusion of an entity from the legal structure of the group must be justified in the report itself.

The club applying for the license must present the annual financial statements “in respect of the statutory closing date prior to the deadline for submission of the application to the licensor and prior to the deadline for submission of the list of licensing decisions to UEFA”[68].

Financial statements must be reviewed by an independent auditor.

Document must comply with minimum disclosure requirements and accounting standards and, in addition, it must include:

a. a balance sheet.
b. a profit and loss account.
c. a cash flow statement.
d. notes, comprising a summary of significant accounting policies and other explanatory notes; and
e. a financial review by management.

When we talked about the *Ceferin Reform*, we said that one of the wishes (later introduced with the reform itself) of the newly appointed UEFA President was to ensure that the financial information of the clubs would be made public, aiming to guarantee greater transparency. Article 47bis says exactly that: “The licence applicant must publish on its website or on the website of its licensor by the date (which cannot be later than the date of the submission of the list of licensing decision to the UEFA administration) and in the form communicated by the licensor:

a. the total amount paid in the latest reporting period to or for the benefit of agents/intermediaries; and
b. the last audited annual financial information assessed by the licensor.”[69]

This pillar also regulates the financial situations of those clubs applying for a license that draw up the financial statements (due to the legal closing date of the club) more than six months before the deadline for submitting the license list to UEFA: the club must draw up and submit additional financial statements for the interim period.

Article 49 focuses on overdue payables towards other football clubs. More specifically, “The license applicant must prove that as at 31 March preceding the license season it has no overdue payables (as defined in Annex VIII) towards other football clubs as a result of transfers undertaken prior to the previous 31 December.”[70] Payables due in relation to transfers are: payables for transfer activities

[68] *UEFA Club Licensing and Financial Fair Play Regulations, Article 47 – Annual financial statements*
[69] *UEFA Club Licensing and Financial Fair Play Regulations, Article 47bis – Publication of financial information*
[70] *UEFA Club Licensing and Financial Fair Play Regulations, Article 49 – No overdue payables towards football clubs*

(including any bonuses arising from the fulfilment of certain conditions); payables for training compensation and solidarity contributions; and all liabilities arising from the termination of a player's contract.

License applicant must provide the licensor with a transfer table, even if there have been no transfers or loans during the relevant period. In this table, the club must include all registrations of new players (including loans) in the year preceding the application, until 31 December of the same year; in addition, all transfers for which the amount to be paid is outstanding on the deadline, regardless of when they were made.

The information required to be included in the transfer table is as follows: "

a. Player (identification by name and date of birth);
b. Date of the transfer/loan agreement;
c. Name of the football club that formerly held the registration;
d. Transfer (or loan) fee paid and/or payable (including training compensation and solidarity contribution) even if payment has not been requested by the creditor;
e. Other direct costs of acquiring the registration paid and/or payable;
f. Amounts settled and payment dates;
g. Balance payable as at 31 December in respect of each player transfer
h. including the due date for each unpaid element;
i. Balance payable as at 31 March (rolled forward from 31 December) including the due date for each unpaid element, together with explanatory comment;
j. Conditional amounts (contingent liabilities) not yet recognised in the balance sheet as at 31 December; and
k. Amounts subject to any claim/proceedings pending as at 31 March."[71]

The amount of liabilities arising from the transfer table is identified in the balance sheet with the item *Accounts payable relating to player transfers*. The table presented must be approved and signed (on behalf of the executive body) by the management of the company applying for the license.

In the same manner and within the same timeframe, the licensee must demonstrate that it has no past due debts towards its employees (or possibly to former employees) because of obligations arising from the existing contractual relationship or legal obligations arising in the year preceding the license application. What is meant by overdue payables to employees? This category includes wages, salaries, payments for image rights, bonuses, and other benefits. The employees of the club referred to in this rule are football players, and administrative, technical, medical, and security staff. As in the case analyzed above of player transfers, the club applying for the license must provide the relevant body (the licensor) with a table of employees, containing: the number of all employees hired in the year of

[71] *UEFA Club Licensing and Financial Fair Play Regulations, Article 49 – No overdue payables towards football clubs*

reference and the number of those to whom the club still has a debt to pay as at 31 December. For each individual employee entered in the table, the company shall submit the following information:

a. "Name of the employee;
b. Position/function of the employee;
c. Start date;
d. End date (if applicable);
e. The balance payable as at 31 December, including the due date for each unpaid element;
f. Any payable as at 31 March (rolled forward from 31 December), including the due date for each unpaid element, together with explanatory comment; and
g. Amounts subject to any claim/proceedings pending as at 31 March."[72]

This time, the reference item in the financial statements that includes liabilities related to employees is called *Accounts payable towards employees*. Again, the table provided must be approved and signed (on behalf of the executive body) by the management of the club applying for the license.

Finally, the applicant for the license shall have no overdue debts to the social and tax authorities for the year preceding the application (until 31 December), to be proved by 31 March; such payables may arise from non-fulfilment of contractual or legal obligations towards its employees. In this scenario, the table will be called social/fiscal table; it must be handed over to the auditor and/or licensor and must contain the total amount of debts due to social/tax authorities. The table shall contain the following information regarding each individual debt recorded:

- Name of creditor,
- any debt as at 31 December,
- any debt as at 31 March,
- and any number of litigation/proceedings pending as at 31 March.

The reference in the financial statements of these liabilities will be the *Accounts payable to social/tax authorities* and the table containing such information must be approved and signed (on behalf of the executive body) by the management of the licensee company.

Annex VIII - *Notion of "overdue payables"* considers overdue payables only when they have not been paid according to the contractual and legal terms. On the other hand, they are not to be considered overdue if the debtor (i.e., the license applicant) is able to prove by 31 March (or by 30 June/September according to articles 65, 66 and 66bis) that:

- Has paid the full amount; or
- It has made a written agreement with the creditor for an extension of the original term; or

[72] *UEFA Club Licensing and Financial Fair Play Regulations, Article 50 – No overdue payables in respect of employees*

- Has filed an admissible legal claim or initiated proceedings with the competent authorities to contest its liability. Relevant authorities must consider this to be a valid procedure, otherwise the debt will be deemed to be equally past due; or
- Has complained to the competent authority "a claim which has been brought or proceedings which have been opened against it by a creditor in respect of overdue payables and is able to demonstrate to the reasonable satisfaction of the relevant decision-making bodies (licensor and/or UEFA Club Financial Control Body) that it has established reasons for contesting the claim or proceedings which have been opened";[73] or
- Can demonstrate that it has done (or is doing) everything possible to identify and pay the creditor(s).

The club applicant must submit written representations to the licensor within 7 days of the beginning of the period in which the UEFA First Instance Body expresses its opinion on the licenses. These representations must certify that the information presented by the licensor is complete and correct; they must report any significant changes that have occurred in the meantime in relation to any club licensing criteria; they must report any situations of economic significance that may have a negative impact on the licensee's financial situation: these events must be described in detail, in particular their nature and the estimated financial effects produced; they must indicate any creditors from whom protection has been requested or received. Written representations must be approved by the management and signed by the executive body of the license applicant.

Article 52 - Future financial information, which is the last of this section, contains indications on what to do in the event of one (or both) of the following two situations:

- "Indicator 1: Going concern

  The auditor's report in respect of the annual or interim financial statements submitted in accordance with Articles 47 and 48 includes, regarding the going concern, either a key audit matter or a qualified opinion/conclusion.
- Indicator 2: Negative equity

  The annual financial statements (including, where required, the supplementary information) submitted in accordance with Article 47 disclose a net liabilities position (negative equity) that has deteriorated relative to the comparative figure contained in the previous year's annual financial statements, or the interim financial statements submitted in accordance with Article 48 (including, where required, the supplementary information) disclose a net liabilities position (negative equity) that has deteriorated relative to the comparative figure at the preceding statutory closing date."[74]

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[73] *UEFA Club Licensing and Financial Fair Play Regulations, Annex VIII – Notion of "overdue payables"*

[74] *UEFA Club Licensing and Financial Fair Play Regulations, Article 52 – Future financial information*

In either case, the license applicant shall submit future financial information indicating to the licensor the club's ability to continue operating until the end of the season for which the license is granted, despite the violation of one or both indicators. This information must cover at least the entire period during which the license is valid.

Future financial information to be presented, at least on a quarterly basis, consists of a profit and loss account (plus comparative data referring to the immediately preceding financial year), an estimated cash flow (also including data referring to the preceding financial year), and explanatory notes describing the assumptions on which the profit and loss account and cash flow statement have been drawn up and any risks that may affect the expected results. They must also be prepared in a manner consistent with the annual financial statements, following the same accounting principles. Future financial information must be approved by management and signed by the executive body of the entity preparing the financial statements.

2.3 UEFA Club Monitoring

Right, duties and responsibilities of parties involved

This part is the most important section of the *UEFA Club Licensing and Financial Fair Play Regulations*: the chapter devoted to club monitoring, conducted by the Club Financial Control Body (CFCB).

The first three articles (54, 55 and 56) describe the monitoring process in detail, outlining the rights, duties and responsibilities of the parties involved, which are the CFCB, the licensor and the licensee.

Article 54 emphasizes on how the financial body acts according to the manual and the rules governing it, ensuring equal treatment of all licensees and confidentiality for all information provided by them.

The monitoring process comprises several steps. It begins with the licensor who, once the list of licenses has been drawn up, hands it over to the UEFA administration; the deadline is promptly communicated by the administration to the licensees.

The monitoring phase includes the following minimum steps, listed in paragraph two of Article 55:

a) "issuing of the requirements for monitoring documentation to the licensor and licensee;
b) return of the required completed monitoring documentation by the licensee to the licensor;
c) assessment and confirmation of the completeness of each licensee's documentation by the licensor;
d) submission of the validated documentation by the licensor to the UEFA administration;
e) assessment of the documentation by the UEFA Club Financial Control Body;
f) if appropriate, request for additional information by the UEFA administration or UEFA Club Financial Control Body;

g) decision by the UEFA Club Financial Control Body as specified in the relevant provisions of the Procedural rules governing the UEFA Club Financial Control Body."[75]

As we can see, the basic process is very straightforward, with the licensee receiving the monitoring requirements to be met directly from the licensing body, which, after examining the documents and information delivered by the company at the end of the monitoring period, validates everything and passes it on to the CFCB which, if successful, expresses positively on compliance with the requirements.

The monitoring process ends when the licensing season finish.

Licensor also act as a supervisor during the observation period. In the exercise of his function, he also guarantees equal treatment of licensees and confidentiality of the information obtained. The main obligations of the licensor are as follows:

- Notification to the club applying for the license of the deadlines set by the monitoring process.
- Continuous collaboration with the Club Financial Control Body.
- Evaluation of the monitoring documentation.
- Confirmation to the CFCB that the chosen perimeter report is the same as the one used to fulfil the club licensing criteria, recognizing it as appropriate for club monitoring purposes.
- Inform the CFCB of any significant changes that have occurred since the licensing decision, or any information deemed relevant submitted by the licensee.

The licensee (usually the club itself) must:

- Collaborate with the licensor and the CFCB.
- Provide the licensor and the CFCB with all the information necessary to demonstrate that the monitoring requirements laid down have been complied with and all documents considered relevant or required for the decision on the monitoring period delivered within the deadline set and communicated by the CFCB and/or the licensor.
- Confirm that the documents provided requested are complete and correct.
- Promptly report any significant changes that have occurred since the documents were submitted to the licensor.

Monitoring requirements

Compliance with the monitoring requirements imposed on football clubs by the Club Financial Control Body, as with obtaining the necessary license to participate in European competitions, refers only to licensees who have qualified for UEFA competitions, except for the UEFA Women's Champions League, which is governed by Annex XIII of *UEFA Club Licensing and Financial Fair Play Regulations*.

The main monitoring criterion to be met is the so-called *break-even requirement*, i.e., a balanced budget.

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[75] *UEFA Club Licensing and Financial Fair Play Regulations, Article 54 – Monitoring process*

Paragraph two of Article 57 - *Scope of application and exemption* defines the cases of exemption from the break-even requirement. It states that "A licensee that demonstrates it has relevant income and relevant expenses (as defined in Article 58) below EUR 5 million in respect of each of the two reporting periods ending in the two years before commencement of the UEFA club competitions is exempt from the break-even requirement. Such an exemption decision is taken by the UEFA Club Financial Control Body and is final."[76]
We will see later how, under certain circumstances, a licensee club may request a voluntary agreement with the CFCB to meet the balanced budget requirement. This is explained in detail in Appendix XII.

Break-even requirement

The advent of Financial Fair Play has imposed new economic and financial obligations on all European clubs registered with a UEFA member association, finalized to obtain a certified license.
The discipline provides:

- Compliance with the so-called break-even requirement by the club applying for the license.
- The submission to the licensor of the budget for the year preceding the date of submission of the license application by the club, complete and reviewed.
- The applicant must not have any overdue debt towards its employees (emoluments), to social/tax authorities (withholdings and contributions) and to other clubs for transfers.
- Transparency on forward-looking economic and financial information.

Among these new elements, the key point of the UEFA financial revolution is the break-even requirement, i.e., aiming at a balanced budget as the minimum result of the reporting year. Therefore, a positive balance sheet is more than acceptable, indeed it is a very positive result and bodes well; the same cannot be said for a break-even not respected, and therefore the presence of a negative annual budget.
The requirement to be met is the result of the difference between relevant revenues and relevant (also called virtuous) costs. They are defined in Appendix X of the document.
In the specific case of transactions with related parties (whether they are transfers), the values of the transactions that generated significant revenues or costs must be adjusted to fair value.
Article 59 gives us a more precise notion of the control to which clubs are subject.
The monitoring phase covers three consecutive periods on which the licensee is subsequently evaluated:

a. "the reporting period ending in the calendar year that the UEFA club competitions commence (hereinafter: reporting period T), and
b. the reporting period ending in the calendar year before commencement of the UEFA club competitions (hereinafter: reporting period T-1), and
c. the preceding reporting period (hereinafter: reporting period T-2)."[77]

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[76] *UEFA Club Licensing and Financial Fair Play Regulations, Article 57 – Scope of application and exemption*
[77] *UEFA Club Licensing and Financial Fair Play Regulations, Article 59 – Notion of monitoring period*

To be clearer, if the licensing season is 2019/2020, then the club applying for the license will be assessed on the reference periods ending in 2017 (T2 and even earlier period), 2018 (T1 and year before the start of the competition) and 2019 (T and year of the start of the UEFA competition).
There are different reference periods for clubs that have violated the indicators provided for in Article 62: by reporting the previous example, the monitoring period in this specific case will advance by one year, covering the reference periods 2018 (T-1 and calendar year prior to the start of European competitions), 2019 (T and year in which European club tournaments begin) and 2020 (T+1 and reference period immediately following the legal closing date of the T period).
Break-even requirement is further specified in all its components in Annex X, which lists the individual items that will then constitute the two final amounts, i.e., relevant costs and relevant revenues.
In case of a positive result in one (three) monitoring period(s), this is referred to as break-even surplus; in case of a negative result, this is referred to as break-even deficit.
When we talk about aggregate break-even surplus and aggregate break-even deficit, we refer to the result of the entire monitoring period. When a situation of aggregate break-even deficit happen, the club should demonstrate that any deficit could be filled by positive results relating to periods prior to the assessment periods (i.e., periods T-3 and T-4 in the first case, and T-2 and T-3 in the second case).
The following article (article 61- *Notion of acceptable deviation*) explains the concept of acceptable deviation. A balanced budget is equally satisfied even if the aggregate loss does not exceed a certain predetermined threshold for a given period. Paragraph two clearly explains the details of this concept: "The acceptable deviation is EUR 5 million. However, it can exceed this level up to EUR 30 million if such excess is entirely covered by contributions from equity participants and/or related parties. A lower amount may be decided in due course by the UEFA Executive Committee."[78] Therefore, the initial deviation allowed is only 5 million euros; however, it can be increased up to 30 million euros if this aggregate loss will be fully covered by contributions from owners and/or related parties.
To be considered, contributions from equity shareholders and/or related parties to licensee clubs valued during the current monitoring period must be included in the audited financial statements for one of the financial years T, T-1, or T-2 and in the accounting records until the deadline for the presentation of the break-even information. Obviously, it is up to the club holding the license to prove the substance of such transactions, which must have been completed and must not present any conditions (i.e., unconditional contributions) that have yet to occur. The contribution will not be considered if it is based solely on intention or will.
While we were talking about the Financial Criteria, we saw that if the club applying for the license does not meet one of two (or both) indicators (which are Going Concern and Negative Equity), it must present future financial information showing how the club manages to finish the season for which the license was issued

[78] *UEFA Club Licensing and Financial Fair Play Regulations, Article 61 - Notion of acceptable deviation*

despite the complications that have emerged. We find these two indicators also in this section, in a different scenario and combined with new parameters.

The rule on break-even information tells us how the club licensee must present by the deadline and in the manner communicated by UEFA the break-even information in relation to the reference period T-1, T-2 if not already presented previously, and the T period if the club has violated one of the indicators that we will see shortly. Information must concern the same perimeter report already seen in the licensing case; it must be approved by the management of the club, which must assess the completeness and accuracy of the information presented; it must be signed by the licensee's executive body.

Even in this circumstance, there are indicators to be respected: if one of the scenarios we are about to describe occur in the company applying for the license, the corresponding indicator will be considered violated. The indicators are as follows:

1. "Indicator 1: Going concern: The auditor's report in respect of the annual financial statements for reporting period T-1 and/or interim financial statements (if applicable) submitted in accordance with Articles 47 and 48 includes, regarding the going concern, either a key audit matter or a qualified opinion/conclusion.
2. Indicator 2: Negative equity: The annual financial statements (i.e. reporting period T-1) submitted in accordance with Article 47 disclose a net liabilities position that has deteriorated relative to the comparative figure contained in the previous year's annual financial statements (i.e. reporting period T-2), or the interim financial statements submitted in accordance with Article 48 disclose a net liabilities position that has deteriorated relative to the comparative figure at the preceding statutory closing date (i.e. reporting period T-1).
3. Indicator 3: Break-even result: The licensee reports a break-even deficit as defined in Article 60 for either or both reporting periods T-1 and T-2.
4. Indicator 4: Sustainable debt indicator for T-1: At the end of reporting period T-1, the relevant debt is greater than EUR 30 million and it is greater than 7 times the average of the relevant earnings of T-1 and T-2. In this connection, the relevant debt and earnings are calculated as follows:
    a. The relevant debt is calculated as the net debt less the amount of debt that is directly attributable to the construction and/or substantial modification of the stadium, and/or training facilities from the inception of this debt until 25 years after the date when the asset is declared ready for use.
    b. The relevant earnings for a reporting period is calculated as the sum of total revenue (as calculated for the break-even result) and the net result from player transfers less the total operating expenses (as calculated for the break-even result).
5. Indicator 5: Sustainable debt indicator for T: At the end of reporting period T, the relevant debt (as defined above for indicator 4) is greater than EUR 30 million and it is greater than 7 times the average of the relevant earnings (as defined above for indicator 4) of T, T- 1 and T-2.

6. Indicator 6: Player transfer balance: The licensee reports a player transfer deficit greater than EUR 100 million in any player registration period that ends during the licence season.

   In this connection, the player transfer balance in respect of a registration period is calculated as the net of:

   a. the aggregate costs of acquiring each player's registration in respect of all new and existing player registrations, being all such costs paid and/or payable, and
   b. the aggregate proceeds of transferring-out a player's registration, being all such proceeds received and/or receivable (net of any direct costs of disposal).

   If the aggregate of the costs incurred exceeds the aggregate of the proceeds generated in a registration period, then the club has a player transfer deficit."[79]

As mentioned above, the first two indicators are the same as those examined within the financial criteria. The third indicator is the actual balanced budget. The fourth and fifth indicators refer to debt sustainability, another pillar of the Financial Fair Play regulation, which must not exceed €30 million in the reference period T-1 (for indicator number 4) or in the reference period T (for indicator number 5). And finally, the last parameter establishes a balance of € 100 millions of deficit not to be exceeded deriving from the transfer of players over a reference period.

In addition, the Club Financial Control Body reserves the right to request at any time from licensees the break-even information for the reference period T at the occurrence of at least one of the following two scenarios within the annual financial statements:

- Expenditure on employee benefits exceeds 70% of the club's revenue.
- The company's net debt exceeds 100% of revenue.

In the event of violation of one of the indicators treated, the licensee must present the break-even information in the manner and within the time specified by UEFA; information must contain everything considered relevant for the purposes of the document and referred to the 12-month period following the legal closing date of period T (and therefore, T+1). The document must contain:

- the profit and loss account.
- the break-even result based on the income statement presented.
- contributions from shareholders and/or related parties.
- an estimated cash flow;
- an estimated balance sheet;
- any explanatory notes, risks, and a comparison with period T.

Information must be prepared in a manner consistent with the annual financial statements and must be based on the same accounting principles used for the preparation of the financial statements.

[79] *UEFA Club Licensing and Financial Fair Play Regulations, Article 62 – Break-even information*

The balanced budget requirement will not be met when the club presents an aggregate deficit result for the current monitoring period or is expected to exceed the acceptable threshold for the projected monitoring period.

Other monitoring requirements

In addition to the break-even, the Club Financial Control Body has also introduced additional monitoring requirements, which, as we will see, are improvements to articles previously examined during the financial criteria analysis. In fact, we find in this part enhanced versions of the rules on overdue debts to other clubs, to employees and social/fiscal authorities.

The first ones (articles 49, 50, and 50a) required the club applying for the license to produce special tables (for each of the three types of overdue debts) by 31 March of the season preceding the one for which the license was due, proving that the club had no overdue debts on 31 December of the previous year. Those that we find in this section, on the other hand, provide for compliance with this requirement also on 30 June and 30 September of the season for which the license is due. If on 30 June the club playing the UEFA competitions has registered overdue debts, or if expressly requested by the Club Financial Control Body, then it must prove that it has no overdue debts on 30 September.

All the modalities and characteristics (the table to be presented, the information to be reported on the individual transfers/employees/social and/or tax authorities, the reference item in the financial statements, the obligation of approval and signature by the club's management and executive body) of these three upgraded items (66, 66 bis and 67) are identical to those provided for in the regulations examined above; the timing changes according to the type of request to be satisfied: from 31 March as the valid last date it goes to 30 June/September according to the requirement to be fulfilled.

In case of significant changes, the licensee must promptly notify the licensor of such important economic upheavals until at least the end of the season for which the license is granted, describing in detail the nature of such events, their conditions, and an estimate of the possible financial effects (if possible).

The last article contained in this section stipulates common provisions valid for all monitoring requirements, i.e. what happens in the event of non-compliance with one of the parameters envisaged: “If one of the monitoring requirements is not fulfilled, then the UEFA Club Financial Control Body makes a decision, including the possibility to conclude a settlement agreement with the licensee, taking into consideration other factors as defined in Annex XI, and takes the appropriate measure(s) without delay in accordance with the procedure defined in the Procedural rules governing the UEFA Club Financial Control Body.”[80]

[80] *UEFA Club Licensing and Financial Fair Play Regulations, Article 68 – Common provision for all monitoring requirements*

2.4 A focus on the most relevant Annexes

Annexes VI and VII: details of the financial statements

Appendixes VI and VII give us additional information about the financial statements that football clubs must provide to the licensor. Unlike the International Financial Reporting Standards (IFRS), the criteria contained in the Financial Fair Play require licensees to present a minimum level of financial data to the licensor in the manner provided for in Articles 47, 48 and 52.

Financial statements must be presented clearly, and its components distinctly identified; the objective is to ensure a proper understanding of the information provided. Together with them, the licensee must include:

- the name, legal form, business address and domicile of the applicant.
- any changes to the information provided.
- indicate whether the license applied for is individual or requested by a group of entities (if so, indicate the legal structure and composition of that group).
- the date of legal closure.
- the period covered by the financial information submitted.
- the currency in which the data is presented.

In paragraph B of Annex VI (*Balance Sheet*) are indicated the minimum disclosure requirements for individual financial statement items within the Assets, Liabilities (including items related to payables towards other teams for transfers, to employees, to social and tax authorities and to related parties) and Equity sections.

Paragraph C lists the individual items within the Profit & Loss account. Revenues include revenues from tickets sold, sponsorship and advertising, TV broadcasting rights, merchandising, cash prizes and UEFA solidarity. Expenses include, instead, impairment losses relating to player registrations or costs relating to them, and profit/loss from the sale of tangible fixed assets (like players).

The Cash Flow Statement is governed by paragraph D of Annex VI, and it is divided into three different areas: Cash flow from operating activities, Cash flow from investing activities and Cash flow from financing activities. Other types of movements (such as those arising from interest and dividends or income taxes) must be reported separately and consistently in one of the three different sections.

In the Related Notes (paragraph E) you can find further details on the elements already superficially seen within the Financial Statements. Items that deserve a more careful analysis can be found in the Notes, where they are divided into individual classes and listed separately. Among these elements we include:

- Tangible Fixed Assets: real estate, stadium, equipment, assets under its own right.
- Intangible Assets: player registrations, goodwill, other intangible assets.
- Pledged assets and assets under retention of title: restrictions on pledged property, assets, equipment, or stadiums.
- Investments: in subsidiaries, associated or jointly controlled companies.

- Bank overdrafts and loans.
- Provisions.
- Capital and reserves: share capital, other reserves arising from revaluation surplus of stadiums, property, or equipment, retained earnings/losses.
- Controlling party: the entity preparing the financial statements must state whether it is controlled by another entity and, if different, state who is the ultimate parent.
- Contingent liabilities.
- Events after the balance sheet deadline: substantial losses for the year, fraud findings, significant financial transfers of players (whether incoming or outgoing), property transactions (e.g., stadium), fixed-term loans that are about to expire with no real prospect of repayment/renewal.
- Other information: here we find the much-vaunted taxes to agents/intermediaries: "The total amount paid in the reporting period to or for the benefit of agents/intermediaries must be disclosed"[81]. Furthermore, in the part concerning *Players' economic rights*, the requesting club must specify the cases in which it does not fully own the players' rights, indicating the name of the player and the percentage of rights it owns. In this part we also find more information on the tax burden.

The licensee club must also provide to the auditor a table identifying the players, who must then reconcile the data in the table with those in the financial statements.

Finally, together with the annual financial statements, the club must submit a management report describing the annual results highlighted in the documents and pointing out the main risks and uncertainties to which the club is exposed.

Annex VII provides further guidance on the preparation of Financial Statements. Documents are drawn up on the assumption that the company will continue to operate (going concern principle) in the immediate future and will not present any problems that could change this status. The financial statements may be prepared in accordance with the accounting standards established by local legislation for incorporated companies, or in accordance with classical IFRS or for small and medium-sized companies, or in accordance with the local financial reporting framework, all regardless of the legal structure of the company applying for the license.

Financial reporting must comply with the following principles: fairness and consistency of presentation, accrual basis of accounting, separate presentation of individual items, prohibition of offsetting.

Alongside the accounting standards, Annex VII contains additional requirements to be complied with. Let's see what these requirements are:

- *Consolidation/Combination requirements*: the financial information of all entities within the reporting boundary must be consolidated or combined as if they were a single company; therefore, the company must provide consolidated financial statements.

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[81] *UEFA Club Licensing and Financial Fair Play Regulations, Annex VI – Minimum disclosure requirements for the financial statements*

- *Accounting requirements for the permanent transfer of a player's registration*: license applicants that capitalize players' registration costs as intangible assets must comply with the minimum accounting requirements, listed in paragraph C of Annex VII. First of all, the transfer of a player must be financially recorded when all significant conditions for the transaction have been met, i.e. there is a binding agreement between the two clubs and between the club and the player; only direct costs associated with the registration of a player can be capitalized; for accounting purposes, the book value of a single player cannot be valued upwards (although management considers the increase in the player's market value to be real and effective); again for accounting purposes, the club applying for the license cannot include in the financial statements costs relating to the youth sector in relation to the transfer of players (even though the licensee could generate a lot of value from the sale or simple use of locally trained players): only the cost of players acquired can be capitalized; financial costs deriving from loans are treated as financial expenses (and not attributable to direct costs); all players' benefits (such as the bonus on signing the contract) are considered employee benefits. The amortization of the individual player (systematically over his useful life) starts when the player is registered and ends when he is fully amortized or eliminated from the accounts (e.g., sold to another club); in the event of a contract extension for the individual player, the amortization will be adjusted to the new length of the contract. Each year, the club must review the book value of the players and compare the recoverable amount with the book value: if lower, the book value must be adjusted to the recoverable amount and the reduction must be accounted for, always in a consistent manner. The paragraph also regulates the case of a player who can no longer exercise his profession (e.g., permanent injury): in this case, the salary must be recognized (as an expense for employee benefit) until the end of the contract. In the case of the disposal of a player (to be recognized only when all significant conditions have been met), the profit/loss resulting from the transaction will be the difference between the proceeds obtained from the disposal and the residual book value of the player recorded in the balance sheet at the date of the transfer.
- *Accounting requirements for the temporary transfer of a player's registration*: for temporary transfers, there are several minimum accounting requirements to be met. First, "Loan fees received/paid must be reported as player transfer income/expense"[82]. For temporary transfers without option/obligation to purchase at the end of the loan period, any fees received/receivable must be recognized as income during the contract period; those paid/payable must be recognized as expenses during the loan period. The salary will be considered as an employee benefit cost for the entire duration of the temporary transfer. For loans with purchase obligation at the end of the period, "The loan must be reflected by the lender club as a permanent transfer and the player's registration rights must be derecognised from its intangible assets. The proceeds from the loan and from the future permanent transfer must be

[82] *UEFA Club Licensing and Financial Fair Play Regulations, Annex VII – Basis for the preparation of financial statements*

recognised from the inception of the loan agreement."[83]; symmetrical speech for costs. For temporary transfers with a simple purchase option at the end of the loan, it is initially recorded as a loan by the new club until the purchase option is exercised; when the option is exercised, any residual/future income will have to be recorded as relating to a definitive transfer (and not to a loan); the same applies to costs. Finally, in the case of a temporary transfer with purchase obligation under pre-established conditions, if the conditions have been virtually fulfilled, it will be considered as a permanent transfer from the beginning of the loan agreement; if the conditions are uncertain, the player's transfer will initially be recognized as a loan and only once the condition(s) is (are) fulfilled will it become a permanent transfer.

- *Accounting requirements for specific expense items*: this category includes bonuses/incentives given to employees (e.g. for performance or loyalty) or commissions at the signing of the contract; they will be recognized as costs for employee benefits; if they are linked to certain conditions (for players, they may be linked to the number of appearances, goals, access to certain competitions, winning trophies, etc.), these costs will be recognized only when the condition or conditions will be met. Employee severance indemnities will also be recognized as a cost for employee benefits.
- *Accounting requirements for specific revenue items*: Revenues from season tickets or tickets sold must be accounted for in proportion to the matches during the season. Revenues from broadcasting rights (e.g., TV rights) and/or cash prizes (e.g., participation in competitions) will be recorded in proportion to their performance during the season; if determined by conditions, they will only be accounted for when the pre-established conditions are met. Commercial revenues and revenues deriving from sponsorship rights shall be recognized in proportion to the duration of the contractual relationship; in the case of non-cash contributions, they shall be measured at fair value; if conditions are met (e.g., prizes deriving from results obtained in a competition), they shall be recognized when they are satisfied. Finally, donations will be recognized as other operating income at the time of receipt. In the case of grants, "Grants must not be recognised in the accounts of the club until there is reasonable assurance that the club will comply with the conditions to receive the grant and the grant will be received. Then, a grant must be recognised in profit and loss on a systematic basis over the reporting periods in which the club recognises as expenses the related costs for which the grants were intended to compensate."[84]

[83] *UEFA Club Licensing and Financial Fair Play Regulations, Annex VII – Basis for the preparation of financial statements*
[84] *UEFA Club Licensing and Financial Fair Play Regulations, Annex VII – Basis for the preparation of financial statements*

Annex X, XI and XII: break-even requirement, related party transactions and voluntary agreement

Break-even requirement

When we talked about break-even requirement, we referred to Annex X for a more detailed examination. As we said more times along this chapter, the break-even requirement is the difference between relevant revenues and relevant costs calculated over the monitoring period; if this difference is equal to zero or positive (balance sheet parity or break-even surplus situation), the constraint is respected. A negative result (break-even deficit) could be a problem.

However, companies applying for a license may invoke the acceptable deviation rule (article 61 of the manual): the licensee may present a break-even deficit if the aggregate loss reported falls within a predetermined threshold of 5 million, which may reach up to 30 million if this loss is covered by contributions from ownership and/or related parties.

Annex X first lists the individual items that fall into the relevant revenues' category:

- *Gate receipts*. They include revenues from stadium season tickets and tickets for individual matches, both for national (league and cup) and UEFA competitions, as well as for any tours or friendly matches. This item also includes membership costs.
- *Sponsorship and advertising*. Here we find income from the main sponsor, secondary sponsors, those on the playing field, as well as other types of advertising and sponsorship.
- *Broadcasting rights.* It includes income from the sale of TV and radio rights, income from the media and other means of transmission, all related to national competitions and any friendly matches and tours.
- *Commercial activities*. Merchandising, stadium sales (food and drink for example), conferences and other commercial activities.
- *UEFA solidarity and prize money*. It includes revenues from UEFA's participation in club competitions of the same association and/or from solidarity prizes.
- *Other operating income*. Includes income that cannot be reclassified into the previous categories, such as income from grants or subsidies, or from government, but also rents, dividends and income from non-football operations but always relating to the club.
- *Profit on disposal of player registrations*. The value of items attributable to this category depends on the accounting method used to record profits from the disposal of player registrations: if the company uses the capitalization and amortization method, then the profit from the disposal of players' registrations (if positive, it will be called capital gain) will be given by the difference between the net book value and the compensation received (or to be received) from the disposal and will be included in the calculation of the break-even constraint; on the other hand, if the income and expenditure method is used, the income from the disposal will be equal to the income from the disposal itself, and therefore the net proceeds from the disposal should be equal to the monetary proceeds obtained from the disposal

of the player's registration. In break-even calculation, companies which are using the first method in the calculation of annual financial statements will use this accounting policy in the identification of relevant revenues and expenses; for those using the second method, they may choose to use either the first or the second method, remaining consistent between reporting periods.

- *Excess proceeds on disposal of tangible fixed assets*. There are only two cases in which profits from the disposal of tangible fixed assets (such as stadiums or training facilities) must be included in the calculation of break-even: if the fixed asset is not replaced, the profit from the disposal may contribute to forming a significant income up to the difference between the proceeds from the disposal and the historical cost of the fixed asset; if the club is replacing the asset, it may contribute to forming a significant income up to the difference between the amount obtained from the disposal and the entire cost of the replacement asset. If the latter is leased, the cost of the asset will be equal to the present value of 50 years of minimum lease payments.
- *Finance income and foreign exchange result.* The former refers to interest income deriving from the use of its own assets by third parties; the latter refer only to gains/losses on monetary items: those referring to non-monetary items are not included in the break-even calculation.

Let's see which are these elements that should not be included in the calculation of the break-even requirement:

- *Non-monetary credits/income*. Non-monetary receivables and revenues must therefore be excluded from the calculation of the budget constraint. It is appropriate to establish what is monetary, and what is not. "Monetary items are defined as units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency."[85] This category includes upward revaluations of tangible and intangible assets (including players' registrations) and inventories; write-backs on amortization/depreciation of tangible and intangible assets (always including players' registrations).
- *Income transaction(s) with related party(ies) above fair value.* Therefore, the company applying for the license must calculate the fair value of related party transactions, as they are not included in the break-even calculation. If the estimated fair value is higher than the carrying amount, then this value must be carried back to fair value (no upward adjustments can be made). These transactions may include revenues from sponsorship agreements, revenues from executive boxes and corporate hospitality tickets and all related party transactions where the club provides goods or services. Transactions with related parties involving waivers of debt or money received as a donation are not significant revenues. We will look specifically at related parties in a moment.
- *Income from non-football operations not related to the club*. All non-football operations not related to the club, brand and football activities must be excluded from the break-even calculation. There are also

[85] *UEFA Club Licensing and Financial Fair Play Regulations, Annex X – Calculation of the break-even result*

non-football operations related to the club, in which case they should be included in the break-even calculation as the difference between income and expenses of the act. Operations in the vicinity of the stadium or training facilities (hotels, restaurants, conference center, business premises, etc.) may fall into this category.

- *Income in respect of a player for whom the licensee retains the registration.*
- *Credit in respect of a reduction of liabilities arising from procedures providing protection from creditors.*

The elements seen in the last list will not be included in the calculation of the break-even requirement to be submitted to the licensor.

On the other hand, fall within the virtuous costs:

- *Cost of sales/materials.* This component includes costs of sales relating to all activities (catering, medical care, sports equipment, etc.).
- *Employee benefits expenses.* Here we find all expenses for services rendered during the reporting period by management, employees, and staff in charge of governance; employee benefits include wages, salaries, social benefits, security contributions, bonuses, image rights but also other types of benefits such as medical care and accommodation for example, then post-employment benefits.
- *Other operating expenses.* In this section we'll find all other operating expenses, such as rental and lease costs, match expenses, administrative and management costs. Depreciation, amortization, and write-downs, as we have seen in the analysis in Annex VI, do not fall under this item and must be indicated separately in the P&L.
- *Loss on disposal and amortization/impairment of player registrations*. Also in the case of losses, the fact that the company includes among the relevant expenses the amortization/impairment and the loss deriving from the disposal of a player's registration depends on the accounting method adopted: if the capitalization and amortization method is used, then the amortization and/or impairment of the players' acquisition costs must be calculated in accordance with Annex VII, in the Accounting requirements for the permanent transfer of a player's registration segment; the loss on disposal will be calculated by deducting from the consideration received or to be received for the transaction the net book value of the player's registration (to qualify as a loss, the consideration received must be less than the net book value recorded in the financial statements) and must be included among the relevant expenses. If, on the other hand, the method of accounting for income and expenses is used, the company records the costs for the acquisition of the player in the period of reference. To calculate the break-even, if the license applicant uses the first method, the related revenues and expenses must reflect the use of this method; if, on the other hand, it uses the second method, the club may choose (as in the case of capital gains) whether to adopt either method, provided it remains consistent between one period and the other.
- *Finance costs and dividends.* This category includes interest expenses incurred for loans, or due to bank overdrafts, and financial charges related to any existing leasing contracts. The number of

dividends distributed, if reported in the financial statements, must be included among the relevant expenses. In this case, the relevant costs must be reduced by the following if included in the items listed above.

- *Expense transaction(s) with related party(ies) below fair value*. As for the relevant revenues, here too the fair value must be estimated to quantify the expenses related to transactions with related parties: if the fair value is different from the book value, then this value must be reported at fair value and no downward adjustment can be made on the expenses. These operations include cost transactions involving the supply of goods and/or services to entities within the reporting boundary, costs for employee benefits of entities outside the reporting boundary if they have contributed to the activities of entities within the reporting boundary, and financial charges related to the financing of a related party's debt.

And they may be reduced if they include, instead, the following elements (excluding the last one):

- *Expenditure on youth development activities.* The requirement of a balanced budget allows the licensee to exclude from the relevant expenses, making the appropriate adjustments, all those costs directly attributable (i.e., the club has committed itself in this regard) to training activities (football and non-football), competitive activities (e.g. participation in competitions), development of the youth sector, education, medical care, as one of the objectives for UEFA is to encourage this type of investment for the long-term benefit of the clubs themselves. This type of expenditure may also include materials and services used for the development of youth activities (accommodation, kits, medical, school expenses, etc.) and benefits for employees directly involved in these activities (including the payment of players in the youth sector up to the age of 17). On the other hand, scouting costs, agent/intermediary costs, and other expenses and costs not directly attributable to the development of youth activities (including part-time work) do not fall into this category. The licensee must be able to identify specifically such costs related to youth development activities, otherwise they cannot be separated from the relevant expenses.
- *Expenditure on community development activities.* Similar are expenditures on community development, assumed as costs directly attributable to public utility activities finalized to promote social development and participation in sport. This section includes initiatives aimed at education, health, social inclusion, equality, fight against poverty, human rights, environment, etc. Also, in this case, costs for materials and services used in carrying out these activities, as well as benefits to employees involved in these activities and donations to other entities, must be included. The license applicant shall specifically identify the individual items and certify their direct attribution to the purpose. Other expenses and costs not directly attributable to community development are not included in this category.
- *Expenditure on women's football activities.* Appropriate adjustments can be made so as not to include among the relevant expenses those costs directly attributable to activities carried out for the training,

education, and development of women's football in their territory. The organization of a women's football sector, participation in national and international women's competitions, the costs of materials and services directly attributable to the women's sector and the benefits to the employees involved fall into this category. Here too, the licensee must identify the individual cases separately for exclusion purposes. Among the transactions that cannot be excluded from the break-even requirement calculation are scouting costs, costs incurred for the player's registration (e.g., to agents/intermediaries), and other costs not directly attributable to the development of the club's women's football sector.

- *Non-monetary debts/charges.* Therefore, non-monetary debits/withdrawals, such as downward revaluations of inventories or exchange losses on non-monetary items, can also be excluded from virtuous costs.
- *Finances costs directly attributable to the construction and/or substantial modification of tangible fixed assets.* The club applying for the license may not include in the calculation of the break-even requirement financial charges directly attributable to the construction and/or substantial modification of an asset to be used for the club's football activities "provided the finance costs have been expensed in a reporting period rather than capitalised as part of the cost of the asset, up until when the asset is ready for use."[86] The adjustment will be equal to the interest payable, less any capital income. These charges may be excluded from the break-even requirement until the completion of the asset, whether it is a substantial modification or a construction from scratch.
- *Cost of leasehold improvement.* The licensee club may also exclude the costs of construction and/or substantial modification of an asset (tangible fixed assets) which it has incurred on a leased property for at least 10 years. On the other hand, service, and routine maintenance costs in relation to specific items cannot be excluded.
- *Expenses of non-football operations not related to the club.* Symmetrically, costs incurred for non-football activities not related to the club (i.e., the brand, locations, or activities) are also not to be included in the calculation of the requirement. Those related to the club, instead, should be included only if the related revenues are included.

It is important to underline that the break-even result does not include the following cases:

- *Profit/loss on disposal and depreciation/impairment of certain tangible fixed assets.* The gain or loss on the sale of property, plant and equipment is the result of the difference between the consideration received for the sale and the net book value recorded in the balance sheet. UEFA's objective with the exclusion of this item from the break-even requirement calculation is to encourage clubs to invest, especially in facilities and assets that will benefit the club in the long term. On the other hand, depreciation on the rights to use assets (operating leases) should be included.

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[86] *UEFA Club Licensing and Financial Fair Play Regulations, Annex X – Calculation of the break-even result*

- *Profit/loss on disposal and depreciation/impairment of certain intangible assets other than player registrations.* The same applies to intangible assets, i.e., those non-monetary assets that are identifiable but without physical substance (e.g., goodwill). However, in this case, if the intangible assets have generated (or generate) an income considered relevant, also the related amortization/impairment will be included among the relevant revenues.
- *Tax expense/income.* The tax burden on income taxes should not be included in the calculation of a balanced budget. These charges do not include VAT (value added tax) and employee contributions.[87]

<u>Related party transactions</u>

Article 61 - *Notion of acceptable deviation* is the reference standard for related party transactions. This article, as we have seen, establishes that the maximum deviation threshold, i.e., the maximum aggregate loss that can be included in the relevant revenues of the monitoring period for the calculation of the break-even requirement, is €5 million; this figure may increase up to €30 million if the loss is covered by contributions from equity participants and/or related parties. Should the latter scenario occur, the money or equivalent must have been received from the licensee to be included among the relevant revenues; therefore, no promises and payment commitments must be considered.

Contributions may be made by both equity participants and related parties. In the first case, the instrument used is the share capital increase: payments for shares or investments in equity instruments as shareholder. In the event that the loss is made good by related parties, this can be done by donation (in this case, the recipient of the donation will find increased net assets without redemption obligations) or contribution, where “the amount to be considered as a contribution will be no more than an amount equivalent to the difference between the actual income in a reporting period and the fair value of the transaction(s) in a reporting period as already recognized in the calculation of the break-even result”.[88] Are not to be considered contributions from transactions with related parties positive movements deriving from revaluations; the creation or increase of reserves by equity participants in the absence of contributions; transactions where the requesting company has a liability that determines an obligation to act in a certain way; contributions from shareholders in relation to instruments classified as liabilities.

UEFA's definition of related party and related party transactions concepts can be found in part F of Appendix X. First, a party is related to the company preparing the financial statements when there is a relationship between the parties, assessed by the competent body and which is mainly based on the substance of the relationship that exists between the parties, and not on the legal form. A family member is considered a related party to the reporting entity if:

- it has control of the club or exercises joint control over it.

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[87] *UEFA Club Licensing and Financial Fair Play Regulations, Annex X – Calculation of the break-even result*

[88] *UEFA Club Licensing and Financial Fair Play Regulations, Annex X – Calculation of the break-even result*

- has significant influence over the entity.
- it is part of the strategic management of the company applying for the license or of one of its parent companies.

An entity, on the other hand, is considered a related party of the reporting entity if: it has control of the club or exercises joint control over it; it is part of the strategic management of the licensing company or one of its parent companies:

- both are members of the same group of companies.
- both parties are controlled, jointly controlled, or significantly influenced by the same entity.
- if one of the two parties has significant influence over the other.
- one is an associate of the other entity or has a joint venture with it.
- both are part of the joint venture of the same third party.
- an entity is a joint venture of a third party that is also an associate of the other party.
- the entity provides key personnel management services to the licensee.
- a family member as defined above has a significant control/connection/influence/member relationship of the strategic management personnel with the related party.

The transaction with related parties is defined as "a transfer of resources, services or obligations between related parties, regardless of whether a price has been charged"[89]. It may or may not have been made at fair value, defined as the market value for which an asset could be exchanged, or a liability settled. If the transaction between related parties has resulted in favorable terms for both parties that would not have been present if the correlation did not exist, then it will be defined as a transaction not traded on an arm's length basis. A similar situation will be investigated by the UEFA Club Financial Control Body (CFCB); an independent third party will be appointed (e.g., an expert authorized by UEFA) who will assess whether the transaction was carried out at arm's length or not, assigning a fair value to the transaction which will then be included in the calculation of the break-even requirement.

For calculating the latter, the licensee club must make the appropriate adjustments, which change depending on whether it is a permanent transfer of a player or a temporary transfer. In case of a permanent transfer, the club that purchased the player must calculate an amortization charge for the reference period equal to an amount that will be the higher of the actual cost of the transaction and the historical purchase cost of the player recorded in the financial statements of the club from which he was purchased: if the calculation is higher than the recorded one, adjustments must be made to include the difference within the relevant expenses. For the club that sold the player, on the other hand, a profit/loss from the sale must be calculated as the lower of the actual sale proceeds and the net book value recorded in the financial statements of the buying club: if the calculated profit/loss is lower than the recorded value, there will be an adjustment to exclude the difference

[89] *UEFA Club Licensing and Financial Fair Play Regulations, Annex X – Calculation of the break-even result*

from the calculation of the break-even requirement. This difference can be identified as a related party contribution.

In case of a temporary transfer, the club that received the player on loan may include the difference between the calculated and the recorded value (if the former is greater than the latter) as a relevant expense, where the calculated one will be the actual cost of the transaction for the receiving player and the recorded one "the aggregate amount of the amortization charge in respect of the player's registration and the employee benefits expenses in respect of the player for the period of the loan as recorded in the financial statements"[90]. For the club that lent the player, it must exclude from the relevant income the difference between the calculated value and the recorded value (if the former is lower than the latter), where the calculated value corresponds to the actual income obtained from the transaction and for the recorded value the same applies in the case of the receiving club.

<u>Annex XI: Other monitoring requirements</u>

In this annex we find additional factors to be considered by companies applying for the license.

First, it is important in the judgements of the UEFA Club Financial Control Body that the amount of any break-even deficit is presented by the licensee club: the larger this amount, the less favorably the applicant club will be viewed by the financial body. A trend of improvement demonstrated in the different periods in terms of annual break-even will be seen positively by the control body.

Looking at the aggregate break-even result, as part of the assessment by the CFCB, the body may decide to revise this result during the monitoring period (T, T-1 and T+1): a club presenting an aggregate break-even result that falls within the expected acceptable deviation will be viewed favorably by the body. The CFCB may also decide to review the licensee club's long-term business plan to better assess the club's strategy, as well as review the accuracy of the financial statements presented for the occasion, comparing them with those provided for previous reporting periods.

Regarding the conversion into euros of the local currency used for reporting (for example, in the Premier League, sterling is used to draw up financial statements), if the exchange rate used has a negative impact on the break-even result presented by the licensee club for the reporting period or aggregate, the change will be considered by the European financial body. If the impact is positive, the licensee club should not incur any penalty.

The financial controlling body may request further information from the license applicant on its debt situation, including the source of any debt, the ability to repay both the principal and the interest, the due date of the debt. In addition, the body may request and assess certain debt ratios, such as the degree of leverage, profitability and coverage, and the adequacy of cash flows, to have a clearer view of the club's financial situation and its actual ability to repay the debt(s).

[90] *UEFA Club Licensing and Financial Fair Play Regulations, Annex X – Calculation of the break-even result*

In addition, CFCB has the option of appealing to cases of force majeure or extraordinary events that are beyond the club's control. In addition, the same body may consider possible extraordinary and temporary national economic events, which go beyond the general fluctuation of the economic environment and beyond the control of the club, which cannot in any way mitigate the negative financial effect of such events.

Annually, the UEFA administration assesses the structural efficiency of the football market of each member association; in its analyses, the Club Financial Control Body may consider whether the club applying for the license operates in a structurally efficient football environment. The assessment consists of "a comparative analysis of the top division clubs' total gate receipts and broadcasting rights revenues relative to the population of the territory of the UEFA member association concerned."[91]

Finally, in point h) of Annex XI, the club's size limit (in terms of numbers of players registered) is specified: if the club is within the maximum limit of 25 players in the club (not considering players under 21 years of age) in at least one of the two annual registration periods, it will be viewed more favorably by the Club Financial Control Body when assessing the monitoring requirements.

Annex XII: Voluntary agreements for break-even requirement

The 2015 reform introduced the so-called Voluntary Agreement, alongside the Settlement Agreement. We have analyzed in the first chapter what is the main advantage of a voluntary agreement with UEFA, i.e., the fact that any restrictions will not be applied from the first year; however, the requirements are much stricter, which makes it very difficult to access it, in addition, a detailed economic strategy for growth (based on investment and economic returns) for the coming years must be presented, a plan which will guarantee the club a probable flow of future revenues. It will only be possible to access a voluntary agreement if in the last three years (intended as a monitoring period) you have not been involved in any Settlement Agreement or Voluntary Agreement or any infringement procedure for which you have not yet fallen within the established parameters.

To initiate a similar agreement with the aim of meeting the break-even requirements, a club must contact the investigation chamber of the Club Financial Control Body. The applicant club must have obtained a license to participate in UEFA club competitions from the licensor but failed to qualify in the football year preceding the agreement; or qualified for a European competition and reached the break-even requirement in the monitoring period preceding the voluntary agreement; or underwent a significant change in ownership (and/or control) in the twelve months preceding the deadline for submission of applications.

This agreement may cover different reporting periods and provides for the applicant club to "a structured set of obligations which are individually tailored to the situation of the club, break-even targets defined as annual

[91] *UEFA Club Licensing and Financial Fair Play Regulations, Annex XI – Other monitoring requirements*

and aggregate break-even results for each reporting period covered by the agreement, and any other obligations as agreed with the UEFA Club Financial Control Body investigatory chamber"[92].

The deadline for the submission of a request for a voluntary agreement is 31 December of the year preceding the possible entry into force of the agreement.

The obligations incumbent upon the licensee club are as follows:

- it must present a detailed long-term business plan (including information on break-even) in the form envisaged by the European body, then a balance sheet, income statement and cash flow statement drawn up based on the principles of reasonableness and prudence.
- It must demonstrate its ability to continue as a going concern, i.e., to continue to operate as a going concern at least until the end of the period covered by any voluntary arrangement.
- one or more equity participants and/or any related parties must make an irrevocable commitment (through a legally binding agreement between the licensee and the party that undertakes to do so) to cover by the payment of contributions that are at least equal to future aggregate balance deficits during the period covered by the voluntary agreement. The CFCB may also provide for payments to an escrow account or other satisfactory forms of security chosen by the body itself.
- must demonstrate its ability to meet the objectives and obligations agreed with the chamber, providing all the information requested by the body.

The investigation chamber of the Club Financial Control Body will make the appropriate checks and is free or not to proceed with the voluntary agreement. In the event of a positive outcome, the same chamber will verify the correct and timely implementation of the agreement. During the monitoring period, the CFCB may decide at any time to take disciplinary action against the licensee club in the event of failure to comply with the terms of the agreement.

In the next chapter, we will examine some cases of both Voluntary Agreement and Settlement Agreement that have occurred in recent years, analyzing the actions of both parties (licensee clubs and UEFA's supervisory body).

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[92] *UEFA Club Licensing and Financial Fair Play Regulations, Annex XII – Voluntary agreements for break-even requirement*

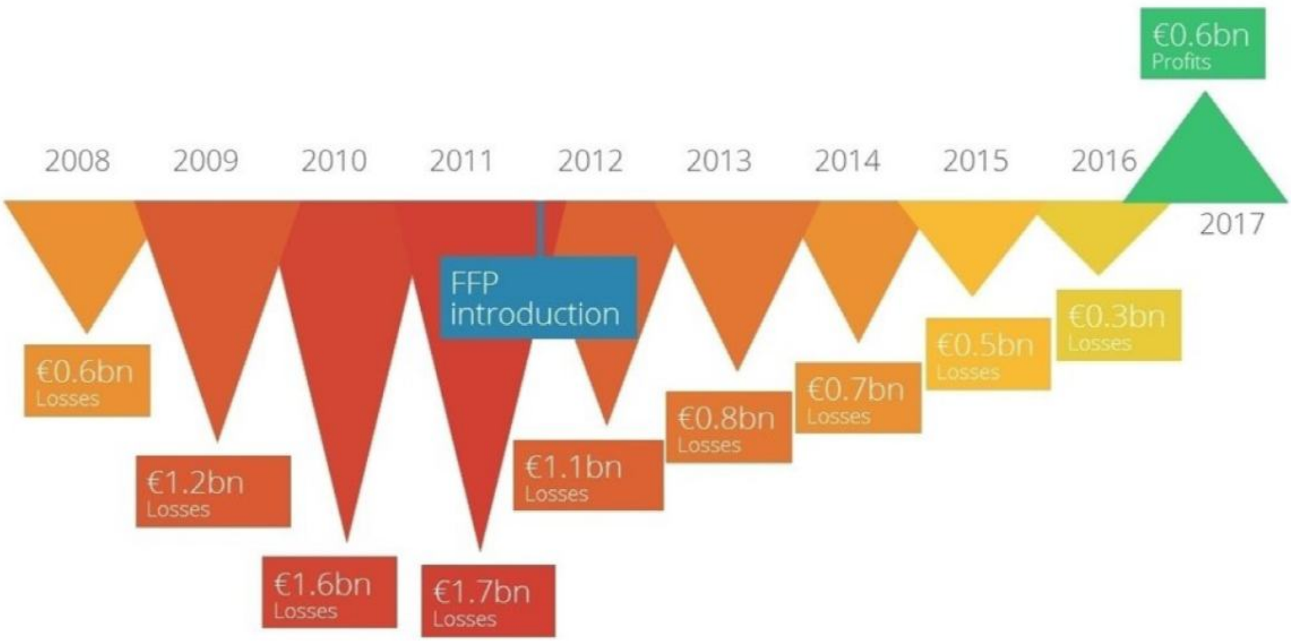
Chapter 3 – Results achieved, criticism received and most relevant cases

3.1 Results

Achieved or missed targets?

The Financial Fair Play criteria, introduced into the UEFA licensing system about ten years ago, have represented a watershed in the recent history of European clubs and competitions; a reform with a significant impact, which has revolutionized the way football clubs on the continent act.

Initially, the effects of the adoption of a new common framework were as expected: in just 6 years, the aggregate loss of European clubs has gone from 1.7 billion (2011) to a positive result of 0.6 billion (2017). The graph shows the constant growth in the net result of European clubs since the introduction of the new regulations.[93]



One of the primary objectives (the achievement of a positive aggregate net result) set out by UEFA would seem to have been achieved in a few years.

A second positive result achieved was the reduction in the net debt/turnover ratio of European clubs, which fell from 53% (2011) to 40% (2018) in the same period, also recording an important 35% in the year immediately preceding.

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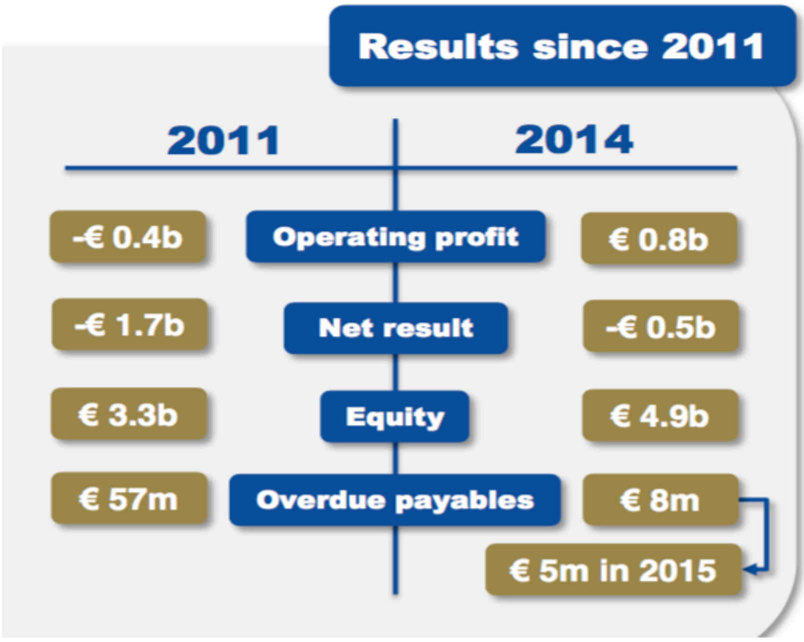
[93] *"Financial fair play from the origins to the 2018 reform", article by "Football and Finance". The graph shows the net results of European clubs before and after the introduction of UEFA's Financial Fair Play Regulations.*

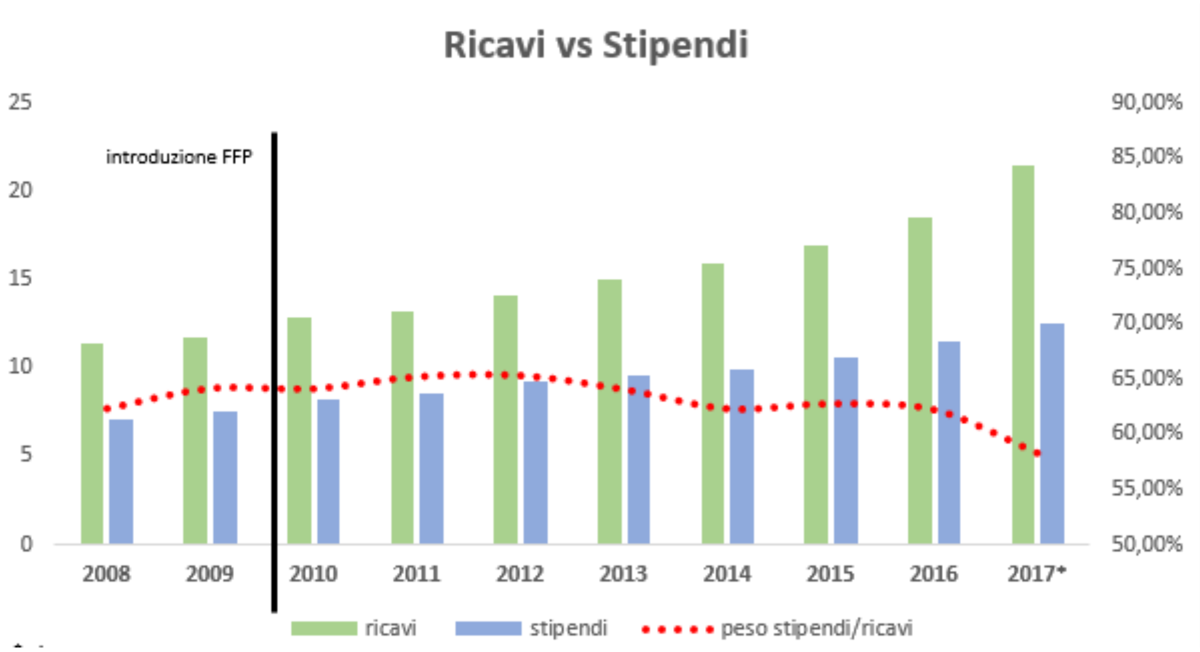
But there are other positive results: in the first three years of application (2011-2014), assets grew (by 1.6 billion) and overdue debts decreased to 8 million in 2014, reaching 5 million in the following year. Debts past due in 2011 amounted to about 57 million euros.
The graph shows these improvements on a sample of around 700 clubs surveyed by UEFA.[94]



“Fewer debts, reduced losses and recapitalized clubs” commented Andrea Traverso, at the time UEFA Head of Club Licensing and Financial Fair Play and now head of the Financial Sustainability and Research section. An unprecedented result, a net change in pace compared to previous years, when around 60% of the European clubs were accumulating heavy losses; results oriented towards long-term sustainability of football.
But has the so-called "Maastricht Treaty of European Football", operational since the 2013/2014 season, managed to achieve the objectives initially set, namely financial sustainability of clubs, self-financing of clubs and development of youth sectors? Let's see what the effects on the entire European football sector have been. First, it is necessary to highlight two trends that have characterized the football scene over the last decade and which have been flanked by the new financial discipline: the entry into the sector by foreign owners (especially from Asia and the Middle East) and the considerable increase in revenues from TV rights, a symbol of the product's greater appeal and an increase in the value of the transmission of matches. As a result, football clubs began to operate differently than in the past, especially in view of meeting UEFA requirements.
The previous chapter showed how the Financial Fair Play mainly influences the income statement of European clubs, i.e., the management part that collects the financial results linked to sports activity. Analyzing the most

[94] *"Financial fair play works: since 2011 financial statements improved by 1.2 billion", article by “Football and Finance”. The graph shows the improvements brought about by the new discipline in the three-year period 2011-2014 in terms of net result, equity, past due debt, and operating profit.*

important item in the profit and loss account (profit/loss), we have seen how the trend of losses in the European football sector has taken a more than positive turn since the introduction of regulation: from a loss of 1.7 billion to an historic profit. The main cost component is wages and salaries: their weight in revenues has decreased significantly (from 68% to 57% in 2017).



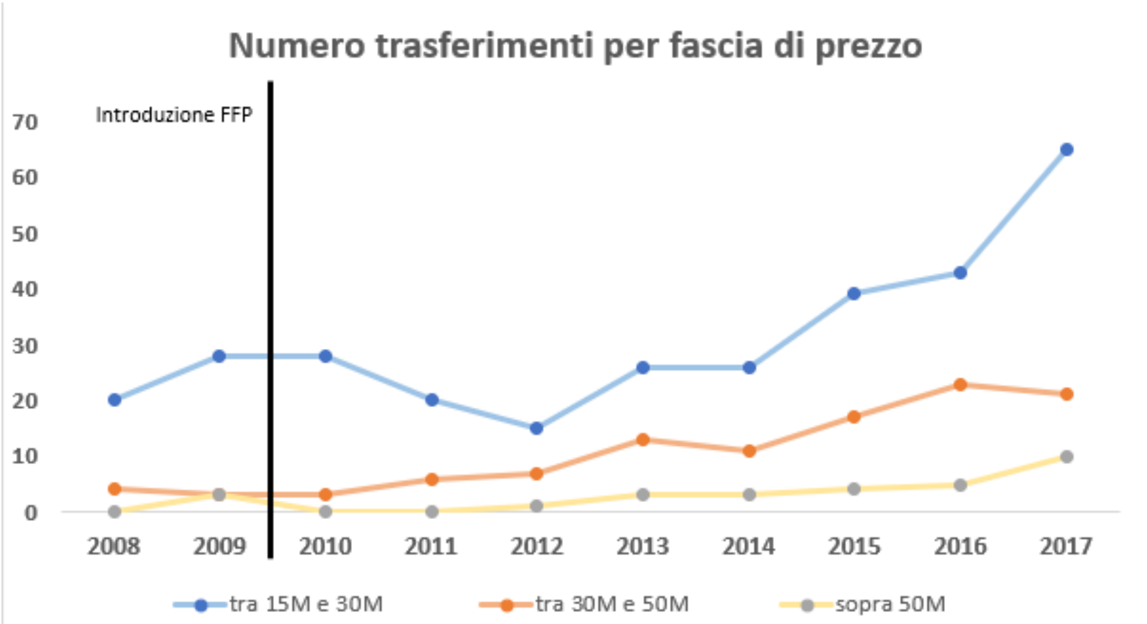
The graph[95], which shows the trend of two individual variables (revenues and salaries) and, at the same time, their relationship over time, thus shows a positive change, despite the increase in the value of salaries over the last decade: the whole thing is a symbol of the clubs' increased focus on costs.

These initial analyses show as FFP has achieved its financial goals, leading to a positive net result for European clubs within a few years. Making a more in-depth analysis, we can see that it was only partially so.

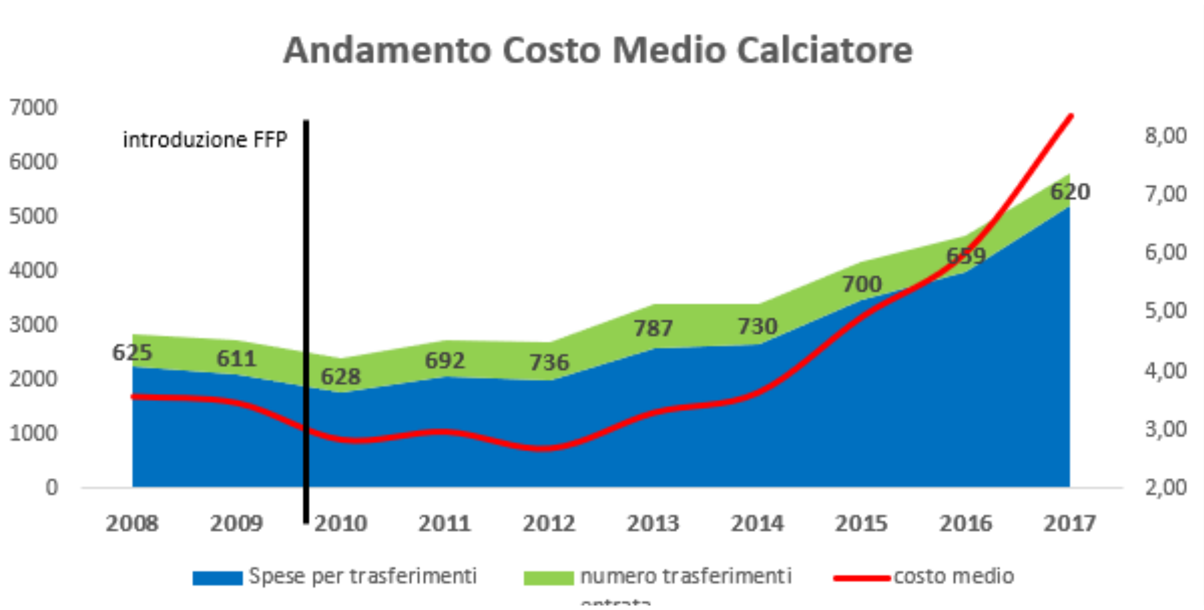
From the latest graphs we have seen how the growth in club revenues has been fundamental in determining, on the one hand, the reduction in the weight of players' salaries on revenues and, on the other hand, the reduction in club losses. In the previous chapter, we have seen that revenues are mainly defined by three items: revenues from TV rights, commercial revenues, and other revenues, which include the famous capital gains, now considered significant revenues, and therefore falling within the calculation of break-even. As mentioned earlier, the growth in revenues was largely due to the increase in revenues from TV rights and therefore in the value of the broadcasting of matches, while the remaining part is due to the other two components, namely the commercial component and the capital gains. For the former, the trend has remained more or less the same in recent years, also because it is closely linked to the geographical context of the individual club. Regarding capital gains, however, there are important truths to examine. The capital gain is the result of the difference

[95] *"Financial Fair Play effects", article by "Sportellate.it". The graph shows the trend of revenues and salaries from 2008 to 2017, and the trend of their ratio in the period indicated.*

between the consideration obtained from the sale of a player (the sale value) and the net residual value recorded in the financial statements by the selling club, in turn given by the purchase value less the amortization rate. To better understand the evolution over time, it is necessary to analyze the cost trend of individual players.



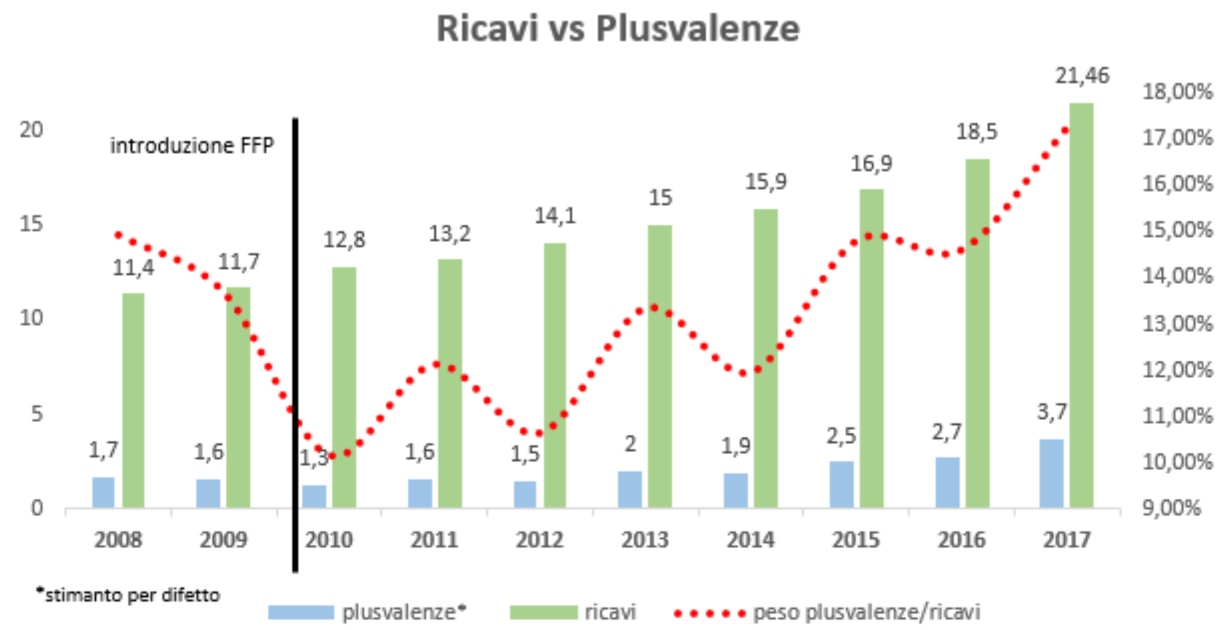
From the graph[96] above we can easily see how the number of transfers has increased significantly in recent years, and, in parallel, the value of these transactions: for example, the number of transfers for more than 50 million in 2017 is 11, while less than ten years before this number was 0 (2008).



[96] *"Financial Fair Play effects", article by "Sportellate.it". The graph shows the number of transfers in European football from 2008 to 2017 divided by price range. Data from Transfermarkt.it*

The second one[97], on the other hand, shows the exponential growth in the average cost of an individual player (and consequently in the value of capital gains registered by clubs) in recent years: from 3 million in 2010 to over 8 million in 2017.

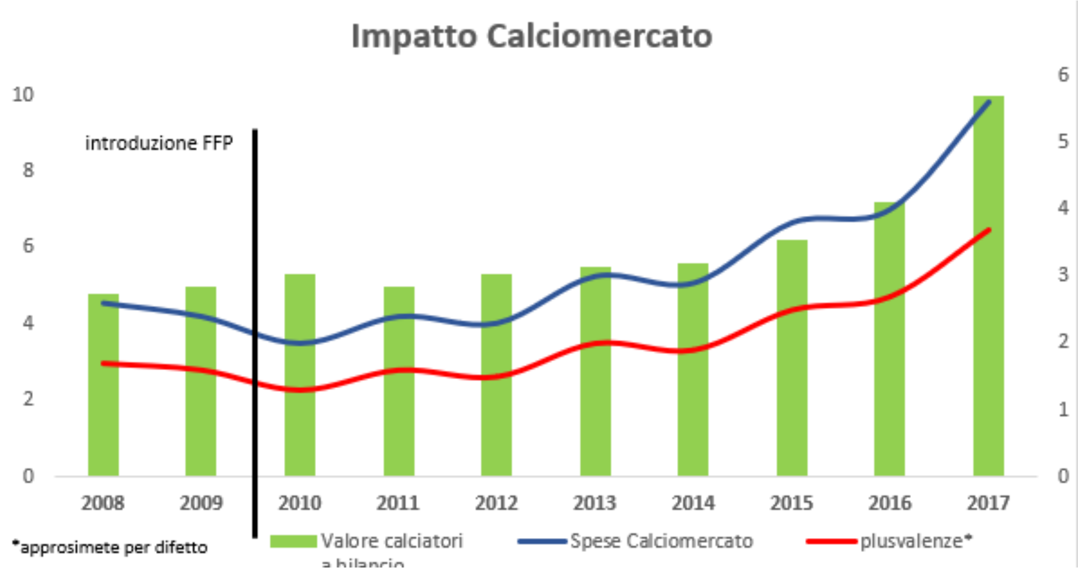
Therefore, going back to the definition of capital gains, it is easy to deduce how they have a decisive impact on the balance sheets of football clubs, in particular on their revenues, which are enormously increasing thanks to them. In fact, their weight on the revenues of European clubs has been a driving force, allowing them to grow rapidly.



The ratio of capital gains to revenues accelerated significantly[98], from around 10% in 2010 (the first year of effectiveness of Financial Fair Play) to 17% in 2017. This is not good news: companies with a high value of capital gains could have very serious financial difficulties in the event of a reversal of the positive revenue trend, which is not sustainable in the long term.

[97] *"Financial Fair Play effects", article by "Sportellate.it". The graph shows the average cost of a footballer in Europe considering all leagues and all players (including youth players). The data are taken from Transfermarkt.it*

[98] *"Financial Fair Play effects", article by "Sportellate.it". The graph shows that the growth in revenues was accompanied by an exponential growth in capital gains in the period 2008-2017. UEFA aggregate data.*



This last graph[99] shows the three main values (value of football players in the balance sheet, expenses, and capital gains) through which the football market impacts the clubs' balance sheet. As we can see, the rise in the prices of individual players gives clubs the opportunity to increase their revenues thanks to capital gains: about 80% of the value of a transfer is capital gain, while the remaining 20% will go directly to the balance sheet. In addition, the increase in the average value of players recorded in the balance sheet (from 6 million in 2010 to 10 million in 2017) ultimately allows clubs to increase revenues and reduce losses; at the same time, clubs lose in economic solidity, as income from capital gains is not a characteristic income, but rather a one-off income.

In essence, the introduction of Financial Fair Play has on one hand reduced the overall losses of the European football system, and, on the other hand, failed to prevent player trading from exploding as a common financial practice adopted by clubs. Thus, revenues have grown (inflated by capital gains) but not in a stable and sustainable way over time.

The profit of € 0.6 billion (precisely € 579 million) recorded in 2017, which is officially the first positive result since the introduction of the new financial discipline, has suffered a downturn in the following year, recording an aggregate profit of 140 million. This latest negative result has raised a lot of criticism, highlighting once again problems and shortcomings in UEFA regulations.

[99] *"Financial Fair Play effects", article by "Sportellate.it". The graph shows the time trend of the value of the players recorded in the balance sheet, of the expenses of the football market and of the value of the related capital gains. UEFA aggregate data.*

3.2 Criticism, gaps, and possible solutions

Gaps before the *Ceferin reform* and current problems

Such an impressive revolution in the world of football has however its weaknesses, its initial shortcomings, and, of course, the main stakeholders in this world have increasingly had an eye on the situation and its evolution over time.

There has been a lot of criticism over the years against UEFA and its regulations, and the body itself has partly remedied to these gaps through the release of some reforms. Now, we take a detailed look at the most relevant criticisms of Financial Fair Play that have arisen over the years.

Before the *Ceferin reform* (2018), many have contested to UEFA the absence of a discipline to regulate the so-called "fake loans", i.e. those temporary market transactions that disguised a discounted purchase: the most relevant example is the transfer of Mbappé from AS Monaco to PSG in August 2017 for 180 million, with the formula of the loan with the right of redemption, a ploy that allowed the Parisian club (which in the same session had acquired the Brazilian champion Neymar with a record purchase) not to weigh on the balance sheet even the very expensive purchase of the transalpine striker.

This is only the most striking of the numerous cases that have occurred in previous years, with an enormous number of transfers in the form of annual/biennial loans used for the purpose to fall within UEFA parameters and not incur heavy penalties. The Mbappé case, however, has opened the eyes of the Club Financial Control Body, which, with the 2018 reform, has in a certain way tried to limit the occurrence of striking cases: in fact, the new reform states that if the amount set for the repayment of the loan is considered very high by the control body, a symbol of a clear desire to circumvent the rules, the purchase will be immediately entered in the balance sheet. Surely not an exhaustive discipline on the matter as requested by many, but certainly a good start.

Another case which was not carefully regulated by UEFA is the relationship between related parties, and specifically the lack of discipline towards those transfers of players between related clubs. The most relevant example of related clubs is the two Red Bull teams (Leipzig in Germany and Salzburg in Austria), or the Italian cases of the Pozzo family (owner of three European clubs, such as Udinese in Italy, Granada in Spain, and Watford in England), Claudio Lotito's clubs (owner of Lazio and Salernitana) and the De Laurentiis family (Naples and the recent acquisition of Bari). Transactions that were carried out under these conditions were partly regulated by the 2018 reform: in the case of a transfer considered to be overvalued and exclusively made for the purpose of deficit reduction or easy capital gain, will (in the case of crazy figures) be entered in the balance sheet with the market value.

But what the Ceferin reform has filled more decisively was the gap in transparency and information: many European clubs have always looked for ways to evade controls by the CFCB, rigging the accounts or trying to move expenses to the following year so as not to incur sanctions (we will soon see the PSG and Manchester

City cases). The most important novelty on the subject was the regulation of the remuneration paid by clubs to agents. In the 2nd we have reported the examples of the maxi-commission in Raiola for the Pogba operation or the one in Kia Joorabchian for the operations with Inter: starting from the update of the Financial Fair Play of three years ago, clubs are now obliged to publish on their websites the annual financial statements (art. 47-bis), within which the expenses for commissions to agents and sports agents must be specified, indicating the aggregate amount of the operation, and not the one related only to the transfer. These measures have undoubtedly led to more controlled operations, ensuring greater transparency.

But what are the problems of the current version of Financial Fair Play?

Existing problems refer more to the concept of capital gains. The evident presence of a time discrepancy between capital gains and acquisition costs for players is one of these. As seen, the phenomenon of capital gains has grown enormously in recent years, as it represents an excellent accounting tool used by European clubs to meet the financial requirements imposed by UEFA: sometimes, football clubs realize market operations only and exclusively to settle their accounts, rather than looking for technical improvement and gradual growth, punctually overwhelmed by the need to respect the constraints of Financial Fair Play. There are many cases of the sale of important players in the face of economic offers significantly higher than the residual value recorded in the financial statements, which lead to the realization of excellent capital gains. It is important to underline how the selling club, despite having concluded a similar transaction, can at the same time buy a player of the same price as the one sold, as it would burden the annual financial statements only for a fraction of the duration of the signed contract (i.e., for the annual depreciation charge).

Capital gains, however, can also be used to "inflate" revenues, as it has been in the football market sessions of recent seasons, being renamed "fictitious" capital gains. This market practice has become common not only for the transfer of top level football players, but also for players from the youth sector, over whom more control can be exercised (their will is less relevant) and in addition their value on the balance sheet (not high) allows the club a more functional realization of capital gains. A specific example is provided by an article in *Football and Finance*: The structure is as follows: club A owns the rights of X at a residual value of 4 million, club B owns the rights of Y at a residual value of 7 million. If the clubs evaluate the players 10 million each, A and B agree to exchange the tags at inflated values: B buys X at 25 million - allowing A to realize a capital gain of 21 million [25m-4m] - as well as A buys Y at 25 million - allowing B to realize a capital gain of 18 million [25m-7m]. Assuming both players sign 5-year contracts, A and B each write off 5 million [25m/5]: A makes a profit of 16 million [21m-5m] during the year, while B makes a profit of 13 million [18m-5m].[100]

But how to establish the real market value of a player and consequently distinguish real capital gains and fictitious capital gains? It is not possible to estimate an objective value for a player through mathematical formulas, algorithms or statistics; however, there are a few factors that affect a footballer's value:

- *Financial needs*: both the selling club and the buying club.

[100] *https://www.calcioefinanza.it/2020/03/02/fair-play-finanziario-e-plusvalenze-fittizie-alcune-possibili-soluzioni/*

- *Technical needs*: to evaluate how important the player is within the squad and the technical project of the club, as well as examine the possible presence of alternatives in the squad itself or on the market.
- *Personal information*: the age of the player, nationality, behavior (on and off the pitch), his physical structure and his fragility.
- *Sports performance*: the role, the technical-tactical skills, the statistics in terms of goals, appearances, assists, etc.
- *Contractual situation*: the salary received, any bonuses, the expiry of the contract, the presence of clauses (rescission or repurchase, which we will analyze shortly).
- *Will of the player:* to stay in the club or to leave.
- *Commercial value*: image of the player, presence on social media, signed commercial partnerships.
- *Club performance and outlook:* recent achievements and current strategies for both the current club and the potential acquiring club.

It is important to underline that benefit for the clubs refers only to the short term, that is the year in which the profit is recorded: starting from the following year, the club will have to amortize the cost of the player for the remaining duration of the contract, causing a negative repercussion for the company itself. This type of operation will not be harmful to clubs if done infrequently: should they become habitual, it would trigger a vicious circle where clubs will always need to make capital gains to offset the amortization of previously made operations, concluding agreements at inflated values like just examined.

Always linked to capital gains is the case of the repurchase clause (*recompra*), i.e. the possibility for the club transferring the player and then to be able to buy him later (timing to be defined) at a price usually higher than the sale price. This formula is mainly used by the so-called top clubs, in order not to lose sight of their young talents. This allows the acquiring company to realize an easy capital gain in a future year.

Some ideas to solve the problem of capital gains

So, capital gains represent an easy way for European clubs to meet the constraints imposed by Financial Fair Play regulation. However, in the long run this could weigh on the sustainability and growth of the clubs themselves. UEFA is trying to limit and possibly eliminate the problem, but there are some precautions (compared to the current legislation) that could be considered by the highest European football body.

One of them could be spreading the benefit of the capital gain over several years (as for the depreciation costs), also valid for the players in the youth sector, even if the temporal level of distribution remains difficult to identify. In this sense, one idea could be the average duration of contracts in Europe (about 3 years). A similar solution would allow a more truthful and correct representation of the financial situation of a football club, avoiding the exploitation of capital gains practice almost for the year in which they are realized.

Another proposal could be to limit the amortization period of a player to just three years, increasing the impact of purchases on the break-even result, especially as there is a lot of tendency (especially in the case of players of high value) to sign long-term contracts (4 and 5 years).

A third idea would be eliminate the amortization system, by fully accounting the purchase costs incurred for the players in the income statement in a single year, no longer calculating the capital gains as the difference between the consideration received for the transaction and the residual value recorded in balance. However, in this case, greater attention would be paid to the investment expenses of clubs within the monitoring period, clubs that would find themselves blocked from carrying out transactions that could have long-term benefits: this could be remedied by modifying the acceptable deviation threshold, currently at 30 million.
Finally, as regards the capital gains realized with the use of the repurchase clause mentioned above, one way to re-stabilize this practice could be to recognize 50% (example) of the capital gain immediately, and the remainder when the buyback option is exercised or expires.

Salary Cap or Financial Fair Play?

What is the Salary Cap?

The Salary Cap can be considered as a regime where all teams are potentially given the same chance to win the "Scudetto" (i.e., the national competition), a wage system that tends to strengthen weaker teams to make the league more competitive. The cap would be established by an agreement between the players' association and the club presidents and would represent the maximum salary expenditure that can be used by the clubs for the players in their team. This, however, would tend to weaken both the league itself and the teams, as the players would sign for the teams willing to guarantee them more expensive contracts: an idea could be the addition of a grid for salary bands based on the years of experience in the league, so that a player in his first year as a professional does not perceive more than a player who has played for years (such as rookies in the NBA).

An important feature of the Salary Cap, especially used by the main American sports leagues, is the presence of the so-called Luxury Tax, that is a tax to be paid if the company exceed the established maximum salary ceiling, the amount of which is given by the difference between the actual ceiling and the one that should have been respected. The Luxury Tax will be divided between those clubs that at the end of the transfer market session have not exceeded that threshold.

The results of the application of a similar regime would be seen only in the long term, where the level of the clubs would become almost homogeneous, the competitiveness very high, with a possible consequent increase in profits.

The real objective of the Salary Cap is to guarantee the business continuity of the clubs, safeguarding the economic, patrimonial, and financial balance of the participating companies, avoiding cases of mismanagement that ruin previous years of prosperity.

The infographic below shows how the Salary Cap allows for greater balance and greater variability in American sports leagues.

But would such a system be better than the current Financial Fair Play?

From a merely applicative point of view and from a national perspective, the Salary Cap would work the same way for all the countries that would adopt it, establishing the cap figure by means of a player-management agreement, looking at the average economic-financial balance level of the companies participating in the single alloy.

Regarding the European competitions, the introduction of a similar regime would not eliminate the existing disparity between the participating teams but would certainly lead to a decrease of it, as the level of equilibrium of the individual national championships is different from each other.

One of the crucial objectives would be to increase competitiveness, something that does not belong to today's football world, where within the European tournaments mainly teams belonging to the nations among the first places in the ranking arrive at the final stages of those competitions. A situation that not even the Financial Fair Play was able to fix: just think that two of the teams fined so far (PSG and Manchester City) are among those who have sought a place among the greats of European football by investing. An idea in this regard would be to equally distribute the revenues deriving from TV rights not at the club level, but at the championship level, with an equal income for all the teams that make up the league, to which are added the prizes for participation in European cups and more specific revenues related to merchandising, branding, field results and sponsorships. This could lead to greater economic independence of individual clubs, increasing competition in their league.

In its latest version, Financial Fair Play presents a reference to the limits on personnel costs: it is specified, in the last lines on the break-even result, that the economic sustainability of the clubs is considered at risk when the cost of the personnel is equal to or greater than 70% of turnover, but this does not entail any penalty.

This year, the so-called *Tope Salarial* was introduced in Spain, a sort of salary cap that has led to the reduction of the salary of top clubs such as Real Madrid and Barcelona by 27% respectively (from 641.05 to 468.53 million) and 43% (from 671.43 to 382.72 million). It is not a pure salary cap, as the item "personnel costs" does not refer only to salaries, but also to salaries for the transfer of image rights, depreciation, social security quotas, severance pay employment relationship and wages paid to players on loan. In addition, the agreed value, equal to the credible difference between the expected revenues and the costs not related to the expected personnel, is not fixed, but can vary during the season when certain events occur. This measure has certainly contributed to increasing the attention of Spanish clubs in presenting their accounts to the league.

Obviously, the only body capable of making such a revolution is UEFA; however, would the wealthiest clubs agree to the introduction of a regime that in a few years could upset both national and international balances, relegating noble teams accustomed to winning at possible (or rather, probable) mediocre results?

3.3 Relevant cases

Suspicious sponsorships of PSG and Manchester City

In the second chapter, we have seen that transactions with related parties also include those agreements entered with companies of the same ownership that controls the club. This type of transactions, including transfers of players, is considered legitimate by the Club Financial Control Body when it is carried out at fair value. On some occasions, this type of operation, which involves large amounts of money, is carried out by the club's owners only and exclusively with the aim of rebalancing the accounts and therefore all within the Financial Fair Play requirements, in contrast to the principle of self-financing so much praised by UEFA.

This is the specific case of PSG and Manchester City, two clubs owned by sheikhs (Nasser Al-Kelhaifi, owner of the Parisian team and the Qatari sovereign fund Qatar Investment Authority, and Sheikh Mansour, owner of nine football clubs around the world and the investment company Abu Dhabi United Group for Development and Investment - ADUG) who have invested billions in football, always trying to win everything and buy the best players in the world every year. In the first years at the helm of the *citizens*, Mansour, who created the holding company City Football Group specifically to manage its football clubs, invested around 850 million euros in football players, ending up in 2014 with a loss of around 180,2 million euros (when the limit at the time was 45 million) and a total amount of players' salaries of 280 million euros (2013/2014 season). In order not to incur sanctions by the European supervisory body, the sheikh used an accounting artifice: a 10-year maxi-sponsorship by Etihad Airways of £400 million (very high fair value). A huge transaction, which was obviously not included among the transactions with related parties, but which involved Mansur personally: in fact, the owners of Etihad are family members of the Sheikh. If the transactions had not been adjusted to fair value, Manchester City would have never met the break-even requirement.

On the other hand, the PSG of Qatariota Al-Khelaifi "received" a sponsorship of 200 million euros from the sovereign fund controlled by the same Al-Khelaifi, the Qatar Investment Authority.

The two operations helped their respective companies to inflate their revenues in such a way as to allow them to incur huge costs in terms of recruitment and/or amortization of players purchased, bypassing the break-even requirement. However, UEFA promptly launched investigations through its Investigative Chamber: violation of the Financial Fair Play rules could even lead to exclusion from European competitions, as well as heavy fines.

On 16 May 2014, UEFA announced the conclusion of Settlement Agreements with the two clubs (and with 7 others) that had ended up under investigation. The investigative chamber, which found the clubs guilty of violating the European financial rules, has sanctioned the obligation for PSG and Manchester City to pay a sum of 60 million euros, in addition to other decisions: cuts in revenues from UEFA competitions, a reduced number of players (from 25 to 21) for the next edition of the Champions League and a maximum number of players equal (or at most less than) the last recorded. Specifically, the Settlement Agreement signed by the *citizens* provided for the return to an annual deficit of 20 million euros for the 2013/14 season and 10 million euros for the 2014/15 season; for the Parisian club, on the other hand, the return to an annual deficit of 30 million euros for the 2014/15 season and to reach full break even by the 2015/16 season. The agreements entered aims to achieve a balanced budget.

It was a sting for the two leading clubs, which, however, have been saved from possible exclusion from European competitions or an eventual blockage of the market. After just over a year, the limit on the roster has been reduced as well as the amount of the fine (reduced by two thirds), as both clubs have demonstrated that they have achieved the financial and sporting objectives set out in the previously signed settlement agreement; they remained however still under the settlement regime and under close observation by the UEFA investigation chamber. The official exit from the settlement regime took place, for the two clubs, on 21 April 2017, through an official UEFA statement.

A case that we would like to mention again is the double purchase of Neymar-Mbappé in the summer of 2018 by the transalpine club which, according to some leading figures such as the number one in the Spanish league Javier Tebas, took place illegally with a view to Financial Fair Play, through the exploitation of financial resources from the club's owner group, considered inflated sponsorships concealing such funding. Tebas called on behalf of many traditional clubs quite upsetted by such behavior, for the opening of enquiries into the Parisian club and its English "twin", Manchester City. The UEFA Commission, which oversees the financial control of the football clubs, did not find any violation of the discipline in the first instance, then decided to request a review of the investigation due to the double purchase by PSG. The French team appealed, opposing the request, and the Lausanne Tas granted the request, as the time limits set out in the regulations for the submission of the application had been exceeded. This procedural defect has prevented the PSG from incurring Financial Fair Play sanctions, and UEFA, at the same time, was accused of renouncing its conduct in carrying out the investigation, of not having investigated properly to prove the violations committed by the Parisian club, facilitating its defense.

More recently, Manchester City has returned to the spotlight of the Club Financial Control Body. On 14 February 2020, the CFCB's judging chamber condemned the English club to the exclusion from all European competitions for two seasons (2020/2021 and 2021/2022), accompanied by a fine of €30 million, for violating Financial Fair Play. A tug-of-war between the highest European football body and the club owned by Sheikh Mansour, which has been going on since 2014.

The reasons that led to these kinds of sanctions are summarized in a brief press release on UEFA's website: "The judicial panel, having considered all available evidence, found that Manchester City Football Club committed serious violations of the UEFA Club Financial Fair Play and Licensing Regulations by overestimating the revenue from its sponsorship in its accounts and in the balanced budget information presented to UEFA between 2012 and 2016. The House of Judges also found that, in violation of the regulations, the club failed to cooperate with the CFCB's investigation of the case"[101]. So, the motivation is always the same: suspicious sponsorships aimed at inflating revenues and falling within the break-even constraint.

On 2 November 2018, and subsequently on 4 March 2019, the German weekly *Der Spiegel* published some key news: the newspaper, which reports official documents stolen and published by the Football Leaks website dating back to the first UEFA investigation on the subject, claims that PSG and Manchester City violated the Financial Fair Play not only through inflated sponsorship due to transactions with related parties, but also through the use of accounting artifices (Infantino, then Platini's right-hand man at UEFA, allegedly proposed agreements to the two companies bypassing the authority of the Club Financial Control Body); in addition, an

[101] *"Decision of the Club Finance Control Body on Manchester City Football Club", article UEFA, 14 February 2020.*

internal message was published within the Manchester club saying that the capital injections by the controlling shareholder were disguised as sponsorships, and therefore as revenues.

On 7 March 2019, through an official statement on the UEFA website, the Club Financial Control Body announces the launch of formal investigations for possible violations of Financial Fair Play by Manchester City. Two months later, the Investigative Chamber announced the referral of the Manchester City case to the Arbitration Chamber following the conclusion of the investigation. On the other hand, Manchester City appealed to the Tas against the referral, trying to avoid disqualification from European competitions as a possible sanction; the appeal was promptly rejected on November 15 of the same year.

We finally come to the day of the verdict which, as we have seen, condemned Manchester City to disqualification from UEFA competitions and a hefty fine. The club, not at all satisfied with the decision, lodged a new appeal with the Tas, claiming that the illegally obtained documents did not constitute an adequate factual basis for the decision, and that the charges had lapsed. In fact, the Tas of Lausanne judged positively the request submitted by the Mansour club, annulling the disqualification from European competitions, and reducing the financial penalty initially decided, arguing that the UEFA Chamber of Arbitration failed to provide sufficient and overwhelming evidence of the Manchester club's violations of Financial Fair Play. UEFA, therefore, finds itself defeated before the *Citizens*' lawyers, and the credibility of its control system undermined deeply.

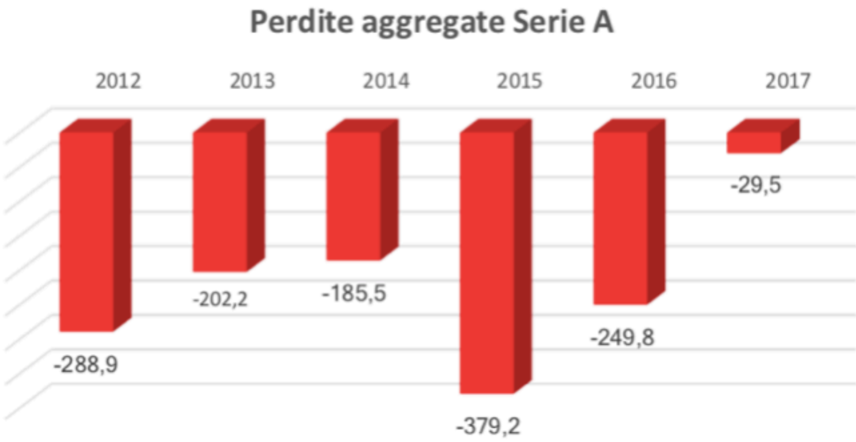
The Italian cases of Inter and Milan

The sanctions imposed on PSG and Manchester City are a practical example of a Settlement Agreement, i.e., when UEFA intervenes by verifying the non-compliance of vicious clubs with the Financial Fair Play; these clubs are required to draw up a return plan, subject to constraints imposed by the same body, to comply with the parameters provided for by the discipline and avoid further sanctions. In both cases, the two clubs had requested, through the stipulation of a settlement agreement, the reduction of the penalties provided for if they fell within the parameters during the observation period, while at the same time guaranteeing the constraints imposed by UEFA (reduction of the roster, containment of the number of players, etc.). As we have seen, the body then reduced the penalties to the two clubs, once the good intentions of them had been verified.

Similar cases have also occurred in Italy, mainly involving the two Milan clubs, Internazionale Milano and AC Milan.

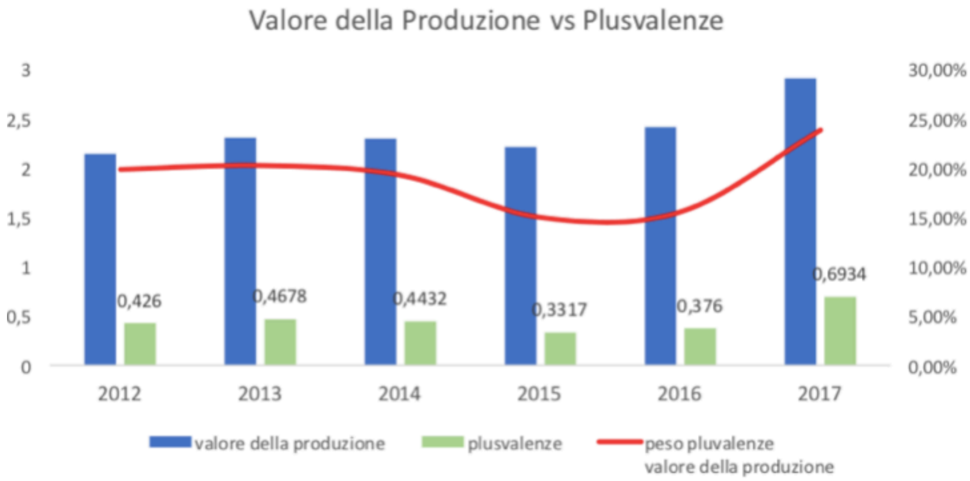
First, it is important to analyze the Italian football context. Since the introduction of the Financial Fair Play, the aggregate losses[102] realized by the football clubs participating in the top Italian league have decreased significantly, recording around 29.5 million losses in 2017, compared to almost 380 million in 2015.

[102] *"Financial Fair Play and Serie A", article by "Sportellate.it". The graph shows the aggregate level of losses recorded by Serie A teams from 2012 to 2017.*



However, this does not mean that the economy of Italian football is healthy: cases such as those of AC Milan, sold to bodies that are not properly clear, or Palermo, which with a financial situation not conducive to registration in the reference championship (Serie B), played regularly throughout the season, certainly do not reflect a positive economic state.

As far as revenues are concerned, also in Italy the capital gain/production value ratio[103] has been increasing in recent years, a symbol of the clubs' attempt to circumvent the Financial Fair Play, aiming exclusively to achieve their objectives and improve their economic position. The average of this ratio in Serie A is equal to 25%, and it demonstrates how Italian teams make greater use of this accounting artifice than the average of European clubs.



[103] *"Financial Fair Play and Serie A", article by "Sportellate.it". The graph shows the value over time (2012/2017) of the capital gain / production value ratio in the Italian Serie A.*

A positive note, on the other hand, is the net decrease in the weight of salaries[104] compared to previous seasons, thanks above all to the big clubs, which help to reduce this ratio because they are monitored by the Club Financial Control Body.

In 2015, the FIGC (Italian Football Association) introduced a balanced budget requirement under the Financial Fair Play, but with a different acceptable deviation threshold, i.e., 25% (softer than UEFA regulations) of the average production value obtained during the three-year UEFA monitoring period. Therefore, if a company records an average of 100 million per year of production value (turnover), that company can afford to make a loss of up to 25 million euros over the three years considered. Obviously, if this threshold is exceeded, it can be covered by payments from the owners or by a capital increase.

In the same year, Internazionale Milano (as well as Roma) entered into a settlement agreement regime, imposed by UEFA after the checks carried out by the Club Financial Control Body, with the aim of rebalancing the accounts. The settlement agreement, announced on 8 May 2015, would have last for 4 football seasons, from 2015/2016 to 2018/2019: the requests provided for in the agreement lead to a break-even deficit in the first year of no more than € 30 million, and a balance for the following season. In addition, the Milanese team has had restrictions imposed on the use of its players in European competitions, in terms of wages and salaries, and limitations on the amortization/depreciation of players' registration rights, expressed using significant write-downs and loaned purchases in the season prior to the agreement coming into force. For the 2014/2015 season, a fine of € 6 million was imposed on the *nerazzurri* team, to which additional penalties could be added if the terms of the agreement were not respected.

Financial statements presented by Inter during the monitoring period imposed were in line with the UEFA settlement agreement. Consequently, despite the serious limitations imposed, on 17 May 2019 the Milanese team emerged from the "nightmare" of the settlement regime, following a statement by the European football

[104] *"Financial Fair Play and Serie A", article by "Sportellate.it". The graph shows the decline in the salary/revenue ratio of clubs in Serie A in recent seasons.*

body. Inter replied as the result obtained "demonstrates the solidity of the club, the growth of the club and the strengthening of its financial position in recent years, supported by an approach that has been of total compliance with the rules"[105].

The years of rehabilitation of the accounts have cost the club many sacrifices, both from an economic and from a sporting point of view: *nerazzurri*'s fans for several years have witnessed the continuous dismemberment of their favorite team to realize capital gains and therefore fall within the constraints imposed.

A different case happened to Milan, whose voluntary agreement was rejected by UEFA. A voluntary agreement is different from the settlement agreement examined in the previous events: for the former, football clubs can submit an investment plan to UEFA, as a deficit is expected for the current year, in which they want to demonstrate how to fall within the parameters in the coming years. This may be the case for the purchase of a player, for which the club, if it so wishes, can present an ex-ante investment plan, without waiting for the UEFA ex-post verification, which will demonstrate in detail the return on expenditure through the future revenues that will be generated by undertaking this investment in the long term (usually a four-year period). Such behavior would avoid being sanctioned by the Club Financial Control Body in subsequent years.

But, as we pointed out in the previous chapter, getting this type of plan accepted by UEFA is rather difficult. This type of agreement provides for a virtuous behavior in the year preceding the request, which includes the respect of the parameters of the Financial Fair Play, the obtaining of the UEFA license, or (borderline case) must have undergone an important change in the share capital, following a corporate change. In addition, the Club Financial Control Body will only accept realistic plans proposed, and not "airborne"; a voluntary agreement cannot be asked if the licensee club has been subject to a settlement agreement or the same voluntary agreement in the previous three years.

The voluntary agreement proposed by Milan does not have any punitive character (unlike the settlement agreement), it is requested by the licensee company in order to fulfil the break-even requirement, meeting the needs of the club itself, which asks to be able to temporarily exceed the parameters of financial discipline by proposing a plan that will strengthen the club within a few years, with an increase in revenues (not linked to sports activities, e.g. revenues from qualification for European competitions) such as to make the economic situation sustainable and bring the balance sheets in order.

On 9 November 2017, Milan's top management went to Nyon, where UEFA's main headquarters are located, to explain their voluntary agreement plan to CFCB. The business plan presented by the Milanese company, which had recently become property of Chinese entrepreneur Yohngong Li, mainly envisaged an investment strategy (and consequent revenues) in the countries of the Asian area, where Milan is the second most followed team. Another key point of the plan presented, which covered a period up to 2021, was the exploitation of the Milan brand for partner companies with the aim of creating engagement with the public, the development of the youth sector in China with the opening of football academies and schools, all driven by the launch of the

[105] https://www.calciomercato.com/news/inter-fuori-dal-fair-play-finanziario-il-comunicato-ufficiale-de-41445

club's thematic channel on the Chinese market. For Milan, the voluntary agreement, which had never been granted until then, was a unique opportunity to rebalance the accounts, otherwise a refusal by the UEFA top management would have meant a settlement agreement imposed by the CFCB with limits, sanctions, and a worsening of the proposed business plan.

And this is exactly what happened: with a press release, the investigative chamber of the Club Financial Control Body, "after careful examination of all the documentation submitted and explanations given, the Chamber decided not to conclude the voluntary agreement with AC Milan. In particular, the Chamber considered that, to date, there are still uncertainties regarding the refinancing of the debt to be repaid in October 2018 and the financial guarantees provided by the major shareholders"[106]. This decision upset the plans of the *rossoneri*, which finds themselves with little time to make up for the node of the refinancing, as it was supposed to present a settlement agreement plan within the first months of 2018. In the new plan, the refinancing would be guaranteed by the commitment of the Elliot fund, which would intervene in the event of any problems with the debt refinancing.

But, on 22 May 2018, Milan was referred to the CFCB's judging chamber by the investigating chamber "for violation of the financial fair play rules, for violation of the break-even rule"[107], which, after reviewing all the documentation submitted, considered that "there are still uncertainties regarding the refinancing of the loan and the repayment of the bonds to be made by October 2018"[108]. Problem of debt refinancing has not been effectively solved. A sting for AC Milan, which was notified the following year by the chamber of judges of its exclusion from the UEFA club competitions for the 2019/2020 football season "for failing to meet the balanced budget requirements during the monitoring periods evaluated in the 2017/18 and 2018/19 seasons and covering the periods ending in 2015, 2016, 2017 and 2018"[109]. The club had an aggregate budget deficit that clearly exceeded the acceptable deviation threshold provided for by financial discipline and accepted the exclusion confirming the violation. The "renunciation" of the Europa League has helped AC Milan to restart, with better accounts (net of losses due to the Covid-19 emergency) and with a more present and reliable management, passed in the meanwhile into the hands of Elliot Management Corporation. The objective of voluntary acceptance of this exclusion is to take a path that leads to compliance with the constraints imposed in subsequent years. The adaptation of the Financial Fair Play to the current pandemic situation has helped the situation of the *Rossoneri* club, which will see an improvement in its balance sheet: from 146 million deficits in 2019 to a loss of one hundred million for the year 2020. In addition, participation in the Europa League for the 2020/2021 football season will guarantee Milan additional income in the event of progress in the final stages of the tournament. Perhaps, 2021 may be the right year for a settlement agreement request, although the club's accounts will certainly still be in the red, but the current situation of the *Rossoneri* club bodes well.

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[106] *"AC Milan: voluntary agreement request rejected", article UEFA, 15 December 2017*
[107] *"AC Milan referred to the judging chamber of the CFCB", article UEFA, 22 May 2018*
[108] *"AC Milan referred to the judging chamber of the CFCB", article UEFA, 22 May 2018*
[109] *"CFCB Chamber of Judges confirms AC Milan's exclusion from UEFA 2019/20 competitions", article UEFA, 28 June 2019*

Chapter 4 - How the financial structures of the clubs have adapted to the implementation of the new regulations

4.1 A brief introduction

In this fourth (and final) chapter we will try to assess, season by season, how the adoption of Financial Fair Play has directed and directs European clubs towards the financial targets set by UEFA. By analyzing four of Europe's most important football clubs (Juventus for Italy, Real Madrid for Spain, Bayern München for Germany, Paris Saint Germain for France, and Manchester City for England), we will be able to draw conclusions about the clubs' performance in meeting the targets set by UEFA's Financial Fair Play, such as reaching the break-even threshold and submitting the required documentation.
There are several reasons why we have chosen these clubs as the object of our analysis:

- Firstly, they are all annual applicants for the UEFA license and therefore must comply with the constraints imposed by Financial Fair Play periodically.
- They are clubs with high enterprise value.
- They have public data available to carry out a similar analysis.
- Four out of five (except Real Madrid) are listed on the stock exchange, with Manchester City being the most highly rated club in the world at the end of 2019; the holding company of which it is a part, City Football Group, received a valuation of around $4.4 billion.
- Finally, we have chosen one club per region among the most important in Europe concerning the football sector, giving relevance to the geographical context of belonging.

We will investigate the compliance of the above-mentioned clubs with the indicators set out in Article 62 of the UEFA Club Licensing and Financial Fair Play Regulations:

1. "Indicator 1: Going concern: The auditor's report in respect of the annual financial statements for reporting period T-1 and/or interim financial statements (if applicable) submitted in accordance with Articles 47 and 48 includes, regarding the going concern, either a key audit matter or a qualified opinion/conclusion.
2. Indicator 2: Negative equity: The annual financial statements (i.e. reporting period T-1) submitted in accordance with Article 47 disclose a net liabilities position that has deteriorated relative to the comparative figure contained in the previous year's annual financial statements (i.e. reporting period T-2), or the interim financial statements submitted in accordance with Article 48 disclose a net liabilities position that has deteriorated relative to the comparative figure at the preceding statutory closing date (i.e. reporting period T-1).

3. Indicator 3: Break-even result: The licensee reports a break-even deficit as defined in Article 60 for either or both reporting periods T-1 and T-2.
4. Indicator 4: Sustainable debt indicator for T-1: At the end of reporting period T-1, the relevant debt is greater than EUR 30 million and it is greater than 7 times the average of the relevant earnings of T-1 and T-2. In this connection, the relevant debt and earnings are calculated as follows:
    a. The relevant debt is calculated as the net debt less the amount of debt that is directly attributable to the construction and/or substantial modification of the stadium, and/or training facilities from the inception of this debt until 25 years after the date when the asset is declared ready for use.
    b. The relevant earnings for a reporting period is calculated as the sum of total revenue (as calculated for the break-even result) and the net result from player transfers less the total operating expenses (as calculated for the break-even result).
5. Indicator 5: Sustainable debt indicator for T: At the end of reporting period T, the relevant debt (as defined above for indicator 4) is greater than EUR 30 million and it is greater than 7 times the average of the relevant earnings (as defined above for indicator 4) of T, T- 1 and T-2.
6. Indicator 6: Player transfer balance: The licensee reports a player transfer deficit greater than EUR 100 million in any player registration period that ends during the licence season.
   In this connection, the player transfer balance in respect of a registration period is calculated as the net of:
    a. the aggregate costs of acquiring each player's registration in respect of all new and existing player registrations, being all such costs paid and/or payable, and
    b. the aggregate proceeds of transferring-out a player's registration, being all such proceeds received and/or receivable (net of any direct costs of disposal).

   If the aggregate of the costs incurred exceeds the aggregate of the proceeds generated in a registration period, then the club has a player transfer deficit."[110]

In addition, we are also going to examine the fulfilment (or not) of the two extra indicators:

- Expenditure on employee benefits exceeds 70% of the club's revenue.
- The company's net debt exceeds 100% of revenue.

These indicators measure, express several characteristics related to the economic-financial profile of football clubs, and how these clubs have adapted their financial structures to the implementation, and continuous change, of the Financial Fair Play regulations, as the title of the paper already suggests.
This analysis will be carried out based on three sports seasons: 2018/2019, 2017/2018, 2016/2017. The choice of this three-year period was made based on the latest data available at the time of writing the thesis and UEFA's monitoring periods.

[110] *UEFA Club Licensing and Financial Fair Play Regulations, Article 62 – Break-even information*

4.2 Juventus

Company profile

Juventus is the most followed football club in Italy and one of the most followed clubs in the world. Its more than 100-year history is littered with national and international trophies and successes.

Juventus shares are listed on the electronic equity market of Borsa Italiana. The club is controlled by EXOR N.V., a company listed on the Italian Stock Exchange that controls 63.8% of the share capital and is owned by the historic Agnelli family, which has managed the Turin club since its foundation. The remaining part of the club's share capital is held 11.3% by Lindsell Train Ltd. and 24.9% is a free float on the Stock Exchange. Since 27 December 2018, Juventus' shares have also been listed on FTSE MIB, the main benchmark index of Italian share markets.

The main sources of revenue for the Juventus club are its ability to exploit sporting events, its image and the international brand that has been consolidated over the years, licensing, TV rights, advertising, sponsors, merchandising.

Juventus owns its stadium, opened on 8 September 2011, which changed its name to Allianz Stadium as of the 2017/2018 season following a sponsorship agreement, together with a modern sports center located in Vinovo, which was opened on 15 July 2006 and is designed exclusively for use by the members of the youth and women's teams. On 17 July 2017, Juventus transferred its registered offices to the new complex owned by the J Village Property Fund, situated in the near vicinity of the stadium, and where, from the 2018/2019 season onwards, the First Team's new training center has been located.[111]

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[111] *Juventus Annual Financial Report, 30/06/2019.*

Economic and financial analysis of the 2016/2017 season

The 2016/2017 football season brought excellent sporting results for Juventus: winning the sixth consecutive Scudetto, winning the Coppa Italia, reaching the UEFA Champions League final, 17 games without conceding a goal and 33 consecutive victories at Juventus Stadium.

During the transfer campaign (considering both the summer and winter sessions) the club recorded an increase in total invested capital of 198.7 million euros, as the difference between purchases (252.3 million) and disposals (53.6 million). The capital gains generated by market operations amounted to €139.8 million. The various contract renewals also led to a lower amortization of approximately 4.1 million.

Other significant events for the 2016/2017 financial year worth mentioning are certainly the increase in the number of subscribers compared to the previous season, which led to an increase in net revenues from 21.6 million to 24.1. A sponsorship agreement, valid until 2023, was signed with Allianz S.p.A and Lagàrdere Sports Germany GMBH for the rights to the name of the stadium, which has become Allianz Stadium. In July 2016, Juventus also exercised its buy back option against UniCredit for the acquisition of the ownership of the Juventus Training Center in Vinovo.

This year sublimated the improvement seen in previous years, leading the Company to a net profit for the third year running. For the 2016/2017 season, net income for the year was € 42.567.924, positive shareholders' equity of € 93.773.793 and net debt of € 162.5 million. Once again, the financial statements of Juventus have been drawn up based on the historical cost principle, except in the cases specifically described in the Notes to the financial statements, for which the fair value principle has been applied, as well as on the going concern assumption.

The directors have assessed that there are no significant uncertainties regarding the company's ability to continue as a going concern, also considering the income and financial forecasts contained in the 2017/2018 budget and the Medium-Term Development Plan, as well as the bank credit lines available.

In the 2016/2017 financial year, the net financial debt remained at the previous year's levels but is expected to increase the next year, mainly due to the investments made during the last transfer campaigns which are generally spread over several financial years. The Company affirms that it can meet this requirement through the provision of medium-term loans and thanks to the use of bank credit lines already available.

STATEMENT OF FINANCIAL POSITION

Amounts in euros	Note	30/06/2017	30/06/2016	Change
Non-current assets				
Players' registration rights, net	8	**301,960,077**	186,169,099	115,790,978
Other intangible assets	9	**33,436,756**	32,238,998	1,197,758
Intangible assets in progress	10	**81,305**	654,260	(572,955)
Land and buildings	11	**135,074,898**	135,555,977	(481,079)
Other tangible assets	12	**24,679,639**	24,941,093	(261,454)
Tangible assets in progress	13	**4,641,951**	343,939	4,298,012
Investments	14	**199,040**	9,000	190,040
Non-current financial assets	15	**17,381,410**	18,410,635	(1,029,225)
Deferred tax assets	16	**13,366,472**	6,673,620	6,692,852
Receivables due from football clubs for transfer campaigns	17	**33,410,912**	27,812,070	5,598,842
Other non-current assets	18	**3,606,145**	4,221,426	(615,281)
Total non-current assets		**567,838,605**	437,030,117	130,808,488
Current assets				
Inventory	19	**3,394,735**	1,052,632	2,342,103
Trade receivables	20	**36,647,506**	24,039,111	12,608,395
Trade and other receivables from related parties	57	**3,585,193**	3,532,044	53,149
Receivables due from football clubs for transfer campaigns	17	**61,369,643**	42,976,735	18,392,908
Other current assets	18	**6,631,598**	11,199,637	(4,568,039)
Current financial assets	15	**13,171,646**	14,192,366	(1,020,720)
Cash and cash equivalents	21	**139,996,455**	28,618,353	111,378,102
Total current assets		**264,796,776**	125,610,878	139,185,898
Advances paid				
Non-current advances		**13,436,931**	13,361,323	75,608
Current advances		**1,167,145**	1,555,928	(388,783)
Advances paid, total	22	**14,604,076**	14,917,251	(313,175)
Total assets		**847,239,457**	577,558,246	269,681,211

STATEMENT OF FINANCIAL POSITION

Amounts in euros	Note	30/06/2017	30/06/2016	Change
Shareholders' Equity				
Share capital		**8,182,133**	8,182,133	-
Share premium reserve		**34,310,104**	34,310,104	-
Legal reserve		**318,029**	114,913	203,116
Actuarial gains/(losses) reserve		**-**	127,775	(127,775)
Financial asset fair value reserve		**2,353,057**	4,403,001	(2,049,944)
Retained earnings		**6,042,546**	2,183,350	3,859,196
Profit/(loss) for the year		**42,567,924**	4,062,312	38,505,612
Shareholders' equity	23	**93,773,793**	53,383,588	40,390,205
Non-current liabilities				
Provisions for employee benefits	24	**10,674,714**	4,540,034	6,134,680
Loans and other financial payables	25	**193,932,621**	154,831,816	39,100,805
Payables due to football clubs for transfer campaigns	26	**63,073,440**	56,090,173	6,983,267
Deferred tax liabilities	27	**17,663,836**	6,488,110	11,175,726
Other non-current liabilities	28	**13,098,026**	3,619,511	9,478,515
Total non-current liabilities		**298,442,637**	225,569,644	72,872,993
Current liabilities				
Provisions for risks and charges	29	**946,215**	2,669,802	(1,723,587)
Loans and other financial payables	25	**112,667,814**	77,256,387	35,411,427
Trade payables	30	**30,213,091**	14,186,457	16,026,634
Trade and other payables to related parties	57	**1,369,570**	1,206,036	163,534
Payables due to football clubs for transfer campaigns	26	**152,508,495**	93,139,548	59,368,947
Other current liabilities	28	**105,281,307**	63,082,742	42,198,565
Total current liabilities		**402,986,492**	251,540,972	151,445,520
Advances received				
Non-current advances		**27,543,224**	31,547,051	(4,003,827)
Current advances		**24,493,311**	15,516,991	8,976,320
Advances received, total	31	**52,036,535**	47,064,042	4,972,493
Total liabilities		**847,239,457**	577,558,246	269,681,211

As we can see from the figures[112] above, the Juventus club's total assets increased by 46.7% to €847.2 million, compared to €577.5 million of the previous season. Allianz Stadium, a stadium owned by Juventus itself, makes the structure of the club's balance sheet much closer to the standards of other European clubs when compared to Italian clubs.

Among the items with the greatest impact on the total value of assets we have "Land and buildings" which, net of depreciation, is equal to about 15.9%. The decrease in the percentage weight (2015/16 equal to 23.5%), is due to the increase in the percentage weight of players' registration rights, whose incidence on total assets is 35.6% (32.2% in 2015/16). Land and buildings increased by 0.4%, from € 135,555,977 to € 135,074,898. This item includes:

- the land of the Vinovo Training Centre (the so-called "Juventus Training Center";) for € 5 million.
- the land adjacent to the Training Centre for € 10. 800,000.
- the buildings of the Juventus Training Center for € 16,549,000.
- the "Allianz Stadium", the "Juventus Museum" and the "Juventus Megastore" for a total net book value of € 102,726,000.

Shareholders' equity on 30 June 2017 was positive at € 93.773.793 (significantly higher than the € 53.4 million of 2015/16), and finances 11.1% of assets. The positive change of € 40.39 million, compared to the equity as of 30 June 2016, is mainly due to the profit for the year recorded (as we said € 42.57 million) and the changes in the Fair value reserve of financial assets (-€ 2.05 million) and the Reserve for actuarial gains/(losses) (-€ 127.775 million). The shareholders' equity, being positive, complies with the Financial Fair Play regulations. This item finances 36.6% of the Net Invested Capital, amounting to € 256.3 million (€ 252.7 million in 2015/16); the remaining part, i.e., 63.4%, is financed by net financial debt.

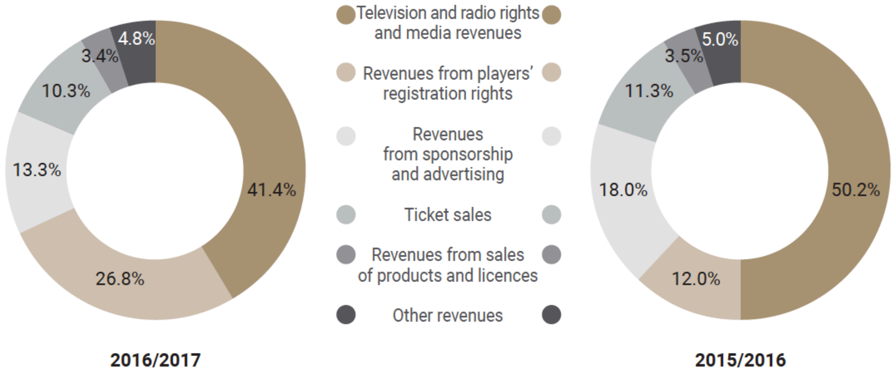
[112] Statement of Financial Position, Annual Financial Report at 30 June 2017 Juventus FC

INCOME STATEMENT

Amounts in euros	Note	2016/2017 Financial year	2015/2016 Financial year	Change
Ticket sales	32	**57,835,297**	43,667,912	14,167,385
Television and radio rights and media revenues	33	**232,773,784**	194,897,031	37,876,753
Revenues from sponsorship and advertising	34	**74,718,794**	70,008,038	4,710,756
Revenues from sales of products and licences	35	**19,198,979**	13,509,887	5,689,092
Revenues from players' registration rights	36	**151,149,536**	46,403,703	104,745,833
Other revenues	37	**27,034,664**	19,414,202	7,620,462
Total revenues		**562,711,054**	387,900,773	174,810,281
Purchase of materials, supplies and other consumables	38	**(2,979,934)**	(3,380,235)	400,301
Purchases of products for sale	39	**(8,290,140)**	(4,344,289)	(3,945,851)
External services	40	**(66,578,563)**	(51,503,546)	(15,075,017)
Players' wages and technical staff costs	41	**(235,344,554)**	(197,742,952)	(37,601,602)
Other personnel	42	**(26,481,657)**	(23,740,893)	(2,740,764)
Expenses from players' registration rights	43	**(50,492,316)**	(10,940,840)	(39,551,476)
Other expenses	44	**(10,524,690)**	(8,441,139)	(2,083,551)
Total operating costs		**(400,691,854)**	(300,093,894)	(100,597,960)
Amortisation and write-downs of players' registration rights	45	**(82,949,776)**	(67,046,721)	(15,903,055)
Depreciation/amortisation of other tangible and intangible assets	46	**(9,934,144)**	(9,284,550)	(649,594)
Provisions, write-downs and release of funds	47	**(2,107,849)**	(1,900,000)	(207,849)
Other non-recurring revenues and costs	48	**350,000**	10,638,769	(10,288,769)
Operating income		**67,377,431**	20,214,377	47,163,054
Financial income	49	**4,273,061**	2,408,661	1,864,400
Financial expenses	50	**(11,969,140)**	(10,353,937)	(1,615,203)
Group's share of results of associates and *joint ventures*		**(1,266,633)**	(661,133)	(605,500)
Income/(loss) before taxes		**58,414,719**	11,607,968	46,806,751
Current taxes	51	**(11,363,921)**	(8,431,039)	(2,932,882)
Deferred taxes	51	**(4,482,874)**	885,383	(5,368,257)
Profit/(loss) for the year		**42,567,924**	4,062,312	38,505,612
Basic and diluted profit per share	52	**0,042**	0,004	0,038

Revenues for the 2016/2017 financial year, as shown in the Income Statement[113], amounted to € 562.711.054 million: an increase of 45.1% compared to the previous year's revenues of € 387.900.773, a positive change of € 174.810.281. These revenues are broken down as follows:

Amounts in millions of euros	2016/2017 Financial year	%	2015/2016 Financial year	%	Change
Television and radio rights and media revenues	232.8	*41.4%*	194.9	50.2%	37.9
Revenues from players' registration rights	151.2	*26.8%*	46.4	12.0%	104.8
Revenues from sponsorship and advertising	74.7	*13.3%*	70.0	18.0%	4.7
Ticket sales	57.8	*10.3%*	43.7	11.3%	14.1
Revenues from sales of products and licences	19.2	*3.4%*	13.5	3.5%	5.7
Other revenues	27.0	*4.8%*	19.4	5.0%	7.6
Total	**562.7**	*100%*	**387.9**	*100%*	**174.8**



[113] Income Statement, Annual Financial Report on 30 June 2017 Juventus FC

The considerable increase in revenues, as can be seen from the tables and graphs[114] above, is due mainly to revenues from players' registration rights, which amounted to € 151.2 million: an increase of € 104.8 million compared to € 46.4 million in the previous financial year. This was mainly due to higher capital gains from the definitive disposal of players' registration rights (a positive variation of € 103.6 million), higher revenues from the temporary disposal of players' registration rights (a plus of € 2.2 million) net of other minor variations (a minus of € 1 million). Significant is the increase in revenues from television and radio rights and media revenues, which reached € 232.8 million, increasing of € 37.8 million compared to the previous financial year. The share of these rights in the total revenues of the Juventus club, however, fell (from 50.2% to 41.4%), leaving more room for revenues from players' registration rights.
Financial revenues, which are considered relevant for the calculation of the break-even point, amounted to € 4.273 million. Financial expenses, on the other hand, amounted to € 11.969 million.
In terms of operating costs, the 2016/2017 financial year saw a total of € 400.7 million recorded; a percentage increase of 33.5% compared to the previous season, which corresponded to operating costs of € 300.1 million. The result before taxes is positive and amounts to € 58,414,719. The previous year was positive for € 11.6 million; in 2014/15, however, it was slightly positive (€ 10.8 million).
We can easily see how Juventus complies with the break-even limits typical of Financial Fair Play, which tolerates a cumulative loss for the 2014/15, 2015/16 and 2016/17 financial years of € 30 million. It is important to underline that, in the determination of the break-even result, some elements are not considered such as other depreciation and amortization, capital gains and losses determined by assets other than players, financial charges determined by virtuous investments and expenses for the youth sector.
The net result for the 2016/17 financial year was a positive €42.567.924: in 2015/16 it was positive by only € 4 million while, in the previous year, it was positive by € 2.3 million. Considering the net result, we can confirm the trend of clear improvement that characterizes the last sporting and financial seasons of the Turin club.

Economic and financial analysis of the 2017/2018 season

The 2017/2018 football season ends for Juventus with the victory of its 7th consecutive championship (and the 36th in its history), the victory of its 13th Coppa Italia and the achievement of an important goal for the first women's football team as well: the victory of the Serie A.
The transfer campaign, on the other hand, registered a total capital invested of € 136.8 million, given by the difference between acquisitions and increases (€ 157.9 million) and disposals (€ 21.1 million). The capital gains generated by disposals amounted to €93.8 million.

[114] *Income Statement, Annual Financial Report on 30 June 2017 Juventus FC*

However, the 2017/2018 financial period closed with a loss, net of tax, of €19.2 million: a negative variation of €61.8 million when compared to the result of the previous season, which was a positive result of €42.6 million. Total taxes amounted to €9.2 million; consequently, the pre-tax result for the financial period was a loss of €10.022.550.

As in the previous year, the financial statements prepared by the Turin-based company were drawn up based on the historical cost principle, with the sole exception of the cases specifically described in the notes below, for which fair value was applied. In addition, the Board of Directors has determined that there are no material uncertainties that cast doubt on Juventus' ability to continue as a going concern.

The company's strategies of investment, expansion and diversification of its business activities have caused its net financial debt to increase and its short-term economic results to deteriorate. The increase in net financial debt (increased by € 147.3 million to € 309.8 million), which is mainly due to the large expenditures made during the transfer campaign for the 2017/2018 football season, will be covered by medium to long-term loans and credit lines already available.

STATEMENT OF FINANCIAL POSITION

Amounts in euros	Note	30/06/2018	30/06/2017	Change
Non-current assets				
Players' registration rights, net	8	**330,827,660**	301,960,077	28,867,583
Other intangible assets	9	**33,668,599**	33,436,756	231,843
Intangible assets in progress	10	**1,630,644**	81,305	1,549,339
Land and buildings	11	**132,514,065**	135,074,898	(2,560,833)
Other tangible assets	12	**28,435,146**	24,679,639	3,755,507
Tangible assets in progress	13	**1,490,953**	4,641,951	(3,150,998)
Investments	14	**281,682**	199,040	82,642
Non-current financial assets	15	**16,190,301**	17,381,410	(1,191,109)
Deferred tax assets	16	**14,660,017**	13,366,472	1,293,545
Receivables due from football clubs for transfer campaigns	17	**42,925,371**	33,410,912	9,514,459
Other non-current assets	18	**3,374,626**	3,606,145	(231,519)
Total non-current assets		**605,999,064**	567,838,605	38,160,459
Current assets				
Inventory	19	**5,420,716**	3,394,735	2,025,981
Trade receivables	20	**29,281,837**	36,647,506	(7,365,669)
Trade and other receivables from related parties	56	**3,489,837**	3,585,193	(95,356)
Receivables due from football clubs for transfer campaigns	17	**73,985,784**	61,369,643	12,616,141
Other current assets	18	**12,423,613**	6,631,598	5,792,015
Current financial assets	15	**11,926,384**	13,171,646	(1,245,262)
Cash and cash equivalents	21	**15,335,208**	139,996,455	(124,661,247)
Total current assets		**151,863,379**	264,796,776	(112,933,397)
Advances paid				
Non-current advances		**13,283,090**	13,436,931	(153,841)
Current advances		**1,522,549**	1,167,145	355,404
Advances paid, total	22	**14,805,639**	14,604,076	201,563
Total assets		**772,668,082**	847,239,457	(74,571,375)

STATEMENT OF FINANCIAL POSITION

Amounts in euros	Note	30/06/2018	30/06/2017	Change
Shareholders' Equity				
Share capital		**8,182,133**	8,182,133	-
Share premium reserve		**34,310,104**	34,310,104	-
Legal reserve		**1,636,427**	318,029	1,318,398
Financial asset fair value reserve		**(147,846)**	2,353,057	(2,500,903)
Retained earnings		**47,292,072**	6,042,546	41,249,526
Profit/(loss) for the year		**(19,228,819)**	42,567,924	(61,796,743)
Shareholders' equity	23	**72,044,071**	93,773,793	(21,729,722)
Non-current liabilities				
Provisions for employee benefits	24	**-**	10,674,714	(10,674,714)
Loans and other financial payables	25	**276,807,278**	193,932,621	82,874,657
Payables due to football clubs for transfer campaigns	26	**63,228,521**	63,073,440	155,081
Deferred tax liabilities	27	**19,343,305**	17,663,836	1,679,469
Other non-current liabilities	28	**4,829,203**	13,098,026	(8,268,823)
Total non-current liabilities		**364,208,307**	298,442,637	65,765,670
Current liabilities				
Loans and other financial payables	25	**52,392,943**	112,667,814	(60,274,871)
Provisions for risks and charges	29	**1,036,568**	946,215	90,353
Trade payables	30	**30,358,990**	30,213,091	145,899
Trade and other payables to related parties	56	**5,984,062**	1,369,570	4,614,492
Payables due to football clubs for transfer campaigns	26	**111,740,149**	152,508,495	(40,768,346)
Other current liabilities	28	**85,899,470**	105,281,307	(19,381,837)
Total current liabilities		**287,412,182**	402,986,492	(115,574,310)
Advances received				
Non-current advances		**23,737,700**	27,543,224	(3,805,524)
Current advances		**25,265,822**	24,493,311	772,511
Advances received, total	31	**49,003,522**	52,036,535	(3,033,013)
Total liabilities		**772,668,082**	847,239,457	(74,571,375)

Compared to the previous financial period, we can see from the Statement of Financial Position[115] a decrease of 8.8% in total assets, which fell from €847.239.457 million to €772.668.082 million. The item that has had the greatest impact on this decrease is "Cash and Cash equivalents", symbolizing the major investments made in the 2017/2018 season not only in terms of player transfers but also in long-term projects such as the "Juventus Women" project.

As far as Shareholder's Equity is concerned, it amounted to €72.044.071 million on 30 June 2018, 23.18% less than the previous year (€93.773.793); it also finances 9.3% of assets. Compared to the result of the 2016/2017 season, the negative change is about €21.73 million: this is mainly due to the net loss recorded (-€19.23 million) and changes in the Fair value reserve for financial assets (-€2.5 million). The positivity of the Shareholder's Equity item complies with the Financial Fair Play constraints. As also reported in the previous analysis, 18.9% of the net invested capital is financed by Shareholder's Equity, amounting to approximately €381.8 million (in the 2016/2017 season it was €256.3, and 36.6% as a percentage); the remaining part, 81.1%, is financed by net financial debt.

[115] *Statement of Financial Position, Annual Financial Report at 30 June 2018 Juventus FC*

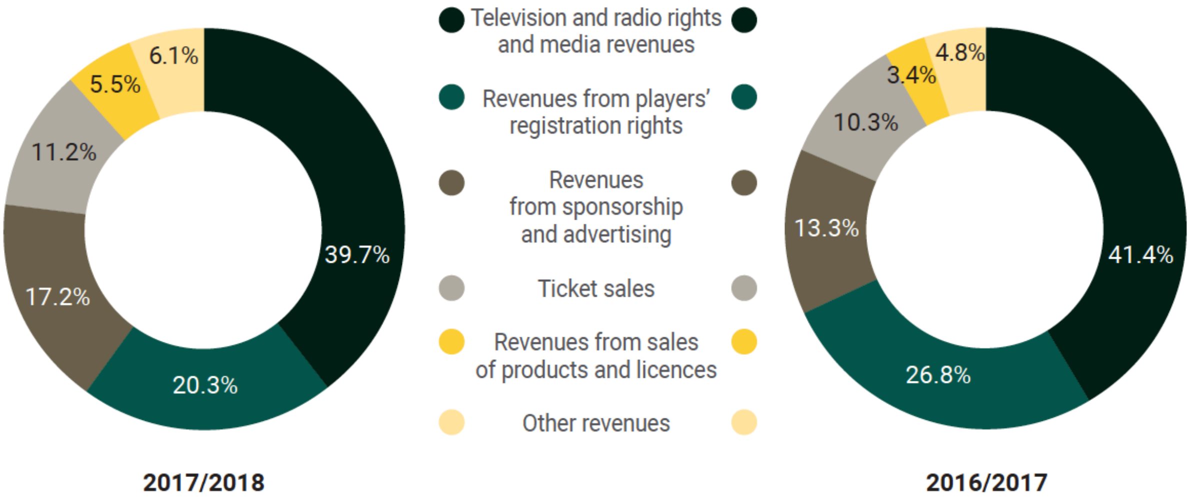
INCOME STATEMENT

Amounts in euros	Note	2017/2018 Financial year	2016/2017 Financial year	Change
Ticket sales	32	**56,410,423**	57,835,297	(1,424,874)
Television and radio rights and media revenues	33	**200,169,142**	232,773,784	(32,604,642)
Revenues from sponsorship and advertising	34	**86,896,999**	74,718,794	12,178,205
Revenues from sales of products and licences	35	**27,796,591**	19,198,979	8,597,612
Revenues from players' registration rights	36	**102,401,466**	151,149,536	(48,748,070)
Other revenues	37	**30,995,269**	27,034,664	3,960,605
Total revenues		**504,669,890**	562,711,054	(58,041,164)
Purchase of materials, supplies and other consumables	38	**(3,464,062)**	(2,979,934)	(484,128)
Purchases of products for sale	39	**(11,469,144)**	(8,290,140)	(3,179,004)
External services	40	**(76,943,169)**	(66,578,563)	(10,364,606)
Players' wages and technical staff costs	41	**(233,319,806)**	(235,344,554)	2,024,748
Other personnel	42	**(25,683,238)**	(26,481,657)	798,419
Expenses from players' registration rights	43	**(20,107,143)**	(50,492,316)	30,385,173
Other expenses	44	**(12,273,621)**	(10,524,690)	(1,748,931)
Total operating costs		**(383,260,183)**	(400,691,854)	17,431,671
Amortisation and write-downs of players' registration rights	45	**(107,954,427)**	(82,949,776)	(25,004,651)
Amortisation of other tangible and intangible assets	46	**(12,525,527)**	(9,934,144)	(2,591,383)
Provisions, write-downs and release of funds	47	**(2,363,811)**	(2,107,849)	(255,962)
Other non-current revenues and expenses		**-**	350,000	(350,000)
Operating income		**(1,434,058)**	67,377,431	(68,811,489)
Financial income	48	**4,260,740**	4,273,061	(12,321)
Financial expenses	49	**(11,963,159)**	(11,969,140)	5,981
Group's share of results of associates and joint ventures		**(886,073)**	(1,266,633)	380,560
Income/(loss) before taxes		**(10,022,550)**	58,414,719	(68,437,269)
Current taxes	50	**(8,820,346)**	(11,363,921)	2,543,575
Deferred taxes	50	**(385,923)**	(4,482,874)	4,096,951
Profit/(loss) for the year		**(19,228,819)**	42,567,924	(61,796,743)
Basic and diluted profit/(loss) per share for the year	51	**(0,019)**	0,042	(0,061)

If we look at the previous season and the Income Statement[116] for the 2017/2018 financial period, we can easily identify an important drop in revenues for Juventus, precisely 10.3%.

[116] *Income Statement, Annual Financial Report on 30 June 2018 Juventus FC*

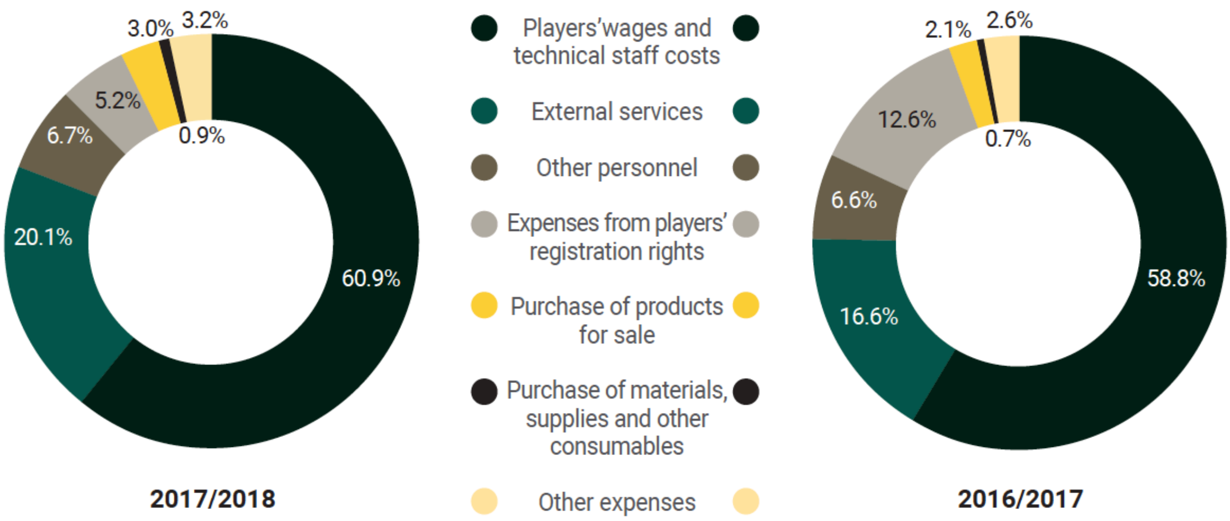
Amounts in millions of euros	2017/2018 Financial year	%	2016/2017 Financial year	%	Change
Television and radio rights and media revenues	200.2	*39.7%*	232.8	*41.4%*	(32.6)
Revenues from players' registration rights	102.4	*20.3%*	151.2	*26.8%*	(48.8)
Revenues from sponsorship and advertising	86.9	*17.2%*	74.7	*13.3%*	12.2
Ticket sales	56.4	*11.2%*	57.8	*10.3%*	(1.4)
Revenues from sales of products and licences	27.8	*5.5%*	19.2	*3.4%*	8.6
Other revenues	31.0	*6.1%*	27.0	*4.8%*	4.0
Total	**504.7**	*100%*	**562.7**	*100%*	**(58.0)**



Looking at the table[117] above, the drop, from €562.7 million to €504.7 million, was determined mainly by the decrease in revenues from players' registration rights (down by €48.8 million); television and radio rights and media revenues, which fell by € 32.6 million, and match revenues, which fell by € 1.4 million. Financial revenues, on the other hand, came to around €4.3 million.

[117] *Income Statement, Annual Financial Report on 30 June 2018 Juventus FC*

Amounts in millions of euros	2017/2018 Financial year	%	2016/2017 Financial year	%	Change
Players' wages and technical staff costs	233.3	*60.9%*	235.3	*58.8%*	(2.0)
External services	77.0	*20.1%*	66.6	*16.6%*	10.4
Other personnel	25.7	*6.7%*	26.5	*6.6%*	(0.8)
Expenses from players' registration rights	20.1	*5.2%*	50.5	*12.6%*	(30.4)
Purchases of products for sale	11.5	*3.0%*	8.3	*2.1%*	3.2
Purchase of materials, supplies and other consumables	3.4	*0.9%*	3.0	*0.7%*	0.4
Other expenses	12.3	*3.2%*	10.5	*2.6%*	1.8
Total	**383.3**	*100%*	**400.7**	*100%*	**(17.4)**



Looking at operating costs, [118] we note that for 2017/2018 they amounted to €383.3 million: a decrease of 4.4% compared to €400.7 million in the previous year.

Another element to keep an eye on in terms of Financial Fair Play is personnel costs. As specified by the UEFA regulations, to remain in line with the financial requirements, personnel costs should not affect more than 70% of total revenues. Personnel costs remained like those of the previous season both in terms of total amount (€259 million in 2017/2018 and €261.1 million in 2016/2017) and in terms of impact on net sales (64.4% vs. 63.6%). If we consider the ratio of personnel costs to gross operating revenues, we see that this percentage is lower than the 70% limit and stands at 51.3% precisely (up slightly from 46.51% in the previous year), thanks mainly to capital gains.

Another item to be considered are the financial charges, relevant for the calculation of the break-even point, which amounted to €11.963 million.

[118] Income Statement, Annual Financial Report on 30 June 2018 Juventus FC

Economic and financial analysis of the 2018/2019 season

The 2018/2019 season has been full of important events for the *Bianconeri* club: the victory of the 8th Italian Super Cup, as well as the 8th consecutive national title, the consequent qualification to the group stage of the UEFA Champions League, and finally the removal of the multi-titled first team men's coach Massimiliano Allegri. Despite what has just been said, the most important event this season was the purchase, during the summer transfer campaign, of the Portuguese champion Cristiano Ronaldo, one of the strongest players in the world now and among the best in history.

Financially speaking, the acquisition of Cristiano Ronaldo, together with other high-level operations, led to an increase in total invested capital of €239.6 million, resulting from €293.4 million for acquisitions and increases and €53.8 million from disposals. Capital gains amounted to €126.7 million.

Another significant financial event for 2018/2019 was the renewal of the technical sponsorship with Adidas, extended until 2027, which brought an additional €15 million into the club's coffers for the first part of the 2018/2019 financial year thanks to the partnership's excellent performance at a commercial level.

The change in the bench was not the only one: in fact, there were important changes at corporate level, such as the end of the working relationship with Giuseppe Marotta, one of the architects of Juventus' recent successes, whose role as Chief Football Officer was taken over during the corporate reorganization by his former right-hand man Fabio Paratici.

The 2018/2019 financial year was characterized by a further loss, amounting to €39.9 million, despite an increase in revenue by 23.14% compared to the previous year (€621.5 million vs. €504.7 million); a small alarm in view of Financial Fair Play, which limits the annual net loss to only 30 million euros. The new loss establishes a negative variation of €20.7 million compared to the loss recorded for the previous year, which amounted to €19.2 million. This loss stems mainly from the higher costs of players' wages and technical staff (+ €68 million), higher amortization and depreciation, write-down on players' registration rights for €41.5 million, higher taxes (+ €3.8 million), higher net financial expenses (+ €3.4 million), higher operating costs (+ €7.2 million). Fortunately, the significant increase in sales allowed the club to partially cover these costs.

As in the previous year, the financial statements prepared by the Turin-based company were drawn up based on the historical cost principle, with the sole exception of the cases specifically described in the notes below, for which fair value was applied. In addition, the Board of Directors has determined that there are no material uncertainties that cast doubt on Juventus' ability to continue as a going concern.

	30/06/2019			30/06/2018		
Amounts in millions of euros	Current	Non-current	Total	Current	Non-current	Total
Financial assets [(a)]	-	-	-	-	4.1	4.1
Cash and cash equivalents	9.7	-	9.7	15.3	-	15.3
Total financial assets	**9.7**	**-**	**9.7**	**15.3**	**4.1**	**19.4**
Financial payables						
- due to bondholders	(2.1)[(b)]	(173.1)	(175.3)	-	-	-
- due to the Istituto per il Credito Sportivo	(6.5)	(24.4)	(30.8)	(6.2)	(30.8)	(37.0)
- due to banks	(32.5)	(54.8)	(87.3)	(46.1)	(136.0)	(182.1)
- due to factoring companies	(0.7)	(179.1)	(179.8)	(0.1)	(110.0)	(110.1)
Total financial liabilities	**(41.8)**	**(431.4)**	**(473.2)**	**(52.4)**	**(276.8)**	**(329.2)**
Net financial debt	**(32.1)**	**(431.4)**	**(463.5)**	**(37.1)**	**(272.7)**	**(309.8)**
% of coverage	6.9%	93.1%	100%	12.0%	88.0%	100%

Also, worth noting is the Net financial debt[119], an important indicator of a club's financial structure, which on 30 June 2019 compared to last year recorded an increase by almost 50% (+ €153.7 million), from €309.8 million for the previous season to €463.5 millions of this one. This increase is mainly due to the negative variation recorded during the transfer campaign, amounting to €131.1 million. The increase in net financial debt will be covered by medium to long-term loans and credit lines already available.

STATEMENT OF FINANCIAL POSITION

Amounts in euro	Note	30/06/2019	30/06/2018	Change
Non-current assets				
Players' registration rights, net	8	**421,042,929**	330,827,660	90,215,269
Other intangible assets	9	**35,111,475**	33,668,599	1,442,876
Intangible assets in progress	10	**389,333**	1,630,644	(1,241,311)
Land and buildings	11	**130,412,604**	132,514,065	(2,101,461)
Other tangible assets	12	**24,182,526**	28,435,146	(4,252,620)
Tangible assets in progress	13	**2,101,591**	1,490,953	610,638
Investments	14	**267,534**	281,682	(14,148)
Non-current financial assets	15	**16,482,411**	16,190,301	292,110
Deferred tax assets	16	**10,103,763**	14,660,017	(4,556,254)
Receivables due from football clubs for transfer campaigns	17	**109,267,970**	42,925,371	66,342,599
Other non-current assets	18	**1,808,485**	3,374,626	(1,566,141)
Total non-current assets		**751,170,621**	605,999,064	145,171,557
Current assets				
Inventory	19	**7,884,460**	5,420,716	2,463,744
Trade receivables	20	**33,660,393**	29,281,837	4,378,556
Trade and other receivables from related parties	56	**3,675,594**	3,489,837	185,757
Receivables due from football clubs for transfer campaigns	17	**89,982,013**	73,985,784	15,996,229
Other current assets	18	**8,887,618**	12,423,613	(3,535,995)
Current financial assets	15	**11,504,235**	11,926,384	(422,149)
Cash	21	**9,744,722**	15,335,208	(5,590,486)
Total current assets		**165,339,035**	151,863,379	13,475,656
Advances paid				
Non-current advances		**18,785,559**	13,283,090	5,502,469
Current advances		**6,465,404**	1,522,549	4,942,855
Advances paid, total	22	**25,250,963**	14,805,639	10,445,324
Total assets		**941,760,619**	772,668,082	169,092,537

[119] *Net financial debt, Annual Financial Report on 30 June 2019 Juventus FC*

STATEMENT OF FINANCIAL POSITION

Amounts in euro	Note	30/06/2019	30/06/2018	Change
Shareholders' Equity				
Share capital		**8,182,133**	8,182,133	-
Share premium reserve		**34,310,104**	34,310,104	-
Legal reserve		**1,636,427**	1,636,427	-
Cash flow hedge reserve		**(57,750)**	-	(57,750)
Financial asset fair value reserve		**(995,662)**	(147,846)	(847,816)
Retained earnings		**28,063,254**	47,292,072	(19,228,818)
Loss for the year		**(39,895,794)**	(19,228,819)	(20,666,975)
Shareholders' equity total	23	**31,242,712**	72,044,071	(40,801,359)
Non-current liabilities				
Loans and other financial payables	24	**431,387,181**	276,807,278	154,579,903
Payables due to football clubs for transfer campaigns	25	**39,243,263**	63,228,521	(23,985,258)
Deferred tax liabilities	26	**13,758,466**	19,343,305	(5,584,839)
Other non-current liabilities	27	**15,609,024**	4,829,203	10,779,821
Total non-current liabilities		**499,997,934**	364,208,307	135,789,627
Current liabilities				
Loans and other financial payables	24	**41,831,708**	52,392,943	(10,561,235)
Provisions for risks and charges	28	**16,035,155**	1,036,568	14,998,587
Trade payables	29	**33,403,252**	30,358,990	3,044,262
Trade and other payables to related parties	56	**1,657,747**	5,984,062	(4,326,315)
Payables due to football clubs for transfer campaigns	25	**181,622,230**	111,740,149	69,882,081
Other current liabilities	27	**85,665,008**	85,899,470	(234,462)
Total current liabilities		**360,215,100**	287,412,182	72,802,918
Advances received				
Non-current advances		**19,953,569**	23,737,700	(3,784,131)
Current advances		**30,351,304**	25,265,822	5,085,482
Advances received, total	30	**50,304,873**	49,003,522	1,301,351
Total liabilities		**941,760,619**	772,668,082	169,092,537

From the Statement of Financial Position[120], we can see that the total assets increased considerably compared to the previous season, recording a positive variation of €169.092.537 million, more than 20% (€941.760.619 vs. €772.66.8.082). The considerable increase in assets is mainly due to the increase in the net value of the registration of players' rights (+ €90.215.269 million) and receivables due from football clubs for transfer campaigns (+ €66.342.599 million for non-current assets and + €15.996.229 for current assets), all representing the important operations carried out in the last financial period by the company. Also notice the reduction in cash and cash equivalents (- €5.590.486) and deferred tax assets (- €4.556.254).

Among the liabilities, on the other hand, we can immediately see the recourse in greater measures to payables, denoted by the increase in the item "Payables due to football clubs for transfer campaigns" of almost €70 million, going from €111,740,149 million in the 2017/2018 season to €181,622,230 in the 2018/2019 season, with a positive increase of 62.54%.

[120] *Statement of Financial Position, Annual Financial Report on 30 June 2019 Juventus FC*

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Amounts in euro	Share capital	Share premium reserve	Legal reserve	Res. pursuant to art. 26 of the By-laws	Cash flow hedge reserve	Financial asset fair value reserve	Retained earnings/acc. losses	Profit/(Loss) for the period	Shareholders' Equity
Balance at 30/06/2017	**8,182,133**	**34,310,104**	**318,029**	**-**	**-**	**2,353,057**	**6,042,546**	**42,567,924**	**93,773,793**
Allocation of profits for previous year	-	-	1,318,398	4,256,792	-	-	36,992,734	(42,567,924)	-
Movements between reserves	-	-	-	(4,256,792)	-	-	4,256,792	-	-
Total profit/(loss) for the year	-	-	-	-	-	(2,500,903)	-	(19,228,819)	(21,729,722)
Balance at 30/06/2018	**8,182,133**	**34,310,104**	**1,636,427**	**-**	**-**	**(147,846)**	**47,292,072**	**(19,228,819)**	**72,044,071**
Allocation of profits for the previous year	-	-	-	-	-	-	(19,228,819)	19,228,819	-
Coverage of loss for the previous financial year	-	-	-	-	(57,750)	(847,815)	-	(39,895,794)	(40,801,359)
Balance at 30/06/2019	**8,182,133**	**34,310,104**	**1,636,427**	**-**	**(57,750)**	**(995,661)**	**28,063,253**	**(39,895,794)**	**31,242,712**

Shareholders' equity[121] on 30 June 2019 for the Juventus club amounted to €31.2 million, a sharp decrease (-56.7%) compared to the previous year's balance of €72 million. This decrease is justified by the loss for the year (- €39.9 million), changes in the fair value reserve of financial assets (- €0.8 million) and the cash flow hedge reserve (- €0.1 million). Nevertheless, the positivity of the Shareholder's Equity item complies with the Financial Fair Play constraints.

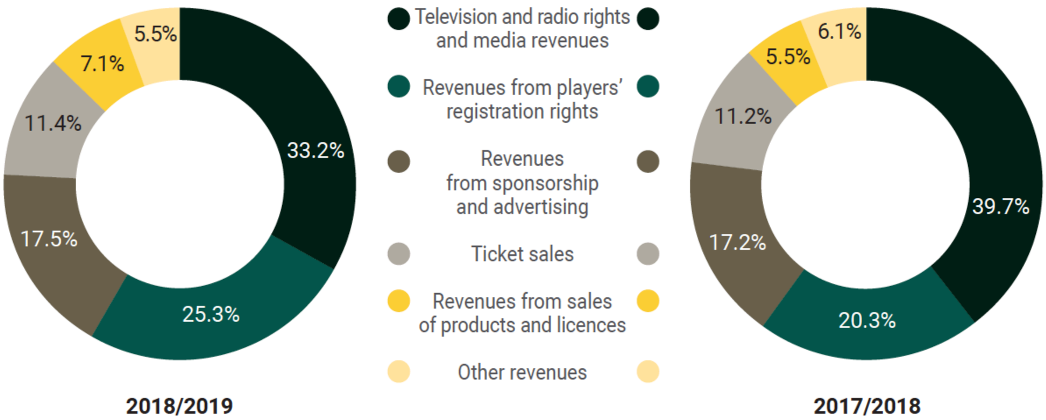
INCOME STATEMENT

Amounts in euro	Note	2018/2019 Financial year	2017/2018 Financial year	Change
Ticket sales	31	**70,652,591**	56,410,423	14,242,168
Television and radio rights and media revenues	32	**206,642,858**	200,169,142	6,473,716
Revenues from sponsorship and advertising	33	**108,842,634**	86,896,999	21,945,635
Revenues from sales of products and licences	34	**44,026,765**	27,796,591	16,230,174
Revenues from players' registration rights	35	**157,186,818**	102,401,466	54,785,352
Other revenues	36	**34,104,728**	30,995,269	3,109,459
Total revenues		**621,456,394**	504,669,890	116,786,504
Purchase of materials, supplies and other consumables	37	**(3,733,793)**	(3,464,062)	(269,731)
Purchases of products for sale	38	**(17,501,352)**	(11,469,144)	(6,032,208)
External services	39	**(81,236,433)**	(79,237,236)	(1,999,197)
Players' wages and technical staff costs	40	**(301,334,879)**	(233,319,806)	(68,015,073)
Other personnel	41	**(26,416,512)**	(25,683,238)	(733,274)
Expenses from players' registration rights	42	**(15,521,017)**	(20,107,143)	4,586,126
Other expenses	43	**(12,717,676)**	(9,979,554)	(2,738,122)
Total operating costs		**(458,461,662)**	(383,260,183)	(75,201,479)
Amortisation and write-downs of players' registration rights	44	**(149,440,966)**	(107,954,427)	(41,486,539)
Amortisation of other tangible and intangible assets	45	**(11,722,391)**	(12,525,527)	803,136
Provisions, write-downs and release of funds	46	**(17,160,672)**	(2,363,811)	(14,796,861)
Operating income		**(15,329,297)**	(1,434,058)	(13,895,239)
Financial income	47	**3,429,230**	4,260,740	(831,510)
Financial expenses	48	**(14,496,878)**	(11,963,159)	(2,533,719)
Group's share of results of associates and joint ventures		**(500,891)**	(886,073)	385,182
Income/(loss) before taxes		**(26,897,835)**	(10,022,550)	(16,875,285)
Current taxes	49	**(11,738,088)**	(8,820,346)	(2,917,742)
Deferred taxes	49	**(1,259,871)**	(385,923)	(873,948)
Loss for the year		**(39,895,794)**	(19,228,819)	(20,666,975)
Basic and diluted earning/(loss) per share	50	**(0,040)**	(0,019)	(0,021)

[121] Statement of Changes in Shareholders' Equity, Annual Financial Report on 30 June 2019 Juventus FC

What stands out when looking at Juventus' Income Statement[122] for the 2018/2019 financial year is the huge increase in revenues (+ €116,786,504 million) due to the strong incidence of revenues from the registration of players' rights on total revenues, amounting to more than 50%.

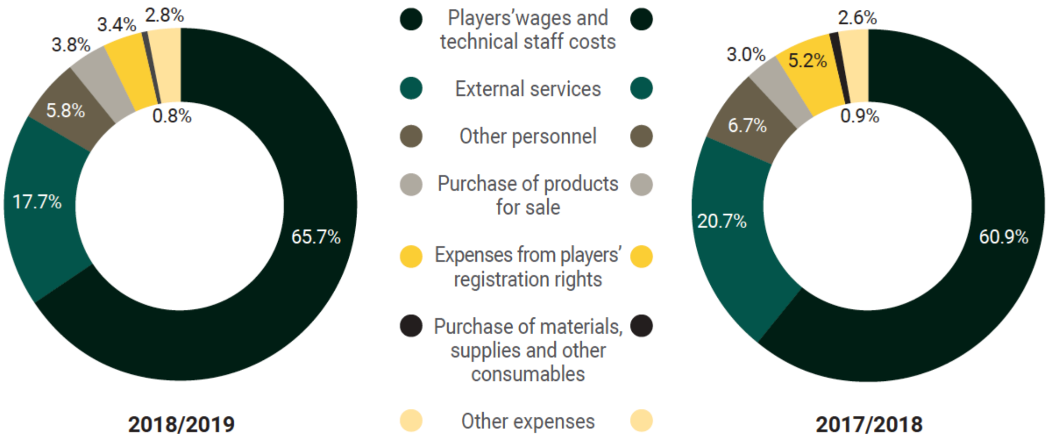
Amounts in millions of euro	2018/2019 Financial year	%	2017/2018 Financial year	%	Change	%
Television and radio rights and media revenues	206.7	*33.2%*	200.2	*39.7%*	6.5	*+3.2%*
Revenues from players' registration rights	157.2	*25.3%*	102.4	*20.3%*	54.8	*+53.5%*
Revenues from sponsorship and advertising	108.8	*17.5%*	86.9	*17.2%*	21.9	*+25.2%*
Ticket sales	70.7	*11.4%*	56.4	*11.2%*	14.3	*+25.4%*
Revenues from sales of products and licences	44.0	*7.1%*	27.8	*5.5%*	16.2	*+58.3%*
Other revenues	34.1	*5.5%*	31.0	*6.1%*	3.1	*+10.0%*
Total	**621.5**	*100%*	**504.7**	*100%*	**116.8**	*+23.1*



All elements of revenues[123] recorded increases compared to the previous financial period; all double-digit percentages, except for television and radio rights and media revenues, whose positive change was only 3.2%. "Despite the increase in the overall value recorded following the allocation of television rights for the three-year period 2018/2019-2020/2021, there was a decrease of € 10.2 million due to the different allocation mechanism introduced by Law no. 205 of 27 December 2017 ("2018 financial Law")"[124]. Financial revenues, on the other hand, came to around €3.4 million, slightly down the €4.3 million registered in 2017/2018.

[122] *Income Statement, Annual Financial Report on 30 June 2019 Juventus FC*
[123] *Income Statement, Annual Financial Report on 30 June 2019 Juventus FC*
[124] *Review of the results for the 2018/2019 financial year, Annual Financial Report on 30 June 2019 Juventus FC*

Amounts in millions of euro	2018/2019 Financial year	%	2017/2018 Financial year	%	Change	%
Players' wages and technical staff costs	301.3	65.7%	233.3	60.9%	68.0	+29.1%
External services	81.3	17.7%	79.2	20.7%	2.1	+2.7%
Other personnel	26.4	5.8%	25.7	6.7%	0.7	+2.7%
Purchases of products for sale	17.5	3.8%	11.5	3.0%	6.0	+52.2%
Expenses from players' registration rights	15.5	3.4%	20.1	5.2%	(4.6)	-22.9%
Purchase of materials, supplies and other consumables	3.8	0.8%	3.5	0.9%	0.3	+8.6%
Other expenses	12.7	2.8%	10.0	2.6%	2.7	+27.0%
Total	**458.5**	100%	**383.3**	100%	75.2	+19.6%



Regarding operating costs[125], the total amount for the 2018/2019 financial period is €458.8 million, which is 19.6% higher than the €383.3 million in the previous period. This is mainly reflected in the 29.1% increase in personnel costs, from €233.3 million to €301.3 million: €68 million divided between bonuses to transferred players (+ €7 million), higher fixed remuneration (+ €59.9 million) and the increase in social security contributions (+ €0.9 million). The highest percentage increase (+ 52.2%) among operating costs is given by the item "Purchase of products for sale" and refers to the cost of goods held for sale at physical and online stores directly managed by the Company.

As specified by the UEFA regulations, to remain in line with the financial requirements and in order not to incur further investigations by the Club Financial Control Body, personnel costs should not affect more than 70% of total revenues: the significant increase in operating costs, and in particular personnel costs, increased the ratio of personnel costs to total revenues from approximately 51.3% in the 2017/2018 financial period to 52.73% in the 2018/2019 financial period, always within the limits of Financial Fair Play.

A KPMG study showed how the situation from the operating revenues "excluded the total amount of capital gains (127 million) and other items related to the temporary sale of some players (the 18 million collected from the loan transfer of Gonzalo Higuain). Without this artifice, the situation would collapse."[126] Nevertheless, the KPMG report shows that Juventus exceeds this threshold by 70%, since the discipline only refers to the so-called relevant revenues and, as we can see, in relation to them the threshold is not exceeded.

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[125] *Income Statement, Annual Financial Report on 30 June 2019 Juventus FC*

[126] *https://www.fanpage.it/sport/calcio/lallarme-di-kpmg-sui-conti-della-juventus-ai-limiti-del-fair-play-finanziario/*

A capital increase of 300 million euros and the issuance on the financial markets, in February 2019, of the so-called "Ronaldo Bonds", i.e., non-convertible bonds, to provide the company with resources for its activity raising around 250 million euros to face the next announced budget red, helped Juventus to cover the financial needs of the period. This parameter is not very serious, but it still sends an alarm to Juventus about the dangerous trend of the last two years, and no other among the richest and strongest clubs in Europe is in such a situation.
Another item to be considered are the financial charges, relevant for the calculation of the break-even point, which amounted to €14.5 million, slightly up (+21.18%).

Conclusions on Juventus's compliance with Financial Fair Play regulation

After examining Juventus' balance sheets for the last three seasons (for which data are available), we can carry out an analysis of the club's fulfilment of the six indicators required by Financial Fair Play.

1. *Indicator 1: Going concern.*
   The fulfilment of indicator 1 "Going Concern" is based on the opinion expressed by the company itself in the annual financial report. In fact, as we have seen during the analysis of each financial period, Juventus expresses its opinion on the company's ability to continue its business. In the last two reviewed years (2017/2018 and 2018/2019), we have observed a deterioration in short-term economic results and a significant increase in net financial debt, resulting from investment strategy aimed at the long term and in perfect line with this principle.
   Because of this, the first criterion is to be considered fulfilled.

2. *Indicator 2: Negative equity.*
   To understand if the "Negative Equity" indicator is met by Juventus, it is necessary to compare the Shareholders' Equity value for each year with the value of the previous financial period: if the variation is negative, the criterion is not to be considered fulfilled.

	2016/2017	*2017/2018*	*2018/2019*
Shareholder's Equity	€ 93.773.793	€ 72.044.071	€ 31.242.712

As can be clearly seen from the table[127], the Turin football club has recorded two consecutive negative variations of increasing consistency in the last two years: the negative variation from 2016/2017 to

[127] *The table compares the value of Shareholders' Equity in the three financial periods analysed. The data are taken from Juventus' Statement of Financial Position, contained in the Annual Financial Report.*

2017/2018 is €21.729.722 million, while the negative variation recorded between 2017/2018 and 2018/2019 is €40.801.359. Almost double.

So, we can safely say that the club has not respected the second indicator, and that it will have to monitor this value for the following years in order not to incur possible sanctions from UEFA.

3. *Indicator 3: Break-even result.*

The third indicator to be met is the famous break-even result, given by the difference between relevant revenues and relevant expenses, which items making up the two macro-categories are to be found within the Income Statement.

	2016/2017	*2017/2018*	*2018/2019*
Ticket Sales	€ 57.835.297	€ 56.410.423	€ 70.652.591
Broadcasting Rights	€ 232.773.784	€ 200.169.142	€ 206.642.858
Revenues from sponsors and advertising	€ 74.718.794	€ 86.896.999	€ 108.842.634
Revenues from commercial activities	€ 19.198.979	€ 27.796.591	€ 44.026.765
Other operating revenues	€ 27.034.664	€ 30.995.269	€ 34.104.728
Revenues from players' registration rights	€ 151.149.536	€ 102.401.466	€ 157.186.818
Financial Revenues	€ 4.273.061	€ 4.260.740	€ 3.429.230
Relevant Revenues	**€ 566.984.115**	**€ 508.930.630**	**€ 624.885.624**
COGS	€ 11.270.074	€ 14.933.206	€ 21.235.145
Personnel costs	€ 261.826.211	€ 259.003.044	€ 327.751.391
Other operating costs	€ 77.103.253	€ 89.216.790	€ 93.954.109
Amortization & write-downs players	€ 82.949.776	€ 107.954.427	€ 149.440.966
Expenses from players' registration rights	€ 50.492.316	€ 20.107.143	€ 15.521.017
Financial Expenses	€ 11.969.140	€ 11.963.159	€ 14.496.878
Relevant Expenses	**€ 495.610.770**	**€ 503.177.769**	**€ 622.399.506**
Break-Even Result	**€ 71.373.345**	**€ 5.752.861**	**€ 2.486.118**

As we can see from the table[128] above, the calculation of the break-even point in the periods under review has led to positive results in each of them, despite a negative trend that has seen a worsening of this result for two consecutive years.

Nevertheless, the break-even criterion is to be considered respected.

[128] *The table contains the values needed to calculate the break-even point. The data has been taken from the Juventus Income Statement for the financial periods 2016/2017, 2017/2018 and 2018/2019.*

4. *Indicator 4: Sustainable debt indicator for T-1.*

The fourth indicator (the same as the fifth indicator, from which it differs only in terms of the reference period) requires the joint non-violation of two constraints: the relevant debt must not exceed the figure of €30 million and must not exceed 7 times the average difference between revenues and costs of production.

The notion of Net Debt has recently been modified with the 2018 version of the Financial Fair Play: the current Net Debt value is given, according to Article 3 of the regulations, by "the aggregate of the following balances: net borrowings (i.e., the net of bank overdrafts, bank and other loans, accounts payable to group entities and other related parties less of cash and cash equivalents); net player transfers balance (i.e. the net of accounts receivable from players' transfers and accounts payable from players' transfers); accounts payable to social/tax authorities (non-current)"[129].

The relevant debt required by Indicator 4 and 5, on the other hand, is the difference between the net debt and the amount of debt directly attributable to the construction and/or substantial modification of the stadium and/or training facilities from the inception of the debt until 25 years after the date on which the asset is declared ready for use.

	2016/2017	*2017/2018*
Financial Assets	€ 4.1 million	€ 4.1 million
Cash and cash equivalents	€ 140 million	€ 15.36 million
Loans and other financial payables	€ -306.6 million	€ -329.2 million
Net debt	**€ -162.5 million**	**€ -309.77 million**
Payables due to football clubs	€ -215.58 million	€ -174.97 million
Receivables due to football clubs	€ 94.78 million	€ 116.91 million
Net player transfers balance	**€ -120.8 million**	**€ -58.06 million**
Accounts payable to social/tax authorities (NC)	/	/
Net Debt Financial Fair Play	**€ -283.3 million**	**€ -367.8 million**
Debt stadium/training facilities	**€ 43 million**	**€ 37 million**
Relevant Debt	**€ -240.3 million**	**€ -330.8 million**

The notion of relevant earnings[130] corresponds to the sum of total revenues and the net result of player transfers minus total operating expenses. It can be approximated to the difference between value and cost of production.

[129] *UEFA Club Licensing and Financial Fair Play Regulations, Article 3 – Definition of terms*

[130] *The table contains the values needed to calculate the relevant earnings for the financial biennium 2016/2017 and 2017/2018. The data have been taken from Juventus' BS and IS.*

	2016/2017	*2017/2018*
Total revenues	€ 562.7 million	€ 504.7 million
Total operating expenses	€ 400.7 million	€ 383.3 million
Relevant earnings	**€ 162 million**	**€ 121.4 million**
Average relevant earnings	**€ 141.7 million**	

As we can see from the table[131] of relevant debt, the debt recorded by the *Bianconeri* club far exceeds the 30 million euros foreseen by far.

The second constraint, however, provides for the calculation of the average relevant earnings for the period considered and the immediately preceding one, which must then be compared to the relevant debt multiplied by 7. The calculated relevant debt is no larger than 7 times the average relevant earnings for the period. Consequently, the constraint can be considered as satisfied.

5. *Indicator 5: Sustainable debt indicator for T.*

   A very similar calculation is made for indicator number 5, which refers (in our case) to the financial period 2018/2019 for sustainable debt.

	2017/2018	*2018/2019*
Financial Assets	€ 4.1 million	€ 4.1 million
Cash and cash equivalents	€ 15.36 million	€ 9.75 million
Loans and other financial payables	€ -329.2 million	€ -473.2 million
Net debt	**€ -309.77 million**	**€ -459.37 million**
Payables due to football clubs	€ -174.97 million	€ -220.87 million
Receivables due to football clubs	€ 116.9 million	€ 199.25 million
Net player transfers balance	**€ -58.06 million**	**€ -21.62 million**
Accounts payable to social/tax authorities (NC)	/	/
Net Debt Financial Fair Play	**€ -367.8 million**	**€ -481 million**
Debt Stadium/Training facilities	**€ 37 million**	**€ 30.8 million**
Relevant Debt	**€ -330.8 million**	**€ -450.19 million**

[131] *The table contains the values needed to calculate the relevant debt for the financial biennium 2016/2017 and 2017/2018. The data have been taken from Juventus' BS and IS.*

As we can see from the table[132] of relevant debt, the debt recorded by Juventus far exceeds the 30 million euros foreseen by far.

	2017/2018	*2018/2019*
Total revenues	€ 504.7 million	€ 621.5 million
Total operating expenses	€ 383.3 million	€ 458.5 million
Relevant earnings	**€ 121.4 million**	**€ 163 million**
Average relevant earnings (T, T-1, T-2)	**€ 148.8 million**	

As we can see from this table, the calculated relevant debt is no larger than 7 times the average relevant earnings[133] for the period. Consequently, the constraint can be considered as satisfied.

6. *Indicator 6: Player transfer balance.*

   Indicator 6 concerns the balance of the player transfer campaign. The licensee must not report a player transfer campaign deficit more than €100 million in any transfer campaign period during the season of validity of the license. If the total costs incurred exceed the total income generated in a registration period, then the club has a player transfer deficit.

   This rule only applies from the 2018/2019 season, as it was introduced in the latest Financial Fair Play reform (2018).

	2018/2019
Balance of acquisitions/disposals	**€ - 239.6 million**

We can see from the table[134] that, Juventus is well above the 100 million deficit threshold forecast by UEFA. The latter should therefore ask Juventus about their compliance with the Financial Fair Play parameters for the 2018/2019 season.

What happens in case of exceeding this treshold? "It is a balance of 100 million on transfers, not a real ceiling - explained Agnelli, in his role as ECA president -. It is an indicator, in the case of a deficit UEFA can go and check the balance sheets and speed up the procedure to carry out the checks and certify that the FPF has been respected by the club".

[132] *The table contains the values needed to calculate the relevant debt for the financial biennium 2017/2018 and 2018/2019. The data have been taken from Juventus' BS and IS.*

[133] *The table contains the values needed to calculate the relevant earnings for the financial biennium 2017/2018 and 2018/2019. The data have been taken from Juventus' BS and IS*

[134] *The table contains the net value related to the players' registration rights acquisitions/disposals of the 2018/2019 season. The data have been taken from Juventus' BS and IS*

Among the additional indicators, i.e., those whose non-compliance could lead the Club Financial Control Body to request further information of an economic-financial nature from the licensee club, we have:

- Personnel costs must not exceed 70% of total revenues.
- Financial indebtedness must not exceed 100% of total revenues.

	2016/2017	*2017/2018*	*2018/2019*
Personnel Costs/Revenues	**46.51%**	**51.3%**	**52.73%**
Net Financial Debt/Revenues	**28.88%**	**61.38%**	**74.58%**

The table[135], which shows us respectively the ratio of personnel costs to total revenue and the ratio of net financial debt to total revenue, denotes how in each financial period considered Juventus is fully within the additional constraints of Financial Fair Play, despite an upward trend in the first ratio.

4.3 Real Madrid

Company profile

Real Madrid is perhaps the world's best-known football club, a seven-time winner of the FIFA Club World Cup, more than a thousand days as holder of the UEFA Champions League, trophy that the club has won 13 times, unique in history. Since the end of the 2013/2014 season, and thus for six consecutive seasons, it has led the UEFA rankings with 146,000 total points, followed by arch-rival Barcelona (8,000 points down).

[135] The table contains the ratio of personnel costs to total revenue and the ratio of net financial debt to total revenue. The data have been taken from Juventus' BS and IS

According to Forbes, Real Madrid is the most valuable football club for 2019 with a value of almost $4.3 billion, supported mainly by the strength of its commercial activity (sponsorship among all), the continuous increase in TV's rights value, the three consecutive victories in the UEFA Champions League that have brought millions and millions into the club's coffers. In addition, the Madrid club ranks third in the list of the most valuable sports institutions, after the Dallas Cowboys (NFL) and the New York Yankees (MLB).
Real Madrid is the most valuable football club in Europe according to The European Elite 2019 report by KPMG: the club is valued at €3.224 billion, ahead of Manchester United (3.207) and Bayern Munich (2.696). It has grown by 10% in one year.
Real Madrid is also the most valuable football brand in the world according to the Brand Finance Football 50 report published by independent consultancy Brand Finance. Its brand is valued at 1.646 billion euros and tops the list ahead of Manchester United (1.472 billion), Barcelona (1.393), Bayern Munich (1.314), Manchester City (1.255) and Liverpool (1.191). These six clubs account for 40% of the value of the brands included in the report. Brand Finance points out in its analysis that the value of Real Madrid has increased by 27% in the last year, partly due to winning the Champions League for the fourth time in the last five years.
In addition, the club has the highest commercial value in world football and the Santiago Bernabéu leads the stadium performance ranking.
Finally, the transparency that distinguishes the club in the areas of institutional transparency, communication, and relations with fans, economic and financial is recognized by many publications.[136]

Economic and financial analysis of the 2016/2017 season

The 2016/2017 football season was a year full of gratification for the *Blancos*: it became the first club to win two consecutive UEFA Champions Leagues since the format of the competition changed in 1992 (2016 and 2017), the first club to win 3 top European competitions in the space of 4 years (2014, 2016 and 2017), it was also recognized by the ECA as the European Club of the Year for 2016, it won the Spanish league for the 33rd time, the FIFA Club World Cup for its fifth time and the UEFA Super Cup, sealing an unforgettable season for the club's history.
The club's presidential elections were also held, which saw Florentino Perez as the winner once again, ready to face another four years as Real Madrid's president.
During this season, Real Madrid invested €152 million, of which around €25 million was spent on facilities development and digitalization to support the club, and the remaining €127 million on player acquisitions. Part of the latter was covered by transfer revenues, which amounted to €54 million, almost double compared to the previous season's figure (2015/2016 of €28 million).

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[136] *Annual Financial Report on 30 June 2019 of Real Madrid*

Net investment in sports personnel on 30 June 2017 amounted to €73.5 million, slightly higher than the annual average of €71 million recorded over the period 2000-2017: such investments have certainly helped the club to drive economic growth, social development, and sporting success.

ASSETS

€ THOUSAND	30/06/2017	30/06/2016
Sports intangible assets	366,246	333,500
Other intangible assets	8,788	10,450
Property, plant and equipment	332,700	323,602
Investment properties	10,654	10,609
Non-current player transfers receivable	16,893	6,527
Deferred tax assets	12,407	15,910
Other financial assets	9,784	4,665
TOTAL NON-CURRENT ASSETS	**757,472**	**705,263**
Inventories	2,551	2,579
Current player transfers receivable	19,754	52,626
Trade receivables	105,047	64,597
Current tax assets	6,726	5,473
Cash and cash equivalents	177,988	211,485
Accruals	5,124	3,096
TOTAL CURRENT ASSETS	**317,190**	**339,856**
TOTAL ASSETS	**1,074,662**	**1,045,119**

EQUITY AND LIABILITIES

€ THOUSAND	30/06/2017	30/06/2016
Entity's fund and reserves	437,540	407,260
Profit/(loss) for the year	21,372	30,280
CAPITAL AND RESERVES	**458,912**	**437,540**
Grants received	4,564	4,708
EQUITY	**463,476**	**442,248**
Provisions for liabilities and charges	13,699	36,939
Bank borrowings	81,791	81,689
Non-current payables for player acquisitions	34,528	20,973
Non-current payables for stadium and Real Madrid City works	320	250
Payables for repurchase of rights/other	946	986
Deferred tax liabilities	13,891	14,397
Accruals	16,952	22,152
TOTAL NON-CURRENT LIABILITIES	**162,127**	**177,386**
Provisions for liabilities and charges	1,745	1,350
Bank borrowings	216	219
Current payables for player acquisitions	54,845	112,963
Current payables for stadium and Real Madrid City works	14,749	18,331
Trade and other payables	89,939	81,163
Wages and salaries payable	197,073	144,038
Accruals	90,492	67,421
TOTAL CURRENT LIABILITIES	**449,059**	**425,485**
TOTAL PASIVO Y PATRIMONIO NETO	**1,074,662**	**1,045,119**

Total Assets/Liabilities[137] at the end of the reporting period amounted to €1075 million, up €30 million on the previous year. It should be noted that non-current assets increased by €52 million, driven by the €32 million in the carrying amount of sports intangible assets as the amount of the investment was higher than amortization and disposals (player transfers). In addition, the value of property, plant and equipment increased by €9 million

[137] *Balance Sheet, Annual Financial Report on 30 June 2017 of Real Madrid*

due to some renovation and upgrade works at the offices and at Real Madrid City. Receivables for player transfers increased by €11 million due to transfers carried out in the year. Deferred tax assets decreased by €4 million. Current assets decreased by €23 million compared to the previous year (€317.19 vs. €339.9 million): among the main components, receivables from the disposal of players are €33 million lower than the amount collected in the previous financial year, while trade receivables increased by €40 million due to the increase in revenues from sponsorships and revenues from sports results that will be collected in the first few months of the next financial year, reaching about €105 million. The balance of liquid assets is about €118 million, a decrease of €33 million due to the payment during the financial year of bonuses for sports results.

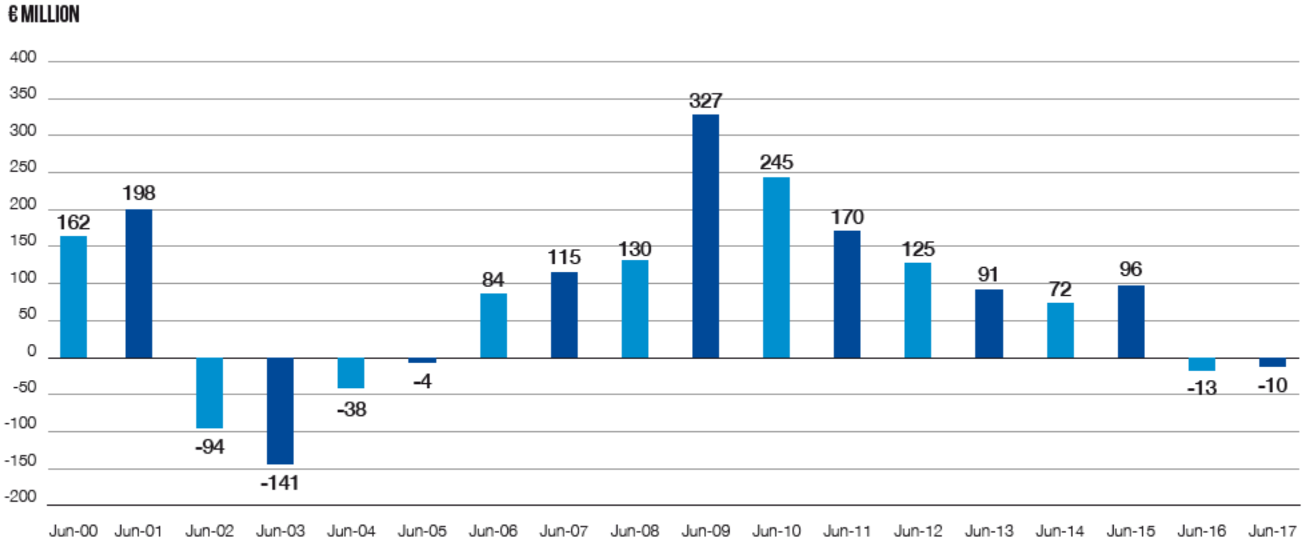
On the liabilities side, however, bank loans remained stable. Outstanding investment liabilities decreased by €48 million due to prudent investment measures, searching for an attractive return on investment. Salaries and wages payable, based on the relevant contracts, increased by €53 million due to the increase in salaries and the amount payable as bonuses for sporting achievements.

Shareholders' equity is positive and growing, and it amounts to € 463.48 million (€ 442.25 million in 2015/16), an increase of € 21.23 million compared to the previous financial period, thus showing a percentage growth of 4.8%. This positive variation is since, for an entity like Real Madrid which does not distribute dividends, the annual change in equity corresponds to annual profit after tax. Being in a "non-negative" and indeed growing state, this indicator complies with the Financial Fair Play regulation.

In terms of net debt[138], Real Madrid on 30 June 2017 reports a net debt of only €10 million, nearly the same as the previous year (2016 was €13 million). Rather than a debt, it represents net liquidity as the sum of cash and cash equivalents and receivables from disposals exceeds the amounts due for investments, bank debts and advances. This is the second time in the last 12 years that the Club has enjoyed a net cash position, the result of continuous and considerable efforts to reduce debt.

[138] *Net Debt, Annual Financial Report on 30 June 2017 of Real Madrid*

NET DEBT



Net debt : Bank borrowings + Payables/Receivables on acquisition/transfer of assets – Cash.
A negative sign means a net liquidity position. Debt also includes the balance of non-current advances received in 11/12.

The club's working capital is structurally negative as the nature of its business leads to an operating working capital with a high credit balance (between €120 and €260 million for players' registrations, net trade payables and early collection of membership fees and season tickets). Significant efforts have been made in recent years to reduce its negative working capital, which has fallen from €-182 million in 2010 to €-132 million on 30 June 2017. The reduction in the ratio of operating working capital to revenue is greater: from 41% in 2010 to 20% in 2017, despite the increase in 2016/17 caused by performance bonuses for sports results. This negative working capital is recurrent, i.e., it is renewed from year to year due to the intrinsic nature of operations, which is reflected in the trend of the balances; the figures are broadly similar, with occasional variations due to the performance of operations in each season (e.g., sports performance bonuses).

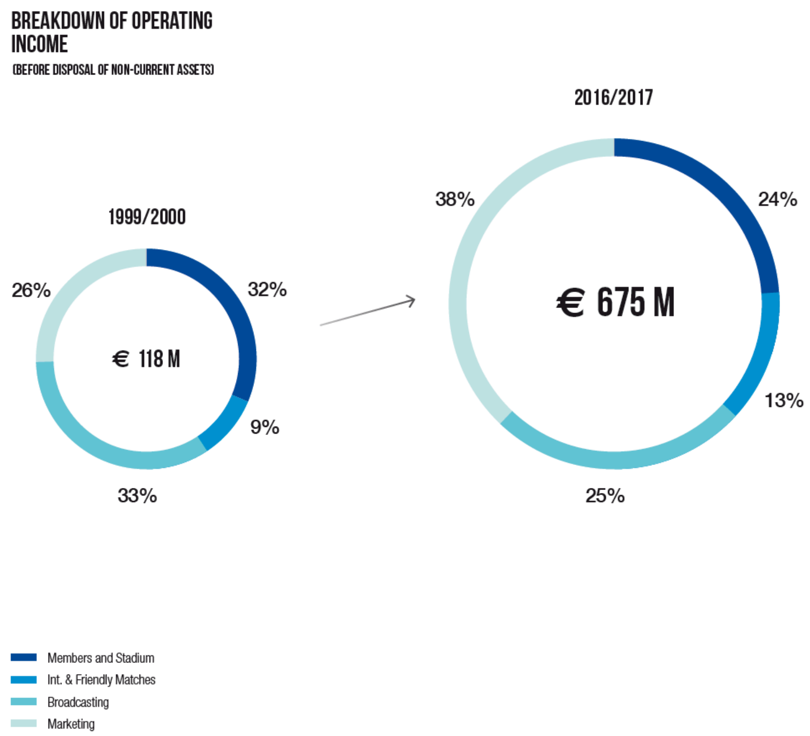
INCOME STATEMENT KEY HIGHLIGHTS

€ MILLION	2015/2016	2016/2017
OPERATING INCOME	620	675
Annual growth	7.4%	8.8%
OPERATING PROFIT before depreciation and amortization, and disposal of non-current assets (**EBITDA** before disposal of non-current assets)	163	86
% of revenue	26%	13%
OPERATING PROFIT before depreciation and amortization (**EBITDA**)	163	138
PROFIT BEFORE TAX	43	26
PROFIT AFTER TAX	30	21

From the Income Statement[139] we can draw important conclusions about operating income: the operating result was €675 million in 2016/17, an increase of €54.5 million compared to the 2015/2016 season (+8.8%), extending the growth trend that has kept Real Madrid among the most profitable sports entities in recent years. The operating result includes revenues from the various business lines[140] (stadium, international and friendly matches, broadcasting, and marketing), but excludes revenues from player transfers. Stadium revenues (+8%) and, most importantly, marketing revenues (+21%) were the biggest contributors to the growth in operating profit in 2016/17. Club fees and season tickets accounted for 7.4% of total revenues, down from 8.1% the previous year, with the share gradually decreasing in recent years (from 9.8% in 2009). Revenues from tickets and competitions amounted to € 177,170,000. Radio and television revenues amounted to € 165.3 million (€ 167.57 million in 2015/16) and represented 24.6% of operating revenues, a decrease of 1.36%. Commercial revenues amounted to 37. 8% and totaled € 254.1 million (€ 212.16 million in 2015/16). Over the period 2000-2017, revenues grew by an average annual rate of 11%.

Looking forward, promoting the Club's brand through investment in top players and international expansion are still the principal ways in which the Club can remain competitive and maintain its status as a global benchmark in football.

Real Madrid has gradually reduced the weight of television revenues (La Liga and Champions League matches) and increased the weight of other revenue sources : this diversified stream of recurring revenues gives the club financial stability, cushioning the impact of potential revenue fluctuations caused by variable performance on the sporting side or changes in the economic environment.



[139] *Income Statement, Annual Financial Report on 30 June 2017 of Real Madrid*
[140] *Breakdown of Operating Income, Annual Financial Report on 30 June 2017 of Real Madrid*

Total personnel costs as on 30 June 2017 amounted to approximately € 406.1 million (€ 306.87 million in 2015/16) and thus increased by 32.3%. The ratio of total personnel costs to operating profit, excluding capital gains, was 60.4%; on 30 June 2016 it was 49.5%. This increase is mainly due to the expenditure on bonuses because of the exceptional sports results achieved by the first team; it should also be noted that this figure is below 70%, which is the maximum level recommended by the Financial Fair Play.

Economic and financial analysis of the 2017/2018 season

The 2017/2018 sporting season ended for Real Madrid with the victory of its 13th Champions League, the third consecutive one, a 3rd place finish in the Spanish La Liga, the victory in December 2017 of the FIFA Club World Cup, and the UEFA Super Cup in the August of the same year.

From a financial point of view, on the other hand, the Madrid club exceeded €700 million in turnover net of capital gains for the first time (for the seventh consecutive year the €500 million and for the third the €600), recording an operating income of €748 million, an increase of 11.32% compared to the previous year's value of €671.86 million.

The 2017/2018 financial year closed with a net profit of €31.17 million, around €10 million more than the previous year's profit, with an increase of almost 50%.

The net financial position[141] remained positive by €107 million.

ASSETS

€ THOUSAND	06/30/2018	06/30/2017
Sports intangible assets	316,787	366,246
Other intangible assets	7,479	8,788
Property, plant and equipment	341,215	332,700
Investment properties	11,920	10,654
Non-current player transfers receivable	23,812	16,893
Deferred tax assets	13,043	12,407
Other financial assets	20,301	9,784
TOTAL NON-CURRENT ASSETS	**734,557**	**757,472**
Inventories	3,671	2,551
Current player transfers receivable	52,305	19,754
Trade receivables	98,976	105,047
Current tax assets	5,743	6,726
Cash and cash equivalents	190,109	177,988
Accruals	3,664	5,124
TOTAL CURRENT ASSETS	**354,468**	**317,190**
TOTAL ASSETS	**1,089,025**	**1,074,662**

EQUITY AND LIABILITIES

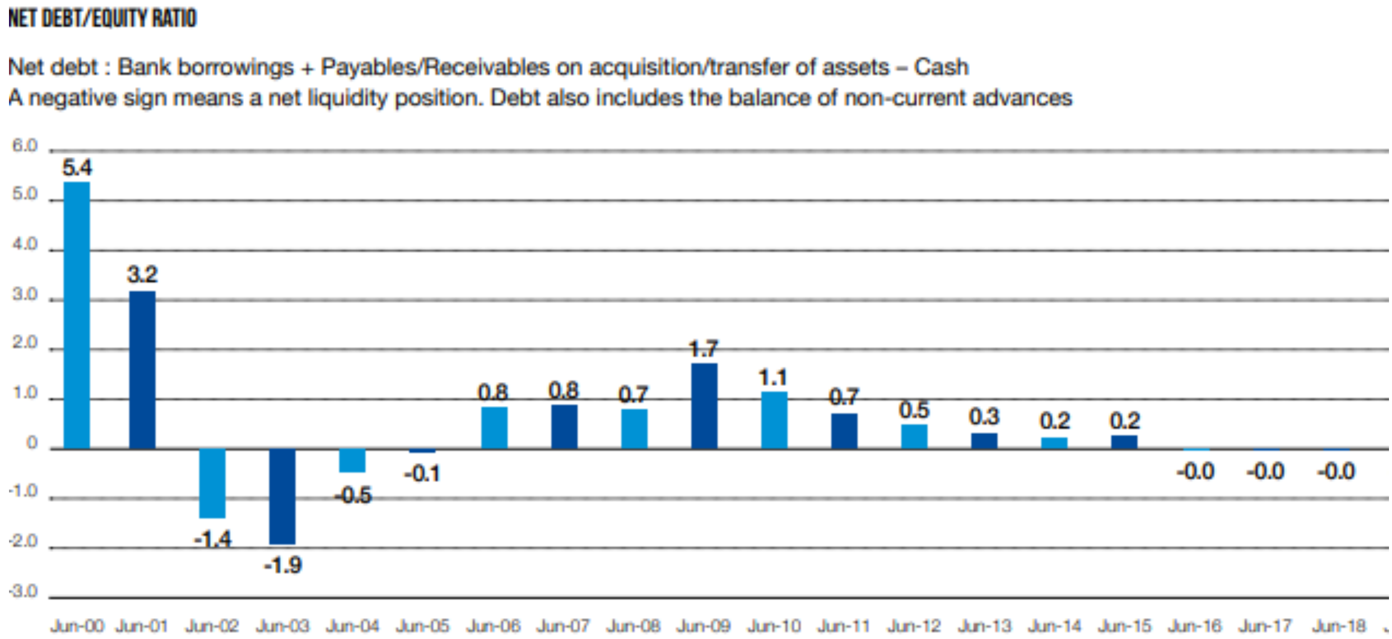
€ THOUSAND	06/30/2018	06/30/2017
Social Fund and Reserves	458,912	437,540
Profit (loss) for the year	31,174	21,372
CAPITAL AND RESERVES	**490,086**	**458,912**
Grants received	4,420	4,564
EQUITY	**494,506**	**463,476**
Provisions for liabilities and charges	23,906	13,699
Bank borrowings	49,793	81,791
Non-current payables for player acquisitions	17,444	34,528
Non-current payables for stadium and Real Madrid Sport City works	1,229	320
Payables for repurchase of rights/other	902	946
Deferred tax liabilities	16,230	13,891
Accruals	24,227	16,952
TOTAL NON-CURRENT LIABILITIES	**133,731**	**162,127**
Provisions for liabilities and charges	1,920	1,745
Bank borrowings	10,151	216
Current payables for player acquisitions	38,307	54,845
Current payables for stadium and Real Madrid City works	17,138	14,749
Current payables for repurchase of rights	60	0
Trade and other payables	86,237	89,939
Wages and salaries payable	207,760	197,073
Accruals	99,215	90,492
TOTAL CURRENT LIABILITIES	**460,788**	**449,059**
TOTAL EQUITY AND LIABILITIES	**1,089,025**	**1,074,662**

[141] *Balance Sheet, Annual Financial Report on 30 June 2018 of Real Madrid*

Net tangible assets, including investment properties, accounted for 32.4% of total assets; while sporting intangible assets, amounting to € 316. 8 million (366.2 million in 2016/17), represented 29.1% of assets. Total assets on 30 June 2018 amounted to approximately € 1.089 billion (€ 1.075 billion in 2016/17), an small increase of 1.34%.

Net working capital, the difference between current assets and current liabilities, can be broken down as the sum of operating working capital (-€287 million on 30 June 18) plus financial working capital (€177 million) plus a smaller item of other provisions and taxes (€4 million). On 30 June 2018 it amounted to -€106 million.

The ratio of net debt to shareholders' equity[142] has been decreasing in recent years, reaching for the third consecutive year a value of -0.0 on 30 June 2018: the value of net debt is equal to 0% of the value of shareholders' equity, which represents a situation of maximum solvency and financial autonomy.



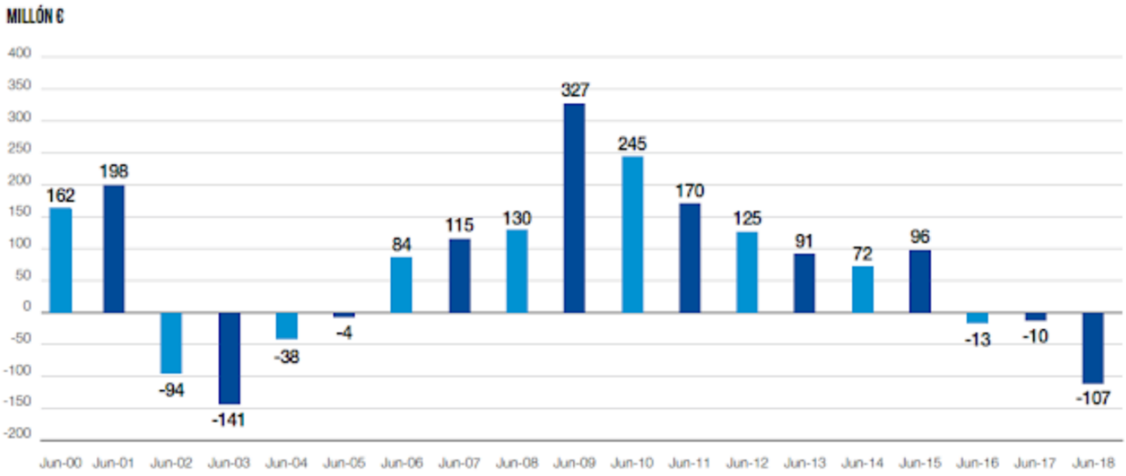
Shareholders' equity is positive and increasing, and it amounts to €494.51 million (€463.48 million in 2016/17), an increase of €31.03 million. The difference of €31.03 million is mainly due to the net profit for the year of €31.17 million and the change in reserves for contributions received.

Being "non-negative" and growing, this indicator complies with the Financial Fair Play regulations.

It should be noted that Real Madrid finances approximately 45.4% of its assets from its own resources.

On the other hand, as far as investments are concerned, in the 2017/18 financial year the club invested €115 million, of which €25 million (exactly like the previous year) was earmarked for the improvement and development of the club's facilities and the remaining € 90 million to acquire players.

[142] *Net Debt/Equity ratio from 2000, Annual Financial Report on 30 June 2018 of Real Madrid*



Deuda Neta : Deuda Bancaria + Acreedores/Deudores adquisición/traspaso activos – Tesorería.
Signo negativo significa posición de liquidez neta. Se incluye también como deuda el saldo de los anticipos a largo plazo.

According to the calculation made by the Directors, the net financial debt[143] is positive for €106,974,000; while in 2016/17 it was positive for €10,289,000. It should be noted that on 30 June 2009, there was a net debt of around €327 million.

Obviously, this figure is fully compliant with Financial Fair Play, given the record amount of turnover.

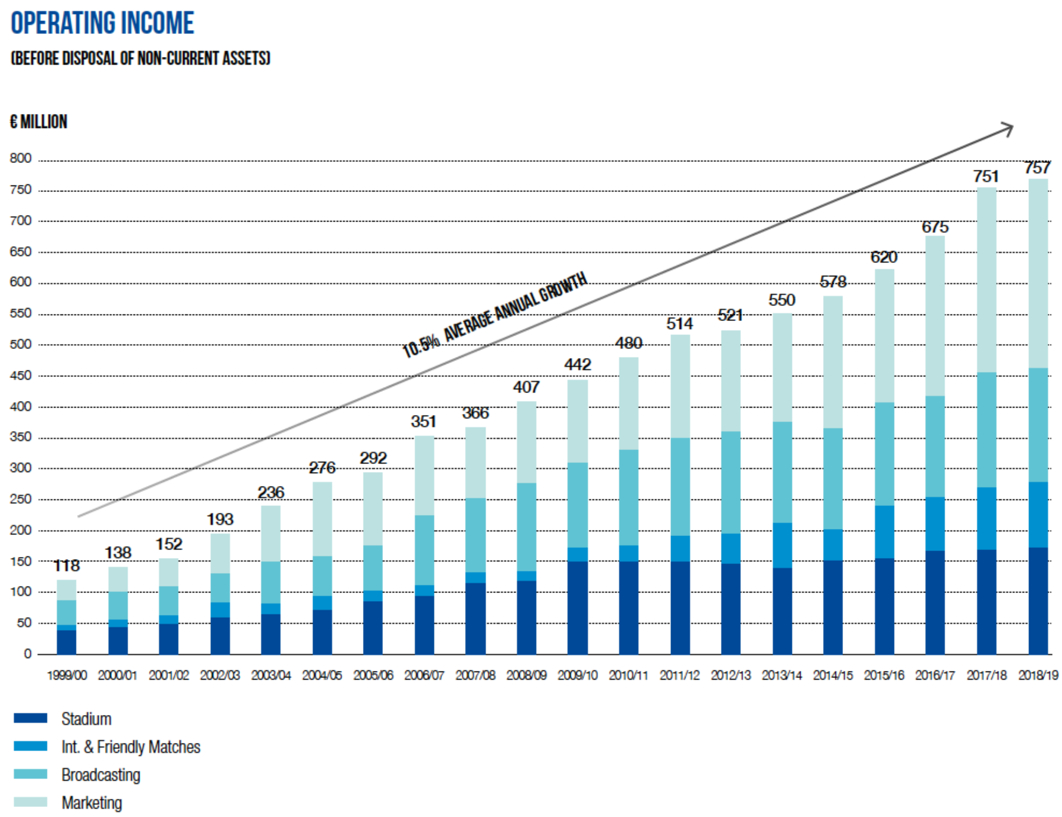
€ THOUSAND	NOTE	2017/2018	2016/2017
CONTINUING OPERATIONS			
Revenue			
Membership fees, ticket sales and other stadium revenue		174,226	166,569
International and friendly matches		100,200	85,858
Broadcasting		178,413	165,299
Marketing		295,203	254,138
	17,1	**748,042**	**671,864**
Supplies			
Raw materials and other consumables used	17,2	**(27,088)**	**(26,347)**
Other operating income	17,1	**1,704**	**1,030**
Player and other personnel expenses	17,3	**(430,751)**	**(406,109)**
Other operating expenses			
Losses, impairment and changes in trade provisions	17,4	374	(1,841)
Other operating expenses	17,4	(200,469)	(154,241)
		(200,095)	**(156,082)**
Depreciation and amortization	4,5,6,7	**(102,415)**	**(110,157)**
Non-financial and other capital grants	12	**192**	**192**
Provision surpluses	13,1	**1,000**	**1,539**
Impairment, gains/(losses) on disposal of non-current assets and other exceptional gains/(losses)			
Impairment and losses	17,5	626	22
Gains/(losses) on disposal and other	17,5	53,583	51,667
		54,209	**51,689**
RESULTS FROM OPERATING ACTIVITIES		**44,798**	**27,619**
Finance income			
Marketable securities and other financial instruments	17,6	**1,004**	**1,657**
Finance expenses	17,6	**(2,819)**	**(3,011)**
NET FINANCE INCOME/(EXPENSE)		**(1,815)**	**(1,354)**
PROFIT BEFORE TAX		**42,983**	**26,265**
Income tax expense	16,1	**(11,809)**	**(4,893)**
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**31,174**	**21,372**
PRROFIT FOR THE YEAR		**31,174**	**21,372**

[143] *Net Financial Debt from 2000, Annual Financial Report on 30 June 2018 of Real Madrid*

As mentioned above and as we can amply see from the Income Statement[144], operating revenues for the year 2017/18 (excluding capital gains) reached a record € 748 million; growth was especially in revenues from friendly matches and international competitions and commercial revenues. Commercial revenues prevail overall, accounting for 39.5% of operating revenues, with a value of €295.2 million (€254.1 million in 2016/17). Media revenues of €178.4 million (€165.3 million in 2016/17) represent 23.9% of operating revenues, down 7.9%. Revenue from tickets and prize competitions amounted to €195.6 million (€177.1 million in 2016/17). Real Madrid has achieved a balanced revenue structure, each of the three areas (stadium, television, and marketing) contributing around a third of the total revenue. The diversification of the revenue sources gives to the club economic stability, mitigating the impact of possible fluctuations in revenues caused by sports results and/or other economic causes.
Total personnel costs on 30 June 2018, including image rights, amounted to approximately € 430.75 million (€ 406.1 million in 2016/17) and were up by 6.1%. The ratio of total personnel costs to operating revenues, excluding capital gains, is the indicator used internationally to measure the operational efficiency of football clubs. The lower the value of this ratio, the more 'efficient' the club. Shortly, Real Madrid can afford to have a team of highly paid players because its economic management generates a high turnover.

Economic and financial analysis of the 2018/2019 season.
From a purely sporting point of view, during this season the *Blancos* have failed to live up to expectations in both national and international terms: in the Spanish La Liga, the team only finished in third place in the standings; in the Copa del Rey, they exited in the semi-finals against arch-rivals Barcelona; in the Champions League, they were bitterly eliminated by surprise Ajax, a team that then eliminated Juventus in the next round despite the purchase of Portuguese star Cristiano Ronaldo, who after so many seasons full of trophies and successes, both individual and collective, decided to leave Madrid in search of a new sporting adventure. The only success of the sporting year was winning the FIFA Club World Cup in December, while in August, also in 2018, Real Madrid saw the UEFA Super Cup slip through their fingers, won instead by won instead by their 'rival cousins' Atletico Madrid.
From a financial point of view, on the other hand, for the second consecutive year the Blancos' turnover exceeded €700 million net of capital gains, reaching a record €757.267.000 million, almost 10 million more than in 2017/2018 (1.2% increase). Real Madrid has recorded an average annual revenue growth rate[145] of 10.5% since the 1999/2000 season.

[144] *Income Statement, Annual Financial Report on 30 June 2018 of Real Madrid*
[145] *Operating Income from 1999/2000, Annual Financial Report on 30 June 2019 of Real Madrid*



The financial period closed with a net profit of € 38.39 million, which compared to € 31.17 million in the previous year showed an increase of 7.2%.

In 2018/19, the Club invested €272 million, of which €23 million was invested in the modernization and development of facilities; €249 million was invested in the acquisition of players. Part of the investment in players was self-financed with transfer proceeds, which amounted to €124 million. The net investment in 2018/19 in sports personnel (acquisitions - transfers) amounted to €125 million (2017/18: €18 million).

From the figure at the bottom of the Balance Sheet[146] we can extract the following information.

[146] Balance Sheet, Annual Financial Report on 30 June 2019 of Real Madrid

ASSETS

€ THOUSAND	06/30/2019	06/30/2018
Sports intangible assets	310,903	316,787
Other intangible assets	4,042	7,479
Property, plant and equipment	350,343	341,215
Investment properties	11,552	11,920
Non-current player transfers receivable	56	23,812
Deferred tax assets	19,111	13,043
Other financial assets	29,769	20,301
TOTAL NON-CURRENT ASSETS	**725,776**	**734,557**
Assets held for sale	78,993	
Inventories	5,570	3,671
Current player transfers receivable	78,802	52,305
Trade receivables	84,759	98,976
Current tax assets	3,881	5,743
Cash and cash equivalents	155,706	190,109
Accruals	4,956	3,664
TOTAL CURRENT ASSETS	**412,607**	**354,468**
TOTAL ASSETS	**1,138,383**	**1,089,025**

EQUITY AND LIABILITIES

€ THOUSAND	06/30/2019	06/30/2018
Social Fund and Reserves	490,086	458,912
Profit (loss) for the year	38,394	31,174
CAPITAL AND RESERVES	**528,480**	**490,086**
Grants received	4,276	4,420
EQUITY	**532,756**	**494,506**
Provisions for liabilities and charges	14,293	23,906
Bank borrowings	49,693	49,793
Non-current payables for player acquisitions	15,279	17,444
Non-current payables for stadium and Real Madrid Sport City works	0	1,229
Payables for repurchase of rights/other	924	902
Deferred tax liabilities	19,390	16,230
Accruals	33,289	24,227
TOTAL NON-CURRENT LIABILITIES	**132,868**	**133,731**
Provisions for liabilities and charges	2,163	1,920
Bank borrowings	94	10,151
Current payables for player acquisitions	100,608	38,307
Current payables for stadium and Real Madrid City works	7,478	17,138
Current payables for repurchase of rights	64	60
Trade and other payables	83,477	86,237
Wages and salaries payable	149,497	207,760
Accruals	129,378	99,215
TOTAL CURRENT LIABILITIES	**472,759**	**460,788**
TOTAL EQUITY AND LIABILITIES	**1,138,383**	**1,089,025**

Shareholders' equity is positive and up from €494.51 million in 2017/18, and amounts to €532.76 million, a percentage increase of 7.7%. The difference of €38.25 million is mainly due to the net profit for the year of €38.39 million and the change in reserves for contributions received. Being "non-negative" and growing, this indicator complies with the Financial Fair Play regulations.

It should be noted that Real Madrid finances approximately 46.8% of its assets from its own resources.

The net financial position remained positive at € 27,135,000, much lower than 2017/2018 season, when this item had recorded an amount of €106.97 million in 2017/18.

Total assets as on 30 June 2019 were approximately €1.14 billion (€1.09 billion in 2017/18) and increased by 4.54%. Net tangible assets, including investment properties, represent 31.8% of total assets; while, sports intangible assets, amounting to € 310.9 million (€ 316.8 million in 2017/18), represent 27.3% of assets.

According to the calculation made by the Directors, net debt[147] is positive at €38.35 million, whereas in 2017/18 it was positive at € 107 million. Rather than debt, it represents net liquidity as the sum of cash and

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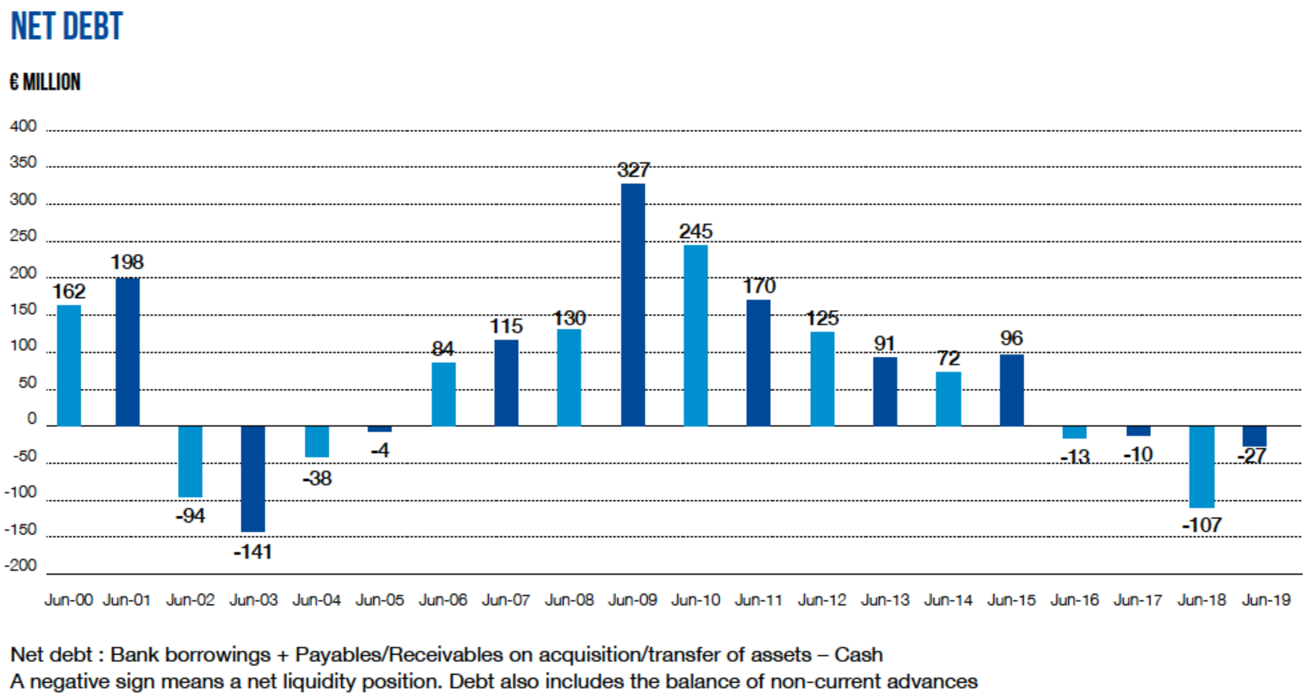
[147] *Net Debt, Annual Financial Report on 30 June 2019 of Real Madrid*

cash equivalents and receivables from disposals, exceeds the amounts due for investments, bank debts and advances.



Since June 2009, continuous and considerable efforts have been made to reduce debt.

From the Income Statement figure[148] we can the minimal increase in operating income. Revenues for the Copa del Rey have grown, above all: in fact, ticket revenues from the 'Copa del Rey' amount to € 10.464.000 (€ 5.37 million in 2017/18). Profits from the transfer of players amounting to € 98.548.000 were also realized.

[148] *Income Statement, Annual Financial Report on 30 June 2019 of Real Madrid*

€ THOUSAND	NOTE	2018/2019	2017/2018
CONTINUING OPERATIONS			
Revenue			
Membership fees, ticket sales and other stadium revenue		173,372	174,226
International and friendly matches		113,593	100,200
Broadcasting		172,991	178,413
Marketing revenue		295,172	295,203
	17.1	**755,128**	**748,042**
Work carried out by the company for assets	17.1	**1,474**	**-**
Supplies			
Raw materials and other consumables used	17.2	**(24,305)**	**(27,088)**
Other operating income	17.1	**473**	**1,704**
Player and other personnel expenses	17.3	**(394,221)**	**(430,751)**
Other operating expenses			
Losses, impairment and changes in trade provisions	17.4	(523)	374
Other operating expenses	17.4	(214,041)	(200,469)
		(214,564)	**(200,095)**
Depreciation and amortization	4,5,6,7	**(122,061)**	**(102,415)**
Non-financial and other capital grants	12	**192**	**192**
Provision surpluses	13.1	**-**	**1,000**
Impairment, gains/(losses) on disposal of non-current assets and other exceptional gains/(losses)			
Impairment and losses	17.5	(46,378)	626
Gains/(losses) on disposal and other	17.5	98,548	53,583
		52,170	**54,209**
RESULTS FROM OPERATING ACTIVITIES		**54,286**	**44,798**
Finance income			
Marketable securities and other financial instruments	17.6	**795**	**1,004**
Finance expenses	17.6	**(1,599)**	**(2,819)**
NET FINANCE INCOME/(EXPENSE)		**(804)**	**(1,815)**
PROFIT BEFORE TAX		**53,482**	**42,983**
Income tax expense	16.1	**(15,088)**	**(11,809)**
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**38,394**	**31,174**
PROFIT FOR THE YEAR		**38,394**	**31,174**

Total personnel costs on 30 June 2019, including image rights, amounted to approximately € 394.22 million (€ 430.75 million in 2017/18) and were down by 8.48%. Furthermore, the ratio of total personnel costs to operating revenue, excluding capital gains, was 52.1%; whereas, on 30 June 2018, it was 57.6%.

Conclusions on Real Madrid's compliance with Financial Fair Play Regulation

As we did for Juventus case, after carefully examining the financial results of the last three seasons, we will now look at whether and in what terms Real Madrid has met the six indicators (and the recommended ones) set out in the Financial Fair Play for the 2016/2017, 2017/2018 and 2018/2019 football seasons.

1. *Indicator 1: Going concern.*

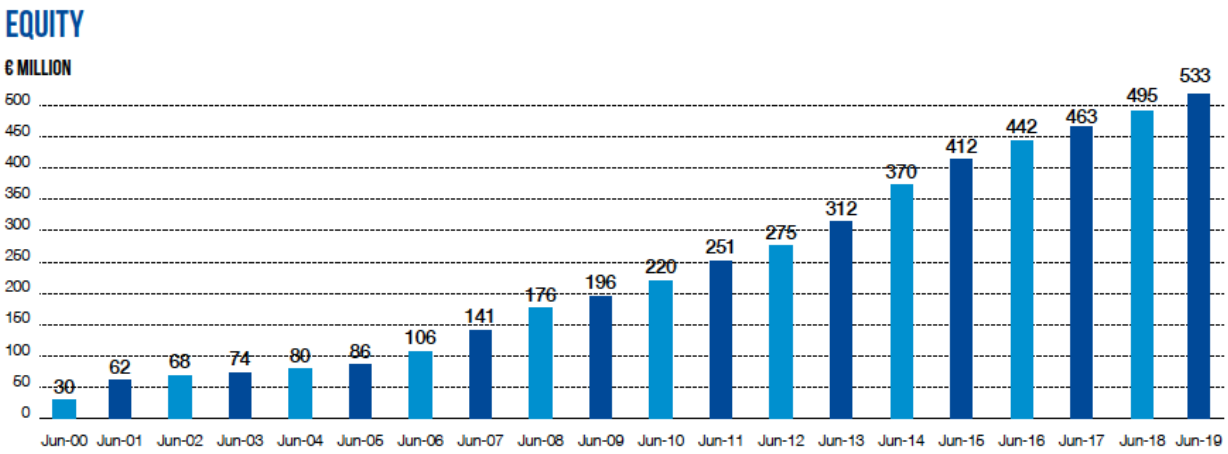
   The audit report in the club's Management Report for the three sports seasons under our monitoring does not give an explicit opinion on the company's ability to continue as a going concern. However, given that the financial statements have been prepared in accordance with national accounting standards on a going concern basis, the directors state in the notes to the financial statements that there are no material uncertainties about the club's ability to continue as a going concern.

   For this reason, we can consider that Real Madrid meets the first of the six requirements listed in Article 62 of the UEFA Club Licensing and Financial Fair Play Regulations.

2. *Indicator 2: Negative equity.*

   Regarding the indicator two "Negative Equity", in the previous case we compared the values of Shareholders Equity for the years under review to see if there were any negative changes that would result in this constraint not being met.

   The case of Real Madrid, on the other hand, is resolved much more simply. Within the Annual Financial Report, we find a graph[149] that shows us that the *Blancos* has had a positive equity value since June 2000, characterized by constant annual growth.



Therefore, the second indicator is to be considered satisfied.

[149] *Equity from June 2000, Annual Financial Report on 30 June 2019 of Real Madrid*

3. *Indicator 3: Break-even result.*

The breakeven point for profit or loss is the difference between the related revenues and expenses, adjusted, if applicable, by any reserves quantified in the auditor's report. On the other hand, the total break-even point for profit or loss is the sum of the break-even points for profit or loss for each accounting period in the monitored period, i.e., T, T-1 and T-2, where T is the annual accounting period for which the audited financial statements have been requested.

€ THOUSAND	6/30/2019	6/30/2018	6/30/2017
Relevant income	848,002	787,924	711,808
Relevant expenses	740,439	692,139	635,629
Breakeven point (+ surplus - deficit)	107,563	95,785	76,179
Total breakeven point	**279,527**		
Required breakeven point	>0		
	COMPLIES		

As we know, the tolerated aggregate loss threshold is 30 million. From the table[150], we can see that Real Madrid has recorded an ever-increasing breakeven surplus in the last three football seasons, falling perfectly within the canons of Financial Fair Play.

Below is a breakdown of the calculation of Relevant Income and Relevant Expenses.

€ THOUSAND	T 6/30/2019	T-1 6/30/2018	T-2 6/30/2017
Relevant income			
Revenue	755,128	748,042	671,864
Other operating income	1,947	1,704	1,030
Grants recognized in the income statement	192	192	192
Provision surpluses	-	1,000	1,539
Gains on disposal of player registrations	105,976	53,495	51,710
Gain on disposal of property, plant and equipment/investment property	-	202	-
Finance income	795	1,004	1,657
Less: Income from youth member activities	(66)	(76)	(157)
Less: Basketball income	(15,970)	(17,437)	(16,027)
Less: Proceeds from disposal of property, plant and equipment/investment property	-	(202)	-
Total relevant income	**848,002**	**787,924**	**711,808**

[150] *Breakeven result, Annual Financial Report on 30 June 2019 of Real Madrid*

€ THOUSAND	T 6/30/2019	T-1 6/30/2018	T-2 6/30/2017
Relevant expenses			
Cost of sales/materials	24,305	27,008	26,347
Employee benefits expense	394,221	430,751	406,109
Other operating expenses	214,564	200,175	156,082
Depreciation and amortization	122,061	102,415	110,157
Write-down and losses on disposal of player registrations	53,761	114	43
Impairment losses and derecognitions of other intangible assets, property, plant and equipment, and investment property	45	(626)	(22)
Finance and dividend costs	1,599	2,819	3,011
Non-identifiable youth activity expenses	(7,365)	(5,771)	(8,368)
Expenses from community development activities	(2,768)	(2,346)	(1,951)
Depreciation/write-down of other intangible assets, property, plant and equipment, and investment property	(18,046)	(16,567)	(17,871)
Cost directly attributable to the construction of property, plant, and equipment	-	-	-
Other basketball expenses	(41,938)	(45,833)	(37,908)
Total relevant expenses	**740,439**	**692,139**	**635,629**

4. *Indicator 4: Sustainable debt indicator for T-1.*

The fourth indicator (the same as the fifth indicator, from which it differs only in terms of the reference period) requires the joint non-violation of two constraints: the relevant debt must not exceed the figure of €30 million and must not exceed 7 times the average difference between revenues and costs of production.

The notion of Net Debt has recently been modified with the 2018 version of the Financial Fair Play. The current Net Debt value is given, according to Article 3 of the regulations, by "the aggregate of the following balances: net borrowings (i.e. the net of bank overdrafts, bank and other loans, accounts payable to group entities and other related parties less of cash and cash equivalents); net player transfers balance (i.e. the net of accounts receivable from players' transfers and accounts payable from players' transfers); accounts payable to social/tax authorities (non-current)"[151].

The relevant debt required by Indicator 4 and 5, on the other hand, is the difference between the net debt and the amount of debt directly attributable to the construction and/or substantial modification of the stadium and/or training facilities from the inception of the debt until 25 years after the date on which the asset is declared ready for use.

	2016/2017	*2017/2018*
Cash and cash equivalents	€ 178 million	€ 190.11 million
Bank Borrowings	€ -82 million	€ -59.94 million
Net Debt	**€ 95.98 million**	**€ 130.16 million**
Receivables due to football clubs	€ 36.65 million	€ 76.12 million
Payables due to football clubs	€ -89.37 million	€ -55.75 million

[151] *UEFA Club Licensing and Financial Fair Play Regulations, Article 3 – Definition of terms*

Net player transfers balance	**€ -52.73 million**	**€ 20.37 million**
Accounts payable to social/tax authorities	/	/
Net Debt Financial Fair Play	**€ 43.25 million**	**€ 150.53 million**
Debt Stadium/Training Facilities	**€ -15.07 million**	**€ -18.37 million**
Relevant Debt	**€ 28.19 million**	**€ 132.16 million**

The notion of relevant earnings[152] corresponds to the sum of total revenues and the net result of player transfers minus total operating expenses. It can be approximated to the difference between value and cost of production.

	2016/2017	*2017/2018*
Total revenues	€ 671.86 million	€ 748.04 million
Total operating expenses	€ 585.78 million	€ 655.04 million
Relevant Earnings	**€ 86.08 million**	**€ 93 million**
Average Relevant Earnings	**€ 89.54 million**	

As we can see from the table[153] of relevant debt, Real Madrid would not present any problem.
The second constraint, however, provides for the calculation of the average relevant earnings for the period considered and the immediately preceding one, which must then be compared to the relevant debt multiplied by 7. The calculated relevant debt is no larger than 7 times the average relevant earnings for the period. Consequently, the constraint can be considered as largely satisfied.

5. *Indicator 5: Sustainable debt indicator for T.*

   A very similar calculation is made for indicator number 5, which refers (in our case) to the financial period 2018/2019 for sustainable debt.

	2017/2018	*2018/2019*
Cash and cash equivalents	€ 190.11 million	€ 155.71 million
Bank Borrowings	€ -59.94 million	€ -49.79 million
Net Debt	**€ 130.16 million**	**€ 105.92 million**
Receivables due to football clubs	€ 76.12 million	€ 78.86 million
Payables due to football clubs	€ -55.75 million	€ -155.89 million

[152] The table contains the values needed to calculate the relevant earnings for the financial biennium 2016/2017 and 2017/2018. The data have been taken from Real Madrid' BS and IS.

[153] The table contains the values needed to calculate the relevant debt for the financial biennium 2016/2017 and 2017/2018. The data have been taken from Real Madrid' BS and IS.

Net player transfers balance	**€ 20.37 million**	**€ -37.03 million**
Accounts payable to social/tax authorities	/	/
Net Debt Financial Fair Play	**€ 150.53 million**	**€ 68.89 million**
Debt Stadium/Training Facilities	**€ -18.37 million**	**€ -7.48 million**
Relevant Debt	**€ 132.16 million**	**€ 61.41 million**

As we can see from the table[154] of relevant debt, the debt recorded by Real Madrid does not exceed the 30 million euros.

	2017/2018	*2018/2019*
Total revenues	€ 748.04 million	€ 757.27 million
Total operating expenses	€ 655.04 million	€ 633.09 million
Relevant Earnings	**€ 93 million**	**€ 124.18 million**
Average Relevant Earnings (T, T-1, T-2)	**€ 101.09 million**	

As we can see from this table, the calculated relevant debt is no larger than 7 times the average relevant earnings[155] for the period. Consequently, the constraint can be considered as satisfied.

6. *Indicator 6: Player transfer balance.*

   Indicator 6 "Player transfer balance" concerns the balance of the players transfer campaign. The licensee must not report a players transfer campaign deficit more than €100 million in any transfer campaign period during the season of validity of the license. If the total costs incurred exceed the total income generated in a registration period, then the club has a player transfer deficit.

   This rule only applies from the 2018/2019 season, as it was introduced in the latest Financial Fair Play reform (2018).

	2018/2019
Balance of acquisitions/disposals	**€ - 219 million**

[154] The table contains the values needed to calculate the relevant debt for the financial biennium 2017/2018 and 2018/2019. The data have been taken from Real Madrid' BS and IS.

[155] The table contains the values needed to calculate the relevant earnings for the financial biennium 2017/2018 and 2018/2019. The data have been taken from Real Madrid' BS and IS

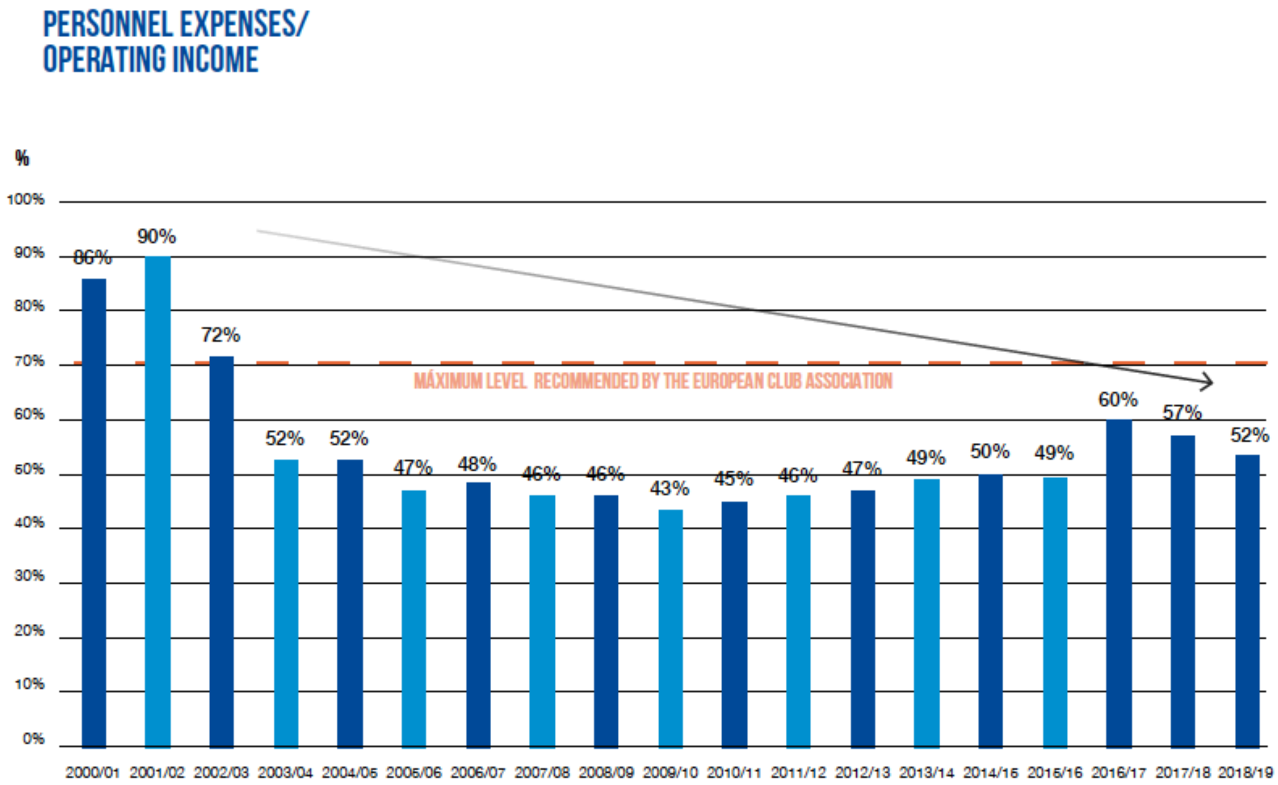
We can see from the table[156] that, Real Madrid is well above the 100 million deficit threshold forecast by UEFA. The latter should therefore ask Real Madrid about their compliance with the FPF parameters for the 2018/2019 season.

Among the additional indicators, i.e., those whose non-compliance could lead the Club Financial Control Body to request further information of an economic-financial nature from the licensee club, we have:

- Personnel costs must not exceed 70% of total revenues.
- Financial indebtedness must not exceed 100% of total revenues.

	2016/2017	*2017/2018*	*2018/2019*
Personnel Costs/Revenues	**60.4%**	**52.1%**	**57.6%**
Net Financial Debt/Revenues	**0.0%**	**0.0%**	**0.0%**

The following graph[157] shows how the Madrid club has complied with the first constraint since the distant 2003/2004 season, always keeping its efficiency ratio below the 70% threshold, and always facing close to 50%, considered the threshold of excellence.



[156] *The table contains the net value related to the players' registration rights acquisitions/disposals of the 2018/2019 season. The data have been taken from Real Madrid' BS and IS*

[157] *Efficiency Ratio, Annual Financial Report on 30 June 2019 of Real Madrid*

The table[158], which shows us respectively the ratio of personnel costs to total revenue and the ratio of net financial debt to total revenue, denotes how in each financial period considered Real Madrid is fully within the additional constraints of Financial Fair Play. As we said before, the club had a negative net debt for the fourth consecutive year, i.e., it enjoys a net cash position. Consequently, the second parameter is also met.

4.4 Manchester City

Company profile

Since 2008, Manchester City has been owned by the Abu Dhabi United Group for Development and Investments (ADUG), an investment company controlled by Sheikh Mansour bin Zayed Al Nahyan, a member of the Abu Dhabi royal family and Minister of Presidential Affairs of the UAE Federation.

Since the arrival of Sheikh Mansour and, most importantly, the arrival on the bench of the formidable Spanish coach Pep Guardiola, the Manchester City has broken record after record: for example, *the citizens* are currently the only club in Premier League able to win all Football Association (FA) trophies in a single season (2018-2019) and in a calendar year (2019).

As we have seen in the previous chapters, the relationship between UEFA and Manchester City seemed quite complicated in recent years. In fact, in 2014 Man City and UEFA signed a settlement agreement, mainly for two reasons: the first concerns related-party contracts, the £400 million ten-year mega sponsorship by Etihad Airways, which also acquired the naming rights to the stadium. The club was therefore required to verify that the sponsorship contracts signed with the new owners' subsidiaries were not overvalued and therefore did not distort competition, positive impacting the balance sheets. The second reason concerns the accounts of

[158] The table contains the ratio of personnel costs to total revenue and the ratio of net financial debt to total revenue. The data have been taken from Real Madrid' BS and IS

Manchester City, which in 2010-2011 announced a loss of £99 million and spending on players' wages remained at an unsustainably high level of 114% of its turnover. Subsequently, in 2012-2013 the Club's accounts posted a loss of £52 million: a slight improvement that was largely due to a £47 million deal to sell players' image rights, which many have criticized as creative accounting designed to circumvent the regulations.

Economic and financial analysis of the 2016/2017 football season

The 2016/2017 season saw Manchester City compete in the Premier League for the 20th time in its history. It's Pep Guardiola's first year at the helm of the *citizens* and it looks to be just the beginning of a revolution. In fact, the results at the end of the season were different to those initially hoped for: only a third place in the Premier League, won by Antonio Conte's Chelsea; a surprising elimination in the round of 16 of the Champions League at the hands of Monaco; in the FA Cup they were eliminated in the fourth round at the hands of arch-rivals Manchester United and in the League Cup the result was similar: eliminated by Arsenal in the semi-finals.

		Group		Company	
	Note	**30 June 2017 £000**	31 May 2016 £000	**30 June 2017 £000**	31 May 2016 £000
Fixed assets					
Intangible assets	12	**335,468**	268,648	**–**	–
Tangible assets	13	**412,570**	398,549	**–**	–
Investments	14	**–**	–	**678,208**	677,120
		748,038	667,197	**678,208**	677,120
Current assets					
Debtors – amounts falling due within one year	15	**270,691**	202,448	**–**	–
Debtors – amounts falling due after more than one year	15	**23,351**	13,620	**–**	–
Cash at bank and in hand		**18,706**	55,818	**–**	–
		312,748	271,886	**–**	–
Creditors					
Derivative financial instruments		**–**	(353)	**–**	–
Creditors – due within one year	16	**(161,103)**	(122,330)	**–**	–
Deferred income – due within one year	19	**(133,304)**	(37,992)	**–**	–
Net current assets		**18,341**	111,211	**–**	–
Total assets less current liabilities		**766,379**	778,408	**678,208**	677,120
Creditors – due after more than one year	17	**(80,575)**	(93,245)	**–**	–
Deferred tax liabilities	20	**(7,596)**	(8,043)	**–**	–
NET ASSETS		**678,208**	677,120	**678,208**	677,120
Capital and reserves					
Called up share capital	21	**65,115**	65,115	**65,115**	65,115
Share premium account		**1,232,393**	1,232,393	**1,232,393**	1,232,393
Profit and loss account		**(619,300)**	(620,388)	**(619,300)**	(620,388)
SHAREHOLDERS' FUNDS		**678,208**	677,120	**678,208**	677,120

The 2016/17 consolidated financial statements have been prepared on a going concern basis, so the accounting policies have considered that the company is able to meet its financial commitments also in the future. Since 2015/16, there is no longer any reference to written confirmations from the parent company to support the group financially: clearly, the financial management for the financial year 2016/17, as in the previous year, also ensures that the company can continue as a going concern.

As we can see from the balance sheet figure[159], shareholders' equity is positive and amounts to £ 678.21 million (€ 771.3 million). Compared to the previous financial period, there has been a small increase of £ 1,088,000 (+0.2%). The change is equal to the consolidated net result. Equity finances 63.9% of assets and, being positive, it complies with the requirements of the Financial Fair Play regulations. Manchester City's ownership prefers to finance its activities from its own resources rather than from shareholder financing, so it relies primarily on venture capital rather than borrowed capital.

The net financial position is negative by £47.62 million (or €54.15 million), while in the previous year it was negative by £10.85 million; the net financial position, therefore, shows a worsening.

Cash and cash equivalents decreased from £55.8 million to £18.7 million (approximately €21.3 million).

	Note	Operations excluding player trading 13 month period ended 30 June 2017 £000	Player trading 13 month period ended 30 June 2017 £000	Total 13 month period ended 30 June 2017 £000	Total Year ended 31 May 2016 £000
Turnover	4	473,375	–	**473,375**	391,774
Other operating income	5	2,450	–	**2,450**	800
Operating expenses	5	(384,262)	(121,742)	**(506,004)**	(389,773)
Operating profit/(loss)		91,563	(121,742)	**(30,179)**	2,801
Profit on disposal of players' registrations		–	34,563	**34,563**	20,714
Profit/(loss) before interest and taxation		91,563	(87,179)	**4,384**	23,515
Interest receivable and similar income	8	2,091	–	**2,091**	1,637
Interest payable and similar charges	9	(1,676)	–	**(1,676)**	(996)
Stadium finance lease charges		(4,695)	–	**(4,695)**	(4,567)
Profit/(loss) on ordinary activities before taxation		87,283	(87,179)	**104**	19,589
Taxation	10	984	–	**984**	894
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		88,267	(87,179)	**1,088**	20,483

The consolidated financial statements on 30 June 2017 closed with a profit of £1.09 million[160], equivalent to approximately €1.24 million (considering the exchange rate between the two currencies on 30.06.2017 of €1 = £0.87933). At the end of the previous financial period, the consolidated net profit was £20.48 million, while in 2014/15 it was £10.54 million: this is the third consecutive profit made by the Sheikh's management, although there has been a significant drop compared to the last two profits recorded.

For the first time in its history Manchester City reached a turnover of £473.37 million and then surpassed the £400 million threshold; moreover, thanks to the exchange rate with the euro, it has also surpassed the threshold of €500 million (precisely €538.3 million recorded).

Revenues in 2016/17 grew by 21% year-on-year to £391.77 million, representing the ninth consecutive period of revenue growth under the ownership of the Abu Dhabi United Group, led by Sheikh Mansour. The increase in revenues, as we can see from the figure[161] immediately below, is mainly due to an increase in both commercial and domestic television revenues.

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[159] *Balance Sheet, Annual Financial Report on 30 June 2017 of Manchester City*

[160] *Consolidated Profit and Loss Account, Annual Financial Report on 30 June 2017 of Manchester City*

[161] *Turnover, Annual Financial Report on 30 June 2017 of Manchester City*

4. TURNOVER

	13 month period ended 30 June 2017 £000	Year ended 31 May 2016 £000
Matchday	**51,868**	52,523
Broadcasting – UEFA	**47,928**	61,242
Broadcasting – All Other	**155,566**	100,139
Other commercial activities	**218,013**	177,870
	473,375	391,774

Indeed, in the financial year we are analyzing, match-day revenues were £51.9m (£52.5m in 2015/16) and they also include amounts relating to hospitality areas. The slight decrease of 1.2% in match-day revenues is due to a lower number of the UEFA Champions League matches played (we previously mentioned that the club was eliminated in the round of 16), and a slight decrease in average attendance at Premier League home games. Revenues from TV rights reached £203.5m, an increase of 26.1%, mainly due to the new Premier League agreement that began in the 2016-17 season. Increased sponsorship revenues in the period resulted in a 23% increase in commercial revenues from £177.87m to £218m.

5. OPERATING (LOSS)/PROFIT

	13 month period ended 30 June 2017 £000	Year ended 31 May 2016 £000
Other operating income		
Other operating income	**2,450**	800
	2,450	800
Operating expenses		
Direct cost of sales and consumables	**11,876**	8,801
Remuneration of Auditors and its associates:		
Audit fees	**41**	47
Tax services	**18**	18
Other services	**50**	50
Hire of other assets – operating leases	**137**	63
Capital grants released and amortised	**(296)**	(132)
Other external charges	**94,176**	76,929
Staff costs (Note 7)	**264,133**	197,584
Amortisation of player registrations	**121,742**	93,952
Amortisation of other intangibles	**574**	8
Profit on disposal of fixed assets	**(3)**	(189)
Depreciation of tangible fixed assets:		
Owned	**10,426**	9,659
Leased	**3,130**	2,983
	506,004	389,773
Operating (loss)/profit		
Operating profit before player trading	**91,563**	96,753
Amortisation of player registrations	**(121,742)**	(93,952)
	(30,179)	2,801

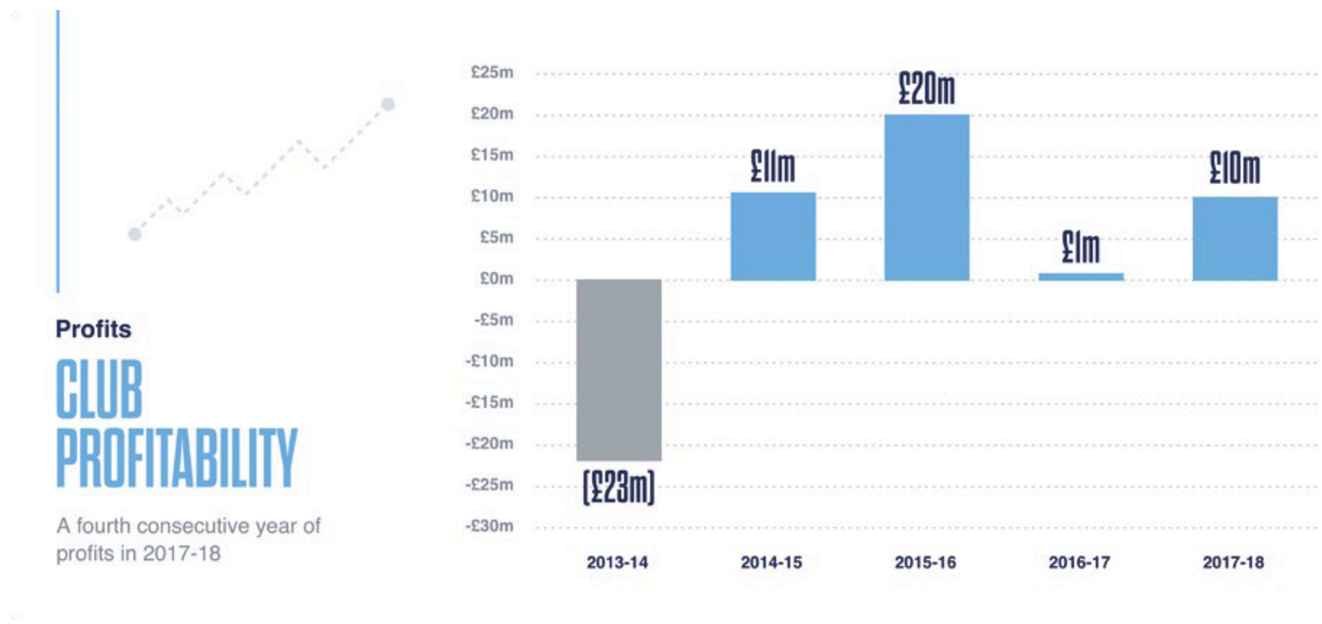
Looking at "Operating (Loss)/Profit"[162], total operating expenses were £506 million (or €575.4 million), an increase of 29.8%, and thus higher than the percentage increase in revenues. In addition, at the end of the 2015/16 football season, operating costs were £389.77m.

Personnel costs increased by 33.5%, from £197. 82 million to £264.13 million (or €300.38 million). The ratio of staff costs to net turnover is very low, at 55.8%, a slight increase, however, compared to the 50.5% recorded the previous year. However, this figure is fully in line with the constraint set by the Financial Fair Play.

Economic and financial analysis of the 2017/2018 football season

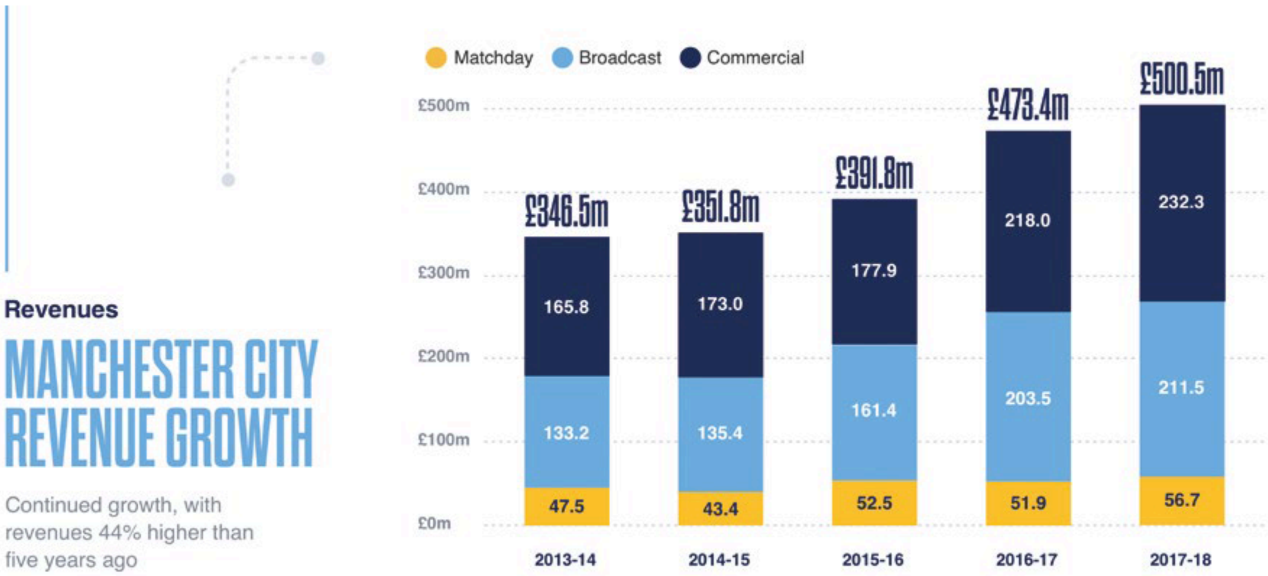
During the 2017/2018 football season, Manchester City managed to achieve better results than last season. First of all, the club won the Premier League, breaking more than 25 records; it qualified for the UEFA Champions League for the eighth consecutive season; it reached the quarterfinals of the UEFA Champions League, while in 2016/2017 the team had only stopped at the eighth round; it won the Football League Cup, thus forgetting the surprising elimination suffered in the fourth round of the previous season, beating Arsenal 3 to 0 in the final game; while in the FA Cup, it was unexpectedly eliminated in the fifth round by Wigan.

The group that controls the club has also seen the entry of a new member: in fact, in August 2017, the Spanish club Girona FC became a new member of the City Football Group, which includes Manchester City, New York City, Melbourne City, with a minority stake in Yokohama F. Marinos. Their first season in the Spanish La Liga ended with a tenth-place finish, with a team composed of several players on loan from Manchester City.



[162] *Operating (Loss)/Profit, Annual Financial Report on 30 June 2017 of Manchester City*

On the other hand, the consolidated financial statements as on 30 June 2018 showed a profit of £10.44 million, equivalent to approximately €11.78 million, at the 29.06.2018 exchange rate of €1 = £0.88605: the fourth consecutive profit recorded[163]. As we have seen before, the 2016/2017 season brought a net profit of only £1.24 million: in that season, the longer duration (the 2017/18 financial year was 12 months, while the previous one was just 13 months), according to the Directors, had a negative impact on the profitability of the business as there is generally little revenue in June while costs continue to accrue.
For the first time, Manchester City, has surpassed the £500m net turnover threshold, reaching £500.46 million (or €564.82 million).



Turnover is up 5.7% on the previous year and, as we can see from the chart[164] above, revenues continue to grow steadily, recording +44% compared to the revenues registered five years earlier.
The 2017/18 consolidated financial statements have been prepared on a going concern basis, i.e., the valuation criteria have considered that the company is able to meet its financial commitments also in the future.
Since 2015/16, there has been no reference to written confirmation from the parent company to support the group financially. Evidently, the financial management for the financial year 2017/18, like the previous year, also ensures that the company can continue as a going concern.

[163] *Club Profitability, Annual Financial Report on 30 June 2018 of Manchester City*
[164] *Manchester City Revenue Growth, Annual Financial Report on 30 June 2018 of Manchester City*

	Note	2018 £000	2017 £000
Fixed assets			
Intangible assets	11	**489,307**	335,468
Tangible assets	12	**410,744**	412,570
Investments	13	**–**	–
		900,051	748,038
Current assets			
Debtors – amounts falling due within one year	14	**251,844**	270,687
Debtors – amounts falling due after more than one year	14	**26,915**	23,351
Cash at bank and in hand		**27,855**	18,706
		306,614	312,744
Creditors			
Derivative financial instruments		**(126)**	–
Creditors – due within one year	15	**(211,058)**	(161,103)
Deferred income – due within one year	18	**(137,342)**	(133,304)
Net current (liabilities)/assets		**(41,912)**	18,337
Total assets less current liabilities		**858,139**	766,375
Creditors – due after more than one year	16	**(103,901)**	(80,575)
Deferred tax liabilities	19	**(7,596)**	(7,596)
Net assets		**746,642**	678,204
Capital and reserves			
Called up share capital	20	**1,316,346**	1,258,346
Share premium account		**45,008**	45,008
Profit and loss account		**(614,712)**	(625,150)
Shareholders' funds		**746,642**	678,204

As far as shareholders' equity[165] is concerned, it was positive at £746.6 million (€842.7 million) for this financial period. Compared to 2016/17, there was an increase of £ 68.4 million (+10.1%). Equity finances 61.9% of assets. Being positive, it complies with the requirements of the Financial Fair Play regulations.

The net financial position is negative at £ 38.1 million (€ 43 million); in the previous year it was negative at £ 47.62 million. Cash and cash equivalents increased from £ 18.7 million to £ 27.8 million (€ 31.4 million).

Financial liabilities are represented by the resulting lease liabilities for the stadium, remained essentially stable, being £ 65.95 million (in 2016/17: £ 66.32 million).

The net value of players' registration rights is £ 488,349,000 (€ 551.15 million), while in 2016/17 it was £ 333,908,000. The incidence on total assets is 40.5%.

In 2017/18, investments of £328.1 million were made, equivalent to approximately €370.26 million. Since the 2009/10 football season, investments have been made in the purchase of players amounting to over £1.38 billion, with an average of £154.2 million per year. The residual book value of disposals made in 2017/18, amounts to approximately £39.3 million.

The net book value of property, plant and equipment on 30 June 2018 amounted to £410,744,000 (in 2016/17: £412,570,000). The Directors explained that they continue to make strategic investments in facilities and infrastructure, which include the expansion of the Etihad Stadium 'West Stand'.

[165] *Balance Sheet, Annual Financial Report on 30 June 2018 of Manchester City*

	Note	Operations excluding player trading year ended 30 June 2018 £000	Player trading year ended 30 June 2018 £000	**Total year ended 30 June 2018 £000**	Total 13 month period ended 30 June 2017 £000
Turnover	4	500,456	–	**500,456**	473,375
Other operating income	5	3,035	–	**3,035**	2,450
Operating expenses	5	(391,370)	(134,284)	**(525,654)**	(506,004)
Operating profit/(loss)		112,121	(134,284)	**(22,163)**	(30,179)
Profit on disposal of players' registrations		–	39,057	**39,057**	34,563
Profit/(loss) before interest and taxation		112,121	(95,227)	**16,894**	4,384
Interest receivable and similar income	8	555	–	**555**	2,091
Interest payable and similar charges	9	(2,464)	–	**(2,464)**	(1,676)
Stadium finance lease charges		(4,547)	–	**(4,547)**	(4,695)
Profit/(loss) on ordinary activities before taxation		105,665	95,227)	**10,438**	104
Taxation	10	–	–	**–**	984
Profit/(loss) on ordinary activities after taxation		105,665	(95,227)	**10,438**	1,088

Delving deeper into revenues[166], match-day revenues amounted to £56.62 million (up slightly from £51.9 million recorded in 2016/17) and included amounts relating to hospitality areas. The 9.2% increase in match-day revenues is due to more UEFA Champions League and League Cup matches, in addition to the slight increase in average attendance at Premier League home games. TV rights revenue increased from £203.5 million to £211.5 million: an increase of 3.94%, mainly resulting from an improved performance in the Champions League and from the Premier League win. Commercial revenues increased by 6.56%, from £218 million to £232.3 million; directors highlighted the fact that commercial revenues grew with the closing of several new and innovative partnerships, perhaps the most important of which was the strategic relationship with Amazon.

However, talking about operating expenses, total ordinary operating costs amounted to £525.65 million (€593.25 million): an increase of 3.9% and higher than the increase in revenues: in fact, in the previous financial period, operating costs amounted to £506 million.

Personnel costs decreased by 1.7%, from £264.13 million to £259.6 million (or €293 million). The ratio of personnel costs to net turnover is very low and is 51.9%: a decrease of about 4 percentage points compared to the previous year's figure (55.8%) and a decrease of 7 percentage points over five football seasons (in the 2013/2014 season, this ratio was 59%).

Economic and financial analysis of the 2018/2019 football season

The 2018/19 football season turns out to be another record-breaking season, like the one before. The men's first team, as mentioned during the initial description of the club, entered the history of English football by becoming the first team to win all four domestic trophies in a single sporting season, winning the Premier League, FA Cup, League Cup, and the FA Community Shield.

Unfortunately, the club was not as fortunate on the international stage, with Manchester City only reaching the quarterfinals of the UEFA Champions League, eliminated by another English team, Tottenham.

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[166] *Profit and Loss Account, Annual Financial Report on 30 June 2018 of Manchester City*

In the annual report, the directors mentioned the complicated relationship with Financial Fair Play, following the UEFA investigation about which we have discussed extensively in previous chapters, as a possible risk factor. Specifically, these are the words we find in the report: “The Directors welcomed the opening of a formal UEFA investigation as an opportunity to bring to an end the speculation resulting from the illegal hacking and out of context publication of Club emails. The Directors are entirely confident of a positive outcome when the matter is considered by an independent judicial body”.[167]

The Company has applied IFRS 15 using the cumulative effect method in preparing its financial statements. Under this method, comparative information has not been restated.

The 2018/19 consolidated financial statements have been prepared on a going concern basis, i.e., the accounting policies have considered that the company is able to meet its financial commitments in the future.

The consolidated financial statements as of 30 June 2019 of "Manchester City Football Club Limited", the company to which the club belongs and a direct subsidiary of Manchester City Limited closed (for the 5th consecutive time) with a profit of £10.08 million, equivalent to approximately €11.24 million, at the 28.06.2018 exchange rate of € 1 = £ 0.8966. The previous year registered a profit almost identical (£10.44 million).

For the second time, Manchester City exceeded the £500 million net turnover threshold, reaching £535.17 million (€596.88 million). As a result, the amount of net turnover shown under IFRS 15 amounts to £535,169,000; if this principle had not been applied, the amount would have been £540,226,000.

The 2018/19 revenue grew by 6.9% year-on-year and represented the 11th consecutive year of revenue growth under Abu Dhabi United Group ownership. The increase in revenues was mainly driven by growth in UEFA TV revenues.

STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Profit and loss account £000	Total £000
As at 1 July 2017	**1,258,346**	**45,008**	**(625,150)**	**678,204**
Shares issued in the year	58,000	–	–	58,000
Profit for the year	–	–	10,438	10,438
As at 30 June 2018	**1,316,346**	**45,008**	**(614,712)**	**746,642**
Profit for the year	–	–	10,079	10,079
As at 30 June 2019	**1,316,346**	**45,008**	**(604,633)**	**756,721**

[167] *Annual Financial Report on 30 June 2019 of Manchester City*

Shareholders' equity[168], however, it is abundantly positive and amounts to £756.7 million (€ 843.9 million). Compared to the previous season, there has been an increase of £ 0.8 million (+1.3%). Equity finances 64% of the assets.

BALANCE SHEET

Registered number 0040946

	Note	2019 £000	2018 £000
Fixed assets			
Intangible assets	11	445,343	489,307
Tangible assets	12	407,750	410,744
Investments	13	–	–
		853,093	**900,051**
Current assets			
Debtors: amounts falling due within one year	14	192,890	251,844
Debtors: amounts falling due after more than one year	14	5,067	26,915
Derivative financial instruments		1,302	–
Cash at bank and in hand		129,856	27,855
		329,115	**306,614**
Creditors			
Derivative financial instruments		–	(126)
Creditors: due within one year	15	(186,112)	(211,058)
Deferred income: due within one year	18	(152,876)	(137,342)
Net current liabilities		**(9,873)**	**(41,912)**
Total assets less current liabilities		**843,220**	**858,139**
Creditors: due after more than one year	**16**	**(78,903)**	**(103,901)**
Deferred tax liabilities	19	(7,596)	(7,596)
Net assets		**756,721**	**746,642**
Capital and reserves			
Called up share capital	20	1,316,346	1,316,346
Share premium account		45,008	45,008
Profit and loss account		(604,633)	(614,712)
Shareholders' funds		**756,721**	**746,642**

The change in the net financial position[169] was significant: in fact, it was positive at £63.9 million (approximately €71.3 million), while in the previous year it was negative at £38.1 million.

There was a considerable change in cash and cash equivalents, which increased from £ 27.8 million to £ 129.86 million (about € 144.3 million).

The net value of players' registration rights is £444,822,000 (€725.53 million), while in 2017/18 it was £488,349,000. The incidence on total assets is 55%.

In 2018/19, investments of £ 86.88 million (€ 96.9 million) were made.

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[168] *Statement of Changes in Equity, Annual Financial Report on 30 June 2019 of Manchester City*

[169] *Balance Sheet, Annual Financial Report on 30 June 2019 of Manchester City*

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2019

	Note	Operations excluding player trading 2019 £000	Player trading and amortisation 2019 £000	Total 2019 £000	Total 2018 £000
Revenue	**4**	**535,169**	**–**	**535,169**	**500,456**
Other operating income	5	3,001	–	3,001	3,035
Operating expenses	5	(433,753)	(126,561)	(560,314)	(525,654)
Operating profit / (loss)		**104,417**	**(126,561)**	**(22,144)**	**(22,163)**
Profit on disposal of players' registrations		–	38,787	38,787	39,057
Profit before interest and taxation		**104,417**	**(87,774)**	**16,643**	**16,894**
Interest receivable and similar income	8	1,738	–	1,738	555
Interest payable and similar charges	9	(3,594)	–	(3,594)	(2,464)
Stadium finance lease charges		(4,708)	–	(4,708)	(4,547)
Profit on ordinary activities before taxation		**97,853**	**(87,774)**	**10,079**	**10,438**
Taxation	10	–	–	–	–
Profit on ordinary activities after taxation		**97,853**	**(87,774)**	**10,079**	**10,438**

Returning to revenues, the good sporting season played led to a 6.9% increase in net turnover, marking the eleventh consecutive year of revenue growth under the ownership of the Abu Dhabi United group. Had IFRS 15 not been applied, net revenue would have been slightly higher at £540.23 million, an increase of 7.9%. The application of this IFRS 15 resulted in a reduction in total revenues and operating costs in 2018-19 of approximately £5.1 million: in particular, the application of IFRS 15 impacted gross revenue and cost of sales relating to the catering contract with Fabulous Fan Fayre Limited.

The CAGR for the last 5 years is 11.06%.

The 2.8% increase in match-day revenue is due to the slight increase in average attendance for Premier League home games: in fact, average spectator attendance relating to the 19 Premier League home games increased from 54,073 to 54,132. A record of 418,000 tickets were sold in total for the cup matches.

Revenues from TV rights, on the other hand, increased from £211.5 million to £253.2 million: an increase of 19.7% mainly due to Champions League revenues as well as wins in all four English competitions.

Commercial revenues decreased by 1.5%, from £232.3 million to £226.98 million; the Directors pointed out that, compared to the previous year, the decrease in the number of concerts at the Etihad Stadium from 8 to 5, weighed more than the growth in commercial revenues for partnerships, image rights, merchandising and stadium tours. Other operating revenues remained stable at £3 million.

On the other hand, total ordinary operating costs amounted to £560.31 million (equivalent to approximately €624.93 million): an increase of 6.6%, higher than the increase in revenues. In 2017/18, operating costs amounted to £525.65 million: a significant negative change of around £35 million.

In addition, staff costs increased significantly by 21.4% from £259.6 million to £315.26 million (€351.6 million). The ratio of personnel costs to net turnover remains low, however, at 58.9%, although it is back to the 2013/2014 levels and up about 7 percentage points on the previous year's figure, which was 51.9%. This figure would still be fully in line with the requirements of the Financial Fair Play Regulations.

Conclusions on Manchester City's compliance with Financial Fair Play regulation

As for the two previous cases (Juventus and Real Madrid), also for Manchester City, after having carefully assessed and analyzed the balance sheets and relevant financial documents, we will define the *Citizens'* position with respect to the indicators provided for in Article 62 of the Financial Fair Play regulations.

1. *Indicator 1: Going concern.*

   The economic and financial analysis of each individual season within the monitoring period (2016/2017, 2017/2018 and 2018/2019) has provided us with the knowledge that Manchester City's consolidated financial statements have always been prepared on a going concern basis, i.e., the valuation criteria used have considered that the company is able to meet its financial commitments also in the future.

   Furthermore, as of the 2015/2016 season, there is no longer any reference to written confirmation from the parent company, "Abu Dhabi United Group Investment & Development", to financially support the group. Therefore, the economic management relating to each individual financial year guarantees the continuity of the company. In confirmation of this, the auditing company BDO LLP also found nothing of concern on this issue.

   Consequently, it can be considered that the first requirement of Financial Fair Play is largely met.

2. *Indicator 2: Negative equity.*

   To understand whether the indicator "Negative Equity" is met by Manchester City, it is necessary to compare the value of the Equity of each year analyzed with that of the previous one: if the variation is negative, the criterion is not considered to be met.

   Using the Statement of Changes in Equity[170] from the club's latest Financial Report (30 June 2019), we find the equity values for the last three financial periods.

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[170] *Statement of Changes in Equity, Annual Financial Report on 30 June 2019 of Manchester City*

STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Profit and loss account £000	Total £000
As at 1 July 2017	**1,258,346**	**45,008**	**(625,150)**	**678,204**
Shares issued in the year	58,000	–	–	58,000
Profit for the year	–	–	10,438	10,438
As at 30 June 2018	**1,316,346**	**45,008**	**(614,712)**	**746,642**
Profit for the year	–	–	10,079	10,079
As at 30 June 2019	**1,316,346**	**45,008**	**(604,633)**	**756,721**

We can easily see that the Equity value is positive in each financial period considered; therefore, indicator number 2 is also to be considered satisfied.

3. *Indicator 3: Break-even result.*

The third indicator is the break-even result: the difference between relevant revenues and expenses, the values of which are identified according to the definitions provided by the UEFA Club Licensing and Financial Fair Play Regulations, must be positive throughout the monitoring period.

The following table shows the calculation of the break-even result for the 2016/2017, 2017/2018 and 2018/2019 football seasons.

£/1000	***2016/2017***	***2017/2018***	***2018/2019***
Matchday revenues	51.868	56.621	55.007
Broadcasting rights	203.494	211.520	253.176
Other commercial revenues	218.013	232.315	226.986
Profit on disposal of players' rights	34.563	39.057	38.787
Other operating revenues	2.450	3.035	3.001
Financial Revenues	2.091	555	1.738
Relevant Revenues	**512.479**	**543.103**	**578.695**
COGS	11.876	12.895	7.203
Personnel costs	264.133	259.634	315.257

Other operating costs	98.871	109.826	102.323
Amortization & write-downs players	121.742	134.284	126.561
Financial expenses	1.676	2.464	3.594
Relevant Expenses	**498.298**	**519.103**	**554.938**
Break-Even Result	**14.181**	**24.000**	**23.757**

As we can see in the table[171] above, the break-even result for each financial period considered showed a surplus; therefore, the requirement set out in indicator number three of the Financial Fair Play can be considered fulfilled.

4. *Indicator 4: Sustainable debt indicator for T-1.*

The fourth indicator (the same as the fifth indicator, from which it differs only in terms of the reference period) requires the joint non-violation of two constraints: the relevant debt must not exceed the figure of €30 million and must not exceed 7 times the average difference between revenues and costs of production.

The notion of Net Debt has recently been modified with the 2018 version of the Financial Fair Play. The current Net Debt value is given, according to Article 3 of the regulations, by "the aggregate of the following balances: net borrowings (i.e. the net of bank overdrafts, bank and other loans, accounts payable to group entities and other related parties less of cash and cash equivalents); net player transfers balance (i.e. the net of accounts receivable from players' transfers and accounts payable from players' transfers); accounts payable to social/tax authorities (non-current)"[172].

The relevant debt required by Indicator 4 and 5, on the other hand, is the difference between the net debt and the amount of debt directly attributable to the construction and/or substantial modification of the stadium and/or training facilities from the inception of the debt until 25 years after the date on which the asset is declared ready for use.

In the case in question, since the rule speaks of "the amount of debt that is directly attributable to the construction and/or substantial modification of the stadium", it should not concern the amount recorded under the item "obligations under the lease of the Etihad Stadium", since it is linked to the 2003 exchange. However, it must be said that in 2014 works were started to expand the stadium to increase its capacity, and in the balance sheet there do not seem to be any liabilities related to this expansion, which would obviously have already been paid.

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[171] *The table contains the values needed to calculate the break-even point. The data has been taken from the Manchester City Financial Report for the financial periods 2016/2017, 2017/2018 and 2018/2019.*

[172] *UEFA Club Licensing and Financial Fair Play Regulations, Article 3 – Definition of terms*

£/1000	*2016/2017*	*2017/2018*
Cash and cash equivalents	18.706	27.855
Leasing debts	-66.322	-65.957
Net Debt	**-47.616**	**-38.102**
Receivables due to football clubs	53.149	80.050
Payables due to football clubs	-86.152	-140.551
Net player transfers balance	**-33.003**	**-60.501**
Accounts payable to social/tax authorities	/	/
Net Debt Financial Fair Play	**-80.619**	**-98.603**
Debt Stadium/Training Facilities	**/**	**/**
Relevant Debt	**-80.619**	**-98.603**

The notion of relevant earnings[173] corresponds to the sum of total revenues and the net result of player transfers minus total operating expenses. It can be approximated to the difference between value and cost of production.

£/1000	*2016/2017*	*2017/2018*
Total revenues	473.375	500.456
Total operating expenses	-384.262	-391.370
Relevant Earnings	**91.563**	**112.121**
Average Relevant Earnings	**101.842**	

As we can see from the table[174] of relevant debt, the first constraint, which sets a maximum threshold of 30 million for relevant debt, is largely exceeded by the club.

The second constraint, however, provides for the calculation of the average relevant earnings for the period considered and the immediately preceding one, which must then be compared to the relevant debt multiplied by 7. The calculated relevant debt is no larger than 7 times the average relevant earnings for the period. Consequently, the constraint can be considered as largely satisfied.

[173] *The table contains the values needed to calculate the relevant earnings for the financial biennium 2016/2017 and 2017/2018. The data have been taken from Manchester City's BS and IS.*

[174] *The table contains the values needed to calculate the relevant debt for the financial biennium 2016/2017 and 2017/2018. The data have been taken from Manchester City's BS and IS.*

5. *Indicator 5: Sustainable debt indicator for T.*

   A very similar calculation is made for indicator number 5, which refers (in our case) to the financial period 2018/2019 for sustainable debt.

£/1000	*2017/2018*	*2018/2019*
Cash and cash equivalents	27.855	129.856
Leasing debts	-65.957	-65.957
Net Debt	**-38.102**	**63.899**
Receivables due to football clubs	80.050	54.013
Payables due to football clubs	-140.551	-86.245
Net player transfers balance	**-60.501**	**-32.232**
Accounts payable to social/tax authorities	/	/
Net Debt Financial Fair Play	**-98.603**	**31.667**
Debt Stadium/Training Facilities	/	/
Relevant Debt	**-98.603**	**31.667**

As we can see from the table[175] of relevant debt, the debt recorded by Manchester City does not exceed the 30 million euros: on the contrary, it is positive for £ 31.667 thousand.

	2017/2018	*2018/2019*
Total revenues	500.456	535.169
Total operating expenses	-391.370	-433.753
Relevant Earnings	**112.121**	**101.416**
Average Relevant Earnings (T, T-1, T-2)	**101.700**	

As we can see from this table, the calculated relevant debt is no larger than 7 times the average relevant earnings[176] for the period. Consequently, the constraint can be considered as satisfied.

175 The table contains the values needed to calculate the relevant debt for the financial biennium 2017/2018 and 2018/2019. The data have been taken from Manchester City's BS and IS.

176 The table contains the values needed to calculate the relevant earnings for the financial biennium 2017/2018 and 2018/2019. The data have been taken from Manchester City's BS and IS

6. *Indicator 6: Player transfer balance.*

   Indicator 6 "Player transfer balance" concerns the balance of the player transfer campaign. The licensee must not report a player transfer campaign deficit more than €100 million in any transfer campaign period during the season of validity of the license. If the total costs incurred exceed the total income generated in a registration period, then the club has a player transfer deficit.

   This rule only applies from the 2018/2019 season, as it was introduced in the latest Financial Fair Play reform (2018).

£/1000	*2018/2019*
Balance of acquisitions/disposals	**- 83.034**

   We can see from the table[177] that, Manchester City meets the 100 million deficit threshold. Therefore, indicator number 6 can be met.

Among the additional indicators, i.e., those whose non-compliance could lead the Club Financial Control Body to request further information of an economic-financial nature from the licensee club, we have:

- Personnel costs must not exceed 70% of total revenues.
- Financial indebtedness must not exceed 100% of total revenues.

	2016/2017	*2017/2018*	*2018/2019*
Personnel Costs/Revenues	**55.8%**	**51.9%**	**58.9%**
Net Financial Debt/Revenues	**17.03%**	**19.7%**	**0.0%**

The table[178], which shows us respectively the ratio of personnel costs to total revenue and the ratio of net financial debt to total revenue, denotes how in each financial period considered Manchester City is fully within the additional constraints of Financial Fair Play. Consequently, the second parameter is also met.

177 The table contains the net value related to the players' registration rights acquisitions/disposals of the 2018/2019 season. The data have been taken from Manchester City's BS and IS

178 The table contains the ratio of personnel costs to total revenue and the ratio of net financial debt to total revenue. The data have been taken from Manchester City's BS and IS

4.5 Bayern München

Company profile

Bayern Munich is Germany's most successful football club. The Munich club has collected 30 Bundesliga championships, 20 national cups, 8 German Super Cups and 6 German League Cups. The German club is also one of the most successful clubs internationally speaking, with 6 Champions Leagues, 1 UEFA Cup, 1 Cup Winners' Cup, 2 UEFA Super Cups, 2 Intercontinental Cups and 1 FIFA Club World Cup. It is of the UEFA Champions League for the football season 2019/2020 and is the second-highest winner of the trophy, behind only Real Madrid (13 victories).

The Bavarian team has been in the top division of the German league for the longest number of consecutive seasons (since 1965-66) and is the second club in terms of years and matches played in the Bundesliga, behind only Werder Bremen.

Bayern Munich was a founding member of the G-14, an association of European football clubs that formed a consortium to obtain joint protection of sporting, legal and television right. Since the 2005-06 season.

Bayern Munich has played its home games in the 75,000-seat Allianz Arena in Munich.

From a financial point of view, in the last season Bayern Munich recorded an increase in turnover of 14% and in profit of 63%: record numbers for the German club, which closed its balance sheet with a profit for the 27^{th} consecutive time.

The capital of FC Bayern München AG rose to € 497.4 million.[179]

Bayern München's football club is headed by the company 'FC Bayern München AG', which is a public limited company controlled with a 75% share by a registered association (*'Eingetragener Verein'*) called 'FC Bayern

[179] *https://it.wikipedia.org/wiki/Fußball-Club_Bayern_München*

München eV'. Adidas AG, Audi AG, and Allianz, who are also sponsors, each hold 8.33%. The company is managed under the dualistic system, i.e., with a Supervisory Board and a Management Board.

Economic and financial analysis of the 2016/2017 football season

The 2016/2017 season is full of records.

From a sporting point of view, it was not the most brilliant year for the Germans, especially when compared to the high standards of excellence to which the club is accustomed and to which it has accustomed its fans: this football season ended with the achievement of the Bundesliga victory, the elimination at the quarterfinals of the UEFA Champions League, with the defeat by the hand of Real Madrid, and only the semi-final of the DFB Pokal, i.e., the German national cup.

Bayern Munich keeps up, economically speaking, with the big names of Europe such as Real Madrid, Manchester United, Barcelona but also the "new entries" PSG (the next club we are going to examine) and Manchester City. In Forbes magazine's "The World's Most Valuable Soccer Teams", Bayern is ranked fourth with a value of US$ 2.713 billion, due to the sum of match revenues of $420 million; TV revenues of $609 million; commercial revenues of $1,256 million and a brand value of $428 million. In the Brand Finance "Football 50 2017" ranking, Bayern ranks fifth with a value of $1.2 billion. Among the elements considered we have the jersey sponsor, with an annual value of USD 33.5 million, and the technical sponsor Adidas, with an annual value of USD 100.5 million.

In the press release[180] announcing the record results for the 2016/2017 financial year, Jan-Christian Dreesen, Chief Financial Officer of FC Bayern München AG, expressed himself in these terms: “Our failure to progress beyond the quarter-final of the Champions League against Real Madrid and not reaching the DFB Cup final cost us around €25 million. However, we were still able to make gains and remain one of the top clubs in Europe financially. What is more important than the increase in revenue is that our profit margin has increased. In this regard we saw double-digit improvements in all important indicators. Revenue streams remain even, which leaves us confident going forward independent of any dependencies”.

Let's look at these record-breaking economic results in detail. We have just mentioned that 2016/2017 for Bayern Munich ended with consolidated gross revenues of € 640.5 million (including player disposals, which had a major influence), 2.2% more than the € 626.8 million of the 2015/2016 season. For the second time, the €600 million threshold was exceeded.

As Bayern was at a competitive disadvantage compared to other European top clubs in terms of domestic TV revenues, it leveraged on commercial revenues, which are the main source of revenues for the Bavarian club. Indeed, in 2016/17, domestic TV revenues increased by 8%, to €90.1 million, but remain far below compared to Premier League clubs.

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[180] *https://fcbayern.com/en/news/2017/10/fc-bayern-sets-new-financial-record*

The Champions League defeat to Real Madrid prevented Bayern from crossing the €600 million consolidated net revenue threshold: the consolidated profit of "FC Bayern Munich AG", after tax, reached a record €39.2 million, about 6 million more than the €33 million in 2015/16 (up 18.8%).
FC Bayern München AG will distribute a record €16,500,000 dividend to shareholders (equivalent to approximately 55 cents per share, 15 cents more per share than the previous year's dividend distribution).

Financial year	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Turnover in millions of EUR	350.2	328.5	373.4	432.8	528.7	523.7	626.8	640.5
EBITDA result in millions of EUR	86.5	62.3	86.0	95.6	98.7	111.3	142.5	149.1
PROFIT (after tax) in millions of EUR	2.9	1.3	11.1	14.0	16.5	23.8	33.0	39.2

The table[181] above shows the key figures for the last few financial years, starting from the 2009/2010 season. Turnover has almost doubled over these years, and the same is true for EBITDA. The always positive after-tax profit has risen from 2.9 million in the 2009/2010 financial year to 39.2 million recorded for the 2016/2017. The consolidated CAGR, i.e., the compound annual growth rate of turnover, for the last five years is 8.15%.
In Bayern's consolidated financial statements, the income from player transfers is included under ordinary income and is considered as a component of turnover, while the corresponding residual book values are included under "other operating costs". If we did not consider the income from player transfers of €52.6 million (up from €34.8 million in the previous financial period), net turnover would be just under €600 million. Consolidated EBITDA, i.e., the operating result calculated before interest, taxes and depreciation and amortization, amounted to €149.1 million, while in 2015/16 it was €142.5 million: for the third consecutive time the result exceeded the €100 million threshold, increasing by 4.6%.
Numbers in the financial statements outline a very solid group. Total assets increased by 2.2%, from €660.8 million to €675.5 million. Fixed assets account for 58.5% of assets.
Debts are €121.4 million and is down by €35.3 million compared to 2015/16.
Consolidated equity is positive and amounts to €443.5 million (up from €416.3 million in 2015/16). The recorded change of €27.2 million was mainly due to the profit for the year of €39.2 million, but also to the distribution of the 2015/16 dividends of € 12,000,000. Compared to the previous year, there was an increase

[181] *Annual financial statement of FC Bayern München AG - Group*

of 6.5%. Equity finances 65.7% of assets and "covers" 112.2% of fixed assets, i.e., exceeds the value of fixed assets. Equity results in an equity ratio of 71.1% (68.2% in 2015/16), which, according to the Directors, is probably a unique value in the world of football. This testifies and confirms, once again, the club's financial independence and the low dependence on market fluctuations.

If we go deeper into the various components of income:

- Match revenues of €154.3 million (slightly lower than the € 166 million recorded in 2015/16, 7% less). These revenues are related to receipts from Bundesliga home matches, friendly matches, DFB-Pokal and UEFA Champions League matches. This item accounts for 25.59% of total gross revenue.
- Sponsorship and marketing revenue of € 169.4 million, virtually identical to € 169.8 million of 2015/16. This item accounts for 28.09% of total revenues and is almost identical to the value registered in the previous year.
- Revenues from domestic television and radio rights for € 90.1 million, up compared to € 83.4 million recorded in the 2015/2016 financial period. This item concerns Bundesliga, German Cup and Friendly matches and it only accounts for 14.94% of total revenues. Compared to the previous year, there was an increase of 8%, due to revenues from the distribution of Bundesliga TV rights, which increased by € 5.5 million.
- Revenues from player transfers for € 52.6 million. This item, which concerns income from player transfers, accounts for 8.72% of total revenues and recorded a decrease of 51.1%, as in the previous financial year it amounted to € 34.8 million.
- Merchandising income for € 96.9 million. This item accounts for 16.07% of total revenues. In the previous financial year, it amounted to € 108.2 million and therefore recorded a decrease of 10.4%.
- Other revenues of € 39.7 million (including: rents and leases, New Media, DFB allowances for national players, FC Bayern II revenues, youth, and women's teams). This item accounts for 6.58% of total revenue. In the previous financial year, these revenues amounted to € 25.5 million and thus showed an increase of 55.7%.

Looking at the costs side, costs for the purchase of materials and services, net of operating expenses, amount to € 38.8 million and are down 13%, compared to € 44.6 million in 2015/16. Other operating expenses reach € 177.3 million (€ 171.8 million in 2015/16), an increase of 3.2%.

Regarding operating costs, on the other hand, personnel expenses totaled € 264.9 million. These expenses show an increase of 1.8% compared to € 260.3 million in 2015/16. Note that the percentage increase in personnel costs is lower than the percentage increase in revenue including capital gains, which was 2.6%. Personnel costs represented 48.1% of net turnover, excluding capital gains: a very slight increase from the 47.1% recorded in the 2015/2016 financial year. This value is on the borderline of excellence according to UEFA standards.

Economic and financial analysis of the 2017/2018 football season

The 2017/2018 season, from a sporting point of view, continues along the same lines as the previous season. Indeed, this year for Bayern Munich ended with the Bundesliga victory, the UEFA Champions League semi-final, with the defeat by the hand of Real Madrid (once again), and the DFB Pokal final, on 19.05.2018, with the surprising defeat against Eintracht Frankfurt. It is noteworthy that in the last six years, from the 2012-2013 season to 2017/18, Bayern have been German Champions six times in a row.

In Forbes magazine's "The World's Most Valuable Soccer Teams" ranking, with reference to the year 2018, Bayern ranks fourth with a value of 3.063 billion US dollars, up from the previous edition (2.713 million US dollars) due to the sum of match revenues of $424 million; TV revenues of $636 million; commercial revenues of $1,241 million and a Brand value of $763 million. In the Brand Finance "Football 50 2018" ranking, Bayern is in fourth place (the previous year it was in fifth place) with a value of $1.4 billion, higher than the $1.2 billion in the previous edition. Among the elements considered were the jersey sponsor, with an annual value of USD 43 million, and the technical sponsor Adidas, with an annual value of USD 53 million.

Regarding economic results[182] , the net turnover shows how the 2017/18 season becomes the new record season. Consolidated gross revenue of €657.4 million (€640.5 million in 2016/17), increased by approximately €16.9 million; while consolidated EBITDA of €136.5 million decreased by 8.5% and consolidated pre-tax profit was positive at €46.2 million, while consolidated profit after tax was €29.5 million.

Jan-Christian Dreesen, Vice-Chairman of the Executive Board of Bayern Munich AG, in presenting the results of the 2017/18 financial year, said that the club's members, employees and fans can rightly be proud of these achievements: “Our FC Bayern stands on very solid foundations. This ever increasing financial power allows us to make the necessary investment in our first-team squad to ensure we remain competitive among the footballing elite in Europe”[183].

1. Consolidated financial statement for the group FC Bayern München AG

(Consolidated from the individual statements of FC Bayern München AG, Allianz Arena München Stadion GmbH, as well as other subsidiaries)

- **Turnover** financial year 2017/2018	**657.4 million Euros**
- **Operating profit** (EBITDA)	**136.5 million Euros**
- **Group profit** before tax	**46.2 million Euros**
- **Profit** after tax	**29.5 million Euros**

[182] *FC Bayern Munich, Annual report of the 2017/18 season, 30 November 2018*

[183] *https://fcbayern.com/binaries/content/assets/downloads/homepage/jhv/en/2018_annual-financial-statements_press-release_fcb_201718.pdf?v=1543593926098*

The financial period under analysis is characterized, once again, by the achievement of excellent economic results at revenue level (including player disposals), with the 600 million thresholds being exceeded for the third consecutive time. The group achieved revenues for € 657,400,000 (a constant increase compared to € 640,500,000 in 2016/17 and € 626,800,000 in 2015/16), marking an increase of 2.6%. Compared to the previous year, consolidated net revenue increased, partly because the Champions League defeat to Real Madrid occurred in the semi-finals and not in the quarters, and this last higher value allowed Bayern to surpass the threshold of €600 million.
The consolidated profit of "FC Bayern Munich AG", after tax, reached € 29.5 million, about ten million less than the € 39.2 million recorded in the 2016/17 financial year. FC Bayern München AG will distribute a dividend of € 12,000,000 (40 cents per share) to shareholders, lower than in the previous year, when the dividend distributed was € 16,500,000 (55 cents per share).

Financial year	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Turnover in millions of EUR	350.2	328.5	373.4	432.8	528.7	523.7	626.8	640.5	657.4
EBITDA result in millions of EUR	86.5	62.3	86.0	95.6	98.7	111.3	142.5	149.1	136.5
PROFIT (after tax) in millions of EUR	2.9	1.3	11.1	14.0	16.5	23.8	33.0	39.2	29.5

The table[184] summarizes the key financial data over the years.
As mentioned above, the 2017/18 consolidated financial statements shows record values for revenues: the increase in gross revenues was € 16.9 million (+2.6%). Therefore, revenues, including income from player transfers, amounted to € 657.4 million (€ 640.5 million in 2016/17). If we did not consider the proceeds from player transfers amounting to € 28.2 million (€ 52.6 million in 2016/17), net revenue would exceed €600 million for the first time: precisely it would be equal to € 629.2 million (€ 588 million in 2016/17).
The consolidated CAGR, i.e., the compound annual growth rate of revenues, for the last five years is 5.6%.
Consolidated EBITDA, as can be seen from the figures above, amounted to €136.5 million, whereas in 2016/17 it was € 149.1 million. This result exceeded € 100 million for the fourth consecutive time and showed a decrease of 8.5%. The consolidated profit before tax was positive, with a record value of € 46.2 million. Consolidated profit after tax amounted to € 29.5 million, a decrease of € 9.7 million (-24.7%).

[184] *Annual financial statement of FC Bayern München AG - Group*

Consolidated equity was positive and amounted to € 456.4 million, up from € 443.5 million in the previous year. The positive change of € 12.9 million was due to the profit for the year of € 29.5 million, the distribution of the 2016/17 dividends, during the year, of € 16,500,000 (55 cents per share). Compared to 2016/17 there was an increase of 2.9%. Equity finances 61.9% of assets and "covers" 101.9% of fixed assets, i.e., exceeds the value of fixed assets.

Group payables increased by 12.3%, from € 138.3 million to € 155.3 million.

The ratio of equity to total assets, at 66.5% (71.1% in 2016/17), testifies and confirms, once again, the club's financial independence and low dependence on market fluctuations.

The turnover is broken down as follows

- **Revenue from matches** (Revenue from Bundesliga home matches, friendly matches, DFB Cup and UEFA Champions League) - From that UEFA Champions League entry fees and premiums: 68.9 million Euros	**172.7 million Euros**
- **Revenue from sponsoring and marketing**	**189.4 million Euros**
- **Revenue from media marketing** (Matches in the Bundesliga, DFB Cup and friendly matches) - From that from the DFL for the Bundesliga Central Marketing: National and international: 97.5 million Euros	**107.8 million Euros**
- **Revenue from transfers**	**28.2 million Euros**
- **Revenue from merchandising**	**91.8 million Euros**
- **Others** (including rent and lease income, New Media, Erlebniswelt (adventure world), providing international players to DFB national team, revenue from FC Bayern II, Youth- and Women's football)	**34.4 million Euros**

The breakdown of revenues, shown in the figure[185] above, is as follows:

- Ticket sales of € 172.7 million. In 2017/2018, match revenues amounted to € 154.3 million; this item accounts for 27.66% of total gross revenue and an increase of 11.9% compared with the previous year. Bayern's press release reports an increase of € 12.3 million in revenues from UEFA Champions League competitions compared to the previous financial year from € 56.6 million to € 68.9 million. The UEFA press release regarding the distribution of prizes from the UEFA Champions League alone attributed to Bayern for 2017/18 the figure of € 70,494,000 (€ 54,762,000 in 2016/17).
- Sponsorship and marketing revenue of € 189.4 million (€ 169.4 million in 2016/17). This item accounts for 30.34% of total revenues and is up 11.8% compared to 2016/17.

[185] *FC Bayern Munich, Annual report of the 2017/18 season, 30 November 2018*

- Revenues from domestic television and radio rights amounting to € 107.8 million (€ 90.1 million in 2016/17). Specifically, revenues from the distribution of Bundesliga TV rights amounted to € 97.5 million (€ 79.6 million in 2016/17; € 74.1 million in 2015/16 and € 53.4 million in 2014/15). This item only accounts for 17.27% of total revenue. Compared to the previous year, there was an increase of 19.6%, due to revenues from the distribution of Bundesliga TV rights, which increased by € 17.9 million.
- Revenues from player transfers for € 28.2 million. This item, which concerns income from the transfer of players, accounts for 4.52% of total revenues and recorded a decrease of 46.4%, as in the previous financial year it amounted to € 52.6 million.
- Merchandising income of € 91.8 million. This item accounts for 14.7% of total revenues and, in the previous financial year, it amounted to € 96.9 million and therefore shows a decrease of 5.3%.
- Other revenues of € 34.4 million (including: rents and leases, New Media, DFB allowances for national players, FC Bayern II revenues, youth, and women's teams). This item accounts for 5.5% of total revenue.

Below there is a breakdown of operational expenditures[186]:

<u>Expenditures are as follows</u>

- **Personnel expenditure** (All employees of FC Bayern München AG)	**302.5 million Euros**
- **Operational expenditure**	**174.4 million Euros**
- **Costs of materials and deployment**	**37.4 million Euros**
- **Write-offs, depreciation and amortization** (Transfer and investment write-offs) - From that write-offs for transfer compensations: 68.9 million Euros	**75.7 million Euros**

Personnel expenses total € 302.5 million and represent 50.7% of net turnover, excluding capital gains. These expenses show an increase of 14.2% compared to € 264.9 million in 2016/17. Note that the percentage increase in personnel costs is higher than the percentage increase in revenues including capital gains, which was 3.5%. The ratio of personnel expenses to net revenue is slightly up on the previous year: in fact, while for 2016/2017 this ratio stood at 48.1%, 2017/2018 recorded a value of 50.7%. Still an exceptional value.

[186] *FC Bayern Munich, Annual report of the 2017/18 season, 30 November 2018*

Economic and financial analysis of the 2018/2019 football season

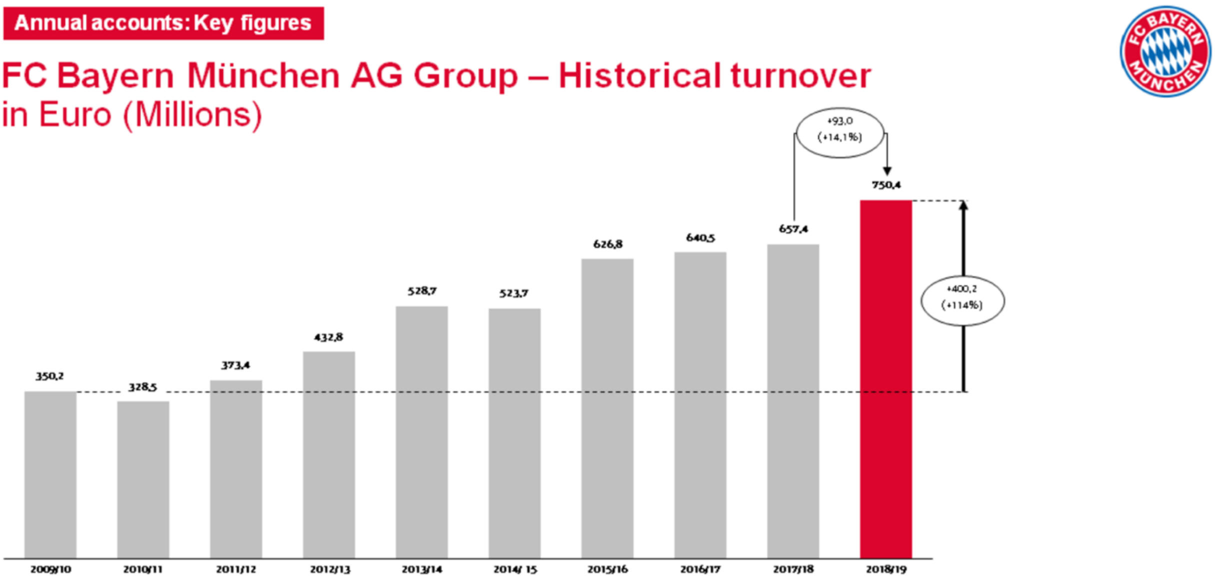
After two years sealed with records, the third could not be less and could not be better.

Always beginning by examining the sporting counterpart, Bayern Munich, during the 2018/2019 season, achieved victory in the Bundesliga, a goal achieved for the seventh consecutive time; it was defeated only in the round of 16 of the UEFA Champions League by Liverpool (later winner of the competition) and then, it was victorious in the national cup competition "DFB Pokal" against the RB Leipzig. Thus, by winning the Bundesliga and the national cup, the Bavarian club achieved the twelfth "double" in its history.

By contrast, the financial results achieved by the German club this season were almost sensational. The Directors highlighted that in the 2018/2019 financial year, the FC Bayern München Group achieved absolute economic and financial records in the 119-year history of the club. It is no coincidence that one of Bayern's values is "Financial Responsibility": Bayern's expenditure is based on income: it only spends what it has already earned, fully in line with one of the founding principles of Financial Fair Play.

“It is not the maximization of profit, but the maximization of sporting success that is our ultimate goal”[187], is what Jan-Christian Dreesen, Vice-Chairman of the Executive Board of Bayern Munich AG, said during the presentation of the results for the 2018/19 financial year.

In Forbes magazine's "The World's Most Valuable Soccer Teams", Bayern is ranked fourth with a value of US$3 billion, due to the sum of match revenues of $478 million; TV revenues of $814 million; commercial revenues of $1,339 million and a brand value of $392 million. In the Brand Finance "Football 50 2019" ranking, Bayern is ranked fourth with a value of US$1.47 billion or €1.31 billion and an 'Enterprise Value' of US$3.58 billion or €3.19 billion. Among the elements considered are the shirt sponsor 'Telekom', with an annual value of 34 million Euros and the technical sponsor 'Adidas', with an annual value of 43 million Euros.



[187] *https://fcbayern.com/binaries/content/assets/downloads/homepage/jhv/en/2019_annualfinancialstatements_pressrelease_fcb_201819.pdf?v=1573841382016*

In terms of net turnover[188], the 2018/19 season becomes the new record season. Consolidated gross revenues of €750.4 million (almost €100 million more than the €657.45 millions of 2017/18) increased by around 14.1%; while consolidated EBITDA of €146.1 million increased by 7% and the consolidated pre-tax result was positive at €75.3 million, while the consolidated result after tax was €52.5 million.

This financial year was characterized by the achievement of record economic results in terms of revenue, with the threshold of 750 million gross revenue being exceeded for the first time. In fact, during the last financial year, the Group achieved revenues (including player disposals) of € 750,400,000, marking an increase of 14.1% compared to 2017/2018. Compared to the previous financial year, consolidated net revenue increased, even though the Champions League defeat to Liverpool occurred prematurely in the round of 16 and meant that the receipts and prizes from the quarter and semi-finals, which were achieved in the previous financial year, were lost. However, revenues from TV rights and sponsorship and marketing income increased, while merchandising revenues decreased.

The consolidated profit of "FC Bayern Munich AG", after tax, reached a record figure of € 52.5 million (€ 29.5 million in 2017/18), with a positive change compared to the previous year of around 23 million.

FC Bayern München AG will distribute a dividend of € 15,000,000 (50 cents per share) to shareholders, 3 million more than the € 12,000,000 distributed the previous financial period.

Below is Bayern Munich's balance sheet[189] and key figures for the financial period under review.

ASSETS as of 30/6/2019		in millions of EUR
A. Fixed assets		
I. Intangible assets	155.5	
II. Tangible and financial assets	309.1	**464.6**
B. Current assets		**260.6**
(Receivables, advance payments, inventories, bank balance and cash in hand)		
C. Deferred income		**2.7**
D. Active surplus resulting from asset offsetting		**3.9**
		731.8

LIABILITIES as of 30/6/2019		in millions of EUR
A. Equity capital		
I. Subscribed capital	30.0	
II. Capital and retained earnings	467.4	**497.4**
B. Provisions		**38.8**
C. Liabilities		**128.0**
D. Deferred income		**67.6**
		731.8

Key figures for the 2018/2019 season

FC Bayern München AG - *Group*

Turnover	**750.4**	**million EUR**
Operating result (EBITDA)	**146.1**	**million EUR**
Profit after tax	**52.5**	**million EUR**

The 2018/19 consolidated financial statements also showed record revenues.

188 *FC Bayern Munich, Annual report of the 2018/19 season, 15 November 2019*
189 *FC Bayern Munich, Annual report of the 2018/19 season, 15 November 2019*

The increase in gross revenue was € 43 million (+2.6%). Therefore, revenues, including income from player transfers, amounted to € 750.4 million, exceeding the € 700 million threshold for the first time in the club's history, confirming Bayern close to the level of other top European clubs. If we did not consider the income from player transfers amounting to € 90.3 million (much higher than the € 28.2 million of 2017/18), net revenue exceeds € 600 million for the second consecutive time, precisely it would be equal to € 660.1 million (+ 30.9 million compared to the previous year).
The consolidated CAGR, i.e., the compound annual growth rate of gross revenue, for the last 5 years is 9.41%.
Consolidated EBITDA, i.e., the operating result calculated before interest, taxes and depreciation and amortization, amounted to € 146.1 million, while in 2017/18 it was € 136.5 million. This result for the fifth consecutive time exceeded € 100 million and increased by 7%. The consolidated profit before tax was positive, touching the record figure of € 75.3 million.
Consolidated profit after tax amounted to € 52.5 million, a significant increase of € 23 million (+78%).
Consolidated shareholders' equity is positive and amounts to € 497.4 million (€ 456.4 million in 2017/18). The positive change of € 41 million was due to the profit for the year of € 52.5 million, the distribution of the 2017/18 dividends, during the year, of € 12,000,000. Compared to 2017/18 there was an increase of 9%.
Equity finances 68% of assets and "covers" 107.1% of fixed assets, i.e., exceeds the value of fixed assets. The ratio of shareholders' equity to total assets of 72.3% (66.5% in 2017/18) confirms, once again, the club's financial independence.
The amount of debt is € 107.5 million and has decreased by € 33.7 million compared to 2017/18.
We will now analyze the various components of revenue[190], broken down below.

The turnover is broken down as follows

- **Revenue from matches** (Revenue from Bundesliga home matches, friendly matches, DFB Cup and UEFA Champions League) - From that UEFA Champions League entry fees and premiums: 68.9 million Euros	**172.7 million Euros**
- **Revenue from sponsoring and marketing**	**189.4 million Euros**
- **Revenue from media marketing** (Matches in the Bundesliga, DFB Cup and friendly matches) - From that from the DFL for the Bundesliga Central Marketing: National and international: 97.5 million Euros	**107.8 million Euros**
- **Revenue from transfers**	**28.2 million Euros**
- **Revenue from merchandising**	**91.8 million Euros**
- **Others** (including rent and lease income, New Media, Erlebniswelt (adventure world), providing international players to DFB national team, revenue from FC Bayern II, Youth- and Women's football)	**34.4 million Euros**

[190] *FC Bayern Munich, Annual report of the 2018/19 season, 15 November 2019*

- Ticket sales of € 179.1 million. This represents an increase of 3.7% compared to the previous year. Bayern's press release reports an increase of €17.8 million from the previous year from €68.9 million to €86.7 million as income from UEFA Champions League competitions.
- Sponsorship and marketing revenues of € 196.5 million (€ 189.4 million in 2017/18). This item accounts for 27.45% of total revenues and is up 3.7% compared to 2017/18.
- Revenues from domestic broadcasting rights of € 124.5 million (€ 107.8 million in 2017/18). Specifically, revenues from the distribution of Bundesliga TV rights amounted to € 113.2 million (€ 97.5 million in 2017/18; € 79.6 million in 2016/17; € 74.1 million in 2015/16 and € 53.4 million in 2014/15). This item accounts for 17.39% of total revenues. Compared to the previous year, there was an increase of 15.5%, due to revenues from the distribution of Bundesliga TV rights, which increased by € 15.7 million.
- Revenues from player transfers for € 90.3 million. This item, which concerns income from player transfers, accounts for 12.62% of total revenues and recorded a percentage increase of 220.2%, as in the previous financial year it amounted to € 28.2 million.
- Merchandising income of € 91.5 million. This item accounts for 12.78% of total revenues. In the previous financial year, it amounted to € 91.8 million and therefore recorded a decrease of 0.3%.
- Other revenues of € 33.9 million (including: rents and leases, New Media, DFB allowances for national players, FC Bayern II revenues, youth, and women's teams). This item accounts for 4.74% of total revenue; in the previous financial year, these revenues amounted to € 34.4 million and therefore decreased by 1.5%.

Finally, a look at the breakdown of operating costs[191].

Expenditures are as follows

- **Personnel expenditure** **336.2 million Euros**
  (All employees of FC Bayern München AG)
- **Operational expenditure** **227.8 million Euros**
- **Costs of materials and deployment** **37.1 million Euros**
- **Write-offs, depreciation and amortization** **54.8 million Euros**
  (Transfer and investment write-offs)
  - From that write-offs for transfer compensations:
    48.4 million Euros

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[191] *FC Bayern Munich, Annual report of the 2018/19 season, 15 November 2019*

Personnel expenses were € 336.2 million and represented 53.7% of net turnover, excluding capital gains. These expenses show an increase of 11.1% compared to € 302.5 million in 2017/18. Note that the percentage increase in personnel costs is lower than the percentage increase in revenue including capital gains, which was 14.7%.

Conclusions on FC Bayern Munich's compliance with Financial Fair Play Regulation

As for the three previous cases, also for FC Bayern Munich, after having carefully assessed and analyzed the balance sheets and relevant financial documents, we will define the club' position with respect to the indicators provided for in Article 62 of the Financial Fair Play regulations.

1. *Indicator 1: Going concern.*

   The economic and financial analysis of each individual season within the monitoring period examined (2016/2017, 2017/2018 and 2018/2019), has provided us with the knowledge that Bayern Munich's consolidated financial statements have always been prepared on a going concern basis, i.e., the valuation criteria used have considered that the club is able to meet its financial commitments also in the future. Both Jan-Christian Dreesen, Deputy Chairman of FC Bayern München AG, and Karl-Heinz Rummenigge, CEO of FC Bayern, have repeatedly stated that the club continues to operate on a very solid foundation, thanks to the exceptional development that has been going on for years, both financially and in terms of sport.

   The first indicator can therefore be considered to have been met.

2. *Indicator 2: Negative equity.*

   To understand whether the "Negative Equity" indicator is met by the Bavarian club, it is necessary to compare the Equity value of each year analyzed with that of the previous year: if the variation between the two periods considered is negative, the criterion is not considered to be met; vice versa, a positive variation is synonymous with compliance with the criterion.

   Below is a table[192] summarizing the value of the German company's equity in each of the three years under observation.

	2016/2017	*2017/2018*	*2018/2019*
Shareholder's Equity	€ 445.8 million	€ 451.3 million	€ 497.4 million

   In our case, we can see that the Equity of Bayern Munich is positive and constantly growing in the three years under observation. Therefore, the second indicator can also be considered fulfilled.

[192] *The table shows the values of Bayern Munich's equity for the 2016/2018, 2017/2018 and 2018/2019 football seasons.*

3. *Indicator 3: Break-even result.*

   The third indicator is the break-even result: the difference between relevant revenues and expenses, the values of which are identified according to the definitions provided by the UEFA Club Licensing and Financial Fair Play Regulations, must be positive throughout the monitoring period.

   The following table shows the calculation of the break-even result for the 2016/2017, 2017/2018 and 2018/2019 football seasons.

	2016/2017	***2017/2018***	***2018/2019***
Matchday revenues	€ 97.7 million	€ 103.8 million	€ 92.4 million
Broadcasting rights	€ 146.7 million	€ 176.7 million	€ 211.2 million
Other commercial revenues	€ 266.3 million	€ 281.2 million	€ 288 million
Profit on disposal of players' rights	€ 52.6 million	€ 28.2 million	€ 90.3 million
Other operating revenues	€ 39.7 million	€ 34.4 million	€ 33.9 million
Relevant Revenues	**€ 603 million**	**€ 624.3 million**	**€ 715.8 million**
COGS	€ -38.8 million	€ -37.4 million	€ -37.1 million
Personnel costs	€ -264.9 million	€ -302.5 million	€ -336.2 million
Other operating costs	€ -177.4 million	€ -174.3 million	€ -227.8 million
Amortization & write-downs players	€ -68.8 million	€ -75.7 million	€ -54.8 million
Financial Management	/	**€ 0.4 million**	**€ 0.3 million**
Relevant Expenses	**€ -549.9 million**	**€ -589.9 million**	**€ -655.9 million**
Break-Even Result	**€ 53.1 million**	**€ 34.8 million**	**€ 60.2 million**

   As we can see in the table[193] above, the break-even result for each financial period considered showed a surplus; therefore, the requirement set out in indicator number three of the Financial Fair Play can be considered fulfilled.

4. *Indicator 4: Sustainable debt indicator for T-1.*

   The fourth indicator (the same as the fifth indicator, from which it differs only in terms of the reference period) requires the joint non-violation of two constraints: the relevant debt must not exceed the figure

[193] The table contains the values needed to calculate the break-even point. The data has been taken from the Bayern Munich Financial Report for the financial periods 2016/2017, 2017/2018 and 2018/2019.

of €30 million and must not exceed 7 times the average difference between revenues and costs of production.

The notion of Net Debt has recently been modified with the 2018 version of the Financial Fair Play. The current Net Debt value is given, according to Article 3 of the regulations, by “the aggregate of the following balances: net borrowings (i.e. the net of bank overdrafts, bank and other loans, accounts payable to group entities and other related parties less of cash and cash equivalents); net player transfers balance (i.e. the net of accounts receivable from players’ transfers and accounts payable from players’ transfers); accounts payable to social/tax authorities (non-current)”[194].

The relevant debt required by Indicator 4 and 5, on the other hand, is the difference between the net debt and the amount of debt directly attributable to the construction and/or substantial modification of the stadium and/or training facilities from the inception of the debt until 25 years after the date on which the asset is declared ready for use.

Unfortunately, we do not have as much detailed information as in the previous cases: in fact, Bayern Munich publishes only a few significant figures of the financial period on its official website each year, and not the full and complete report of the individual items. Consequently, we will not be able to calculate a precise Net Debt as in the previous cases but will have to assume a Net Debt equal to the Debt that emerges from the Balance Sheet published by the German club.

Below are the calculations carried out for the evaluation of indicator 4.

	2016/2017	*2017/2018*
Net Debt	**€ -121.4 million**	**€ -141.2 million**
Revenue from transfers	€ 52.6 million	€ 28.2 million
Transfer write-offs	€ -62.4 million	€ -68.9 million
Net player transfers balance	**€ -9.8 million**	**€ -40.7 million**
Accounts payable to social/tax authorities	/	/
Net Debt Financial Fair Play	**€ -131.2 million**	**€ -181.9 million**
Debt Stadium/Training Facilities	/	/
Relevant Debt	**€ -131.2 million**	**€ -181.9 million**

The notion of relevant earnings[195] corresponds to the sum of total revenues and the net result of player transfers minus total operating expenses. It can be approximated to the difference between value and cost of production.

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[194] *UEFA Club Licensing and Financial Fair Play Regulations, Article 3 – Definition of terms*

[195] *The table contains the values needed to calculate the relevant earnings for the financial biennium 2016/2017 and 2017/2018. The data have been taken from Bayern Munich' BS and IS.*

	2016/2017	*2017/2018*
Total revenues	€ 603 million	€ 624.3 million
Total operating expenses	€ -544.9 million	€ -589.9 million
Relevant Earnings	**€ 58.1 million**	**€ 34.4 million**
Average Relevant Earnings	**€ 46.25 million**	

As we can see from the table[196] of relevant debt, the first constraint, which sets a maximum threshold of 30 million for relevant debt, is largely exceeded by the club.
The second constraint, however, provides for the calculation of the average relevant earnings for the period considered and the immediately preceding one, which must then be compared to the relevant debt multiplied by 7. The calculated relevant debt is no larger than 7 times the average relevant earnings for the period. Consequently, the constraint can be considered as largely satisfied.

5. *Indicator 5: Sustainable debt indicator for T.*
   A very similar calculation is made for indicator number 5, which refers (in our case) to the financial period 2018/2019 for sustainable debt.

	2017/2018	*2018/2019*
Net Debt	**€ -141.2 million**	**€ -107.5 million**
Revenue from transfers	€ 28.2 million	€ 90.3 million
Transfer write-offs	€ -68.9 million	€ -48.4 million
Net player transfers balance	**€ -40.7 million**	**€ 41.9 million**
Accounts payable to social/tax authorities	/	/
Net Debt Financial Fair Play	**€ -181.9 million**	**€ -65.6 million**
Debt Stadium/Training Facilities	/	/
Relevant Debt	**€ -181.9 million**	**€ -65.6 million**

As we can see from the table[197] of relevant debt, although Bayern Munich's debt has been significantly reduced compared to the previous financial period, it still exceeds the 30 million thresholds set by UEFA.

	2017/2018	*2018/2019*

[196] The table contains the values needed to calculate the relevant debt for the financial biennium 2016/2017 and 2017/2018. The data have been taken from Bayern Munich' BS and IS.
[197] The table contains the values needed to calculate the relevant debt for the financial biennium 2017/2018 and 2018/2019. The data have been taken from Bayern München' BS and IS.

Total revenues	€ 624.3 million	€ 715.8 million
Total operating expenses	€ -589.9 million	€ -655.9 million
Relevant Earnings	**€ 34.4 million**	**€ 59.9 million**
Average Relevant Earnings (T, T-1, T-2)	**€ 50.8 million**	

As we can see from this table, the calculated relevant debt is no larger than 7 times the average relevant earnings[198] for the period. Consequently, the constraint can be considered as satisfied.

6. *Indicator 6: Player transfer balance.*
   Indicator 6 "Player transfer balance" concerns the balance of the player transfer campaign. The licensee must not report a player transfer campaign deficit more than €100 million in any transfer campaign period during the season of validity of the license. If the total costs incurred exceed the total income generated in a registration period, then the club has a player transfer deficit.
   This rule only applies from the 2018/2019 season, as it was introduced in the latest Financial Fair Play reform (2018).

	2018/2019
Balance of acquisitions/disposals	**€ 41.9 million**

We can see from the table[199] that the value is even positive at 41.9 million. Therefore, the threshold is not exceeded, and this last criterion can also be considered fulfilled.

Among the additional indicators, i.e., those whose non-compliance could lead the Club Financial Control Body to request further information of an economic-financial nature from the licensee club, we have:

- Personnel costs must not exceed 70% of total revenues.
- Financial indebtedness must not exceed 100% of total revenues.

	2016/2017	*2017/2018*	*2018/2019*
Personnel Costs/Revenues	**48.1%**	**50.7%**	**53.7%**
Net Financial Debt/Revenues	**22.06%**	**23.69%**	**17.19%**

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[198] The table contains the values needed to calculate the relevant earnings for the financial biennium 2017/2018 and 2018/2019. The data have been taken from Bayern München' BS and IS

[199] The table contains the net value related to the players' registration rights acquisitions/disposals of the 2018/2019 season. The data have been taken from Bayern München's BS and IS

The table[200], which shows us respectively the ratio of personnel costs to total revenue and the ratio of net financial debt to total revenue, denotes how in each financial period considered Bayern München is fully within the additional constraints of Financial Fair Play.
Consequently, both additional parameters are met.

4.6 Paris Saint-Germain

Company profile

Founded in 1970 because of the merger between Paris FC and Stade Saint-Germain by the French Football Federation with the aim of filling the absence of a Parisian team in the national topflight, Paris Saint-Germain Football SASP is a professional sports corporation, controlled by Qatar Sports Investments, a closed shareholding organization owned by President A. Al-Khelaifi. The club has participated in Ligue 1 continuously since the 1974-1975 season and has become the first French team to play more than 44 consecutive editions of the Ligue1, the French first national league.
Since 1974, the club has played its home games at the Parc des Princes and has won 41 national titles - 9 league titles, 13 national cups, 9 league cups and 10 Super Cups - becoming the most successful club in France. Internationally, it has won a Cup Winners' Cup (1996) and a UEFA Intertoto Cup.[201]

[200] *The table contains the ratio of personnel costs to total revenue and the ratio of net financial debt to total revenue. The data have been taken from Bayern München's BS and IS*

[201] *https://it.wikipedia.org/wiki/Paris_Saint-Germain_Football_Club*

In the summer of 2011, the Qatar Investment Authority acquired the Parisian club, with the aim of returning PSG to the top of national and international competitions through heavy investments. In the last football season (2019/2020), the club reached the UEFA Champions League final for the first time, unfortunately lost at the hands of Bayern Munich. Since 2011, the club has won 25 national titles, including 7 championships in nine seasons, but has had zero success in Europe, despite the resounding investments of 1.254 billion (net of around 450 million collected from disposals; source: Transfermarkt data). Worth mentioning is the transfer campaign for the 2017/2018 season, which saw the Parisian club acquire two of the strongest (and most expensive) players around: Brazilian champion Neymar and French rising star Mbappe, for €222 million and €145 million respectively.[202]

On 16 May 2014, UEFA announced the conclusion of Settlement Agreements with PSG (and 8 other clubs) who were under investigation for suspicious sponsorship, a case we discussed extensively in the third chapter of this thesis. The investigative chamber, which found the clubs guilty of violating the financial rules aimed at the sustainability and stability of the European football system, sanctioned the obligation to pay a sum of 60 million euros, in addition to cuts in revenues from UEFA competitions, a reduced number of players (from 25 to 21) for the next edition of the Champions League and a maximum number of players equal to (or at lower than) the last registered. From Club Financial Control Body forecasts, the Parisian club is expected to return to an annual deficit of €30 million for the 2014/15 season and to break even by the 2015/16 season, the goal of the agreement. On 11 September 2015, UEFA's Club Financial Control Body lifted several restrictions imposed, while on 21/04/2017, the CFCB Investigatory Chamber confirmed that Paris Saint-Germain had fully complied with all the requirements and the overall objective of the settlement agreement. Consequently, it abandoned the settlement pattern.

In the economic analysis that we propose below, reference will be made to the data provided by the "DIRECTION NATIONALE DU CONTRÔLE DE GESTION" of the Ligue de Football Professionnel, which is nothing more than the "aggregated" data of "Paris Saint-Germain Football SASP"; PSG Merchandising; "Association Paris Saint-Germain FC", which has as its object the management of the club's amateur sector; "SOCIETE D'EXPLOITATION SPORTS ET EVENEMENTS (S. E.S.E.', which is responsible for the management of sports facilities; 'PSG HANDBALL' and 'SNC TRAINING CENTER'. The use of the term "aggregate data" is justified by the fact that there are no actual consolidated financial statements. However, the D.N.C.G., in its report, evaluated the "aggregate data" of the SASP's financial statements with those of the Association, PSG Merchandising, "S.E.S.E.", "PSG HANDBALL" and "SNC TRAINING CENTER", which are published and accessible to all and in a summary form.

[202] *https://sport.sky.it/calcio/champions-league/psg-champions-acquisti-calciomercato#23*

Economic and financial analysis of the 2016/2017 football season

From a sporting point of view, the 2016/17 financial year was characterized by the achievement of the second place in "Ligue 1" with 87 points, behind AS Monaco; by success in the "Coupe de la Ligue", with a 4-1 victory in the final against AS Monaco; by success in the "Coupe de France", with a 1-0 victory against Angers and by reaching the Champions League round of 16, with the elimination against Barcelona, after the famous *"remuntada"* for 1-6 suffered in Catalonia after an initial advantage of 4-0.

Paris Saint-Germain's 2016/17 accounts show a net loss of €18.8 million, accompanied by a drop in turnover of €39.4 million, from €542.4 million to €503 million. From a simple observation of the numbers, the drop in turnover could be one of the causes of the loss, together with the fact that operating costs fell by 2.2%, less than proportionate to the reduction in turnover. Contributing to the reduction in turnover was the deterioration in sports performance, which resulted in a decrease in television revenues from European competitions.

However, turnover continues to benefit from huge "contributions"/sponsorships and, albeit to a much lesser extent than in previous years, from participation in the Champions League.

The 2016/17 financial statements mark a return to operating losses after two consecutive financial years ended in profit: in fact, the 2015/16 financial year figures showed an operating profit of €10.6 million, while those of 2014/15 showed a positive net result of €10.38 million.

Furthermore, as Paris Saint-Germain Football SASP is a professional sports joint stock company, it called for a capital increase on 23/12/2016, with the Share Capital now touching €24,000,000, whereas previously the Capital was €4,000,000.

Shareholders' equity, on 30 June 2017, was positive at € 77.92 million; whereas, as at 30 June 2016, it was positive at € 64.5 million and as at 30 June 2015, it was positive at € 54.2 million. The change corresponds to the loss for the year and the capital increase. Equity finances 12.6% of the assets; in the previous year it was 10.7%.

Below is a summary of PSG's balance sheet.[203]

[203] *Report Direction Nationale du Contrôle de Gestion 2016/2017, PSG Balance Sheet*

BALANCE SHEET

€000	
Intangible assets: transfer fees	186 176
Other fixed assets	98 809
Receivables relative to player transfer	31 447
Other current assets	215 588
Cash and short-term investments	88 125
TOTAL ASSETS	**620 145**
Net equity	77 920
Shareholder current accounts	186 198
Provisions for liabilities and charges	19 031
Financial liabilities	1
Liabilities relative to player transfers	72 479
Other liabilities	264 516
TOTAL LIABILITIES	**620 145**
NET PROFIT OF FOOTBALL ACTIVITY	**1 076**
GROUP NET PROFIT (LOSS)	**- 18 841**

As we can see from the figure above, also considering the shareholders' loan, the net financial position is negative for €98.1 million, while in 2015/16 it was negative for €97.6 million.

Intangible assets related to players' registration rights amount to € 186.2 million, slightly lower than the € 193.1 million in 2015/16. Therefore, the incidence on total assets, which is € 620.1 million, is 30%, very similar to the incidence of the previous year (32%).

PROFIT AND LOSS ACCOUNT

€000	
Broadcasting rights	121 951
Sponsors - Advertising	154 156
Gate receipts	42 440
Other income	184 482
TOTAL INCOME EXCLUDING TRANSFERS	**503 030**
Total payroll	272 169
Transfer costs	120 039
Other expenses	139 483
TOTAL EXPENSES EXCLUDING TRANSFERS	**531 691**
OPERATING PROFIT (LOSS) EXCLUDING TRANSFERS	**- 28 661**
PROFIT (LOSS) FROM TRANSFERS	**13 751**
Financial profit (loss)	- 7 838
Exceptional profit (loss)	3 343
PROFIT (LOSS) BEFORE TAX	**- 19 406**
Income tax	565
NET PROFIT OF FOOTBALL ACTIVITY	**1 076**
GROUP NET PROFIT (LOSS)	**- 18 841**

About the Profit and Loss Account[204], unlike the other financial years, turnover for the 2016/2017 season, excluding capital gains, amounted to € 503 million and decreased by 7.3% compared to € 542.4 million of the previous financial year. Turnover exceeded the threshold of € 450 million, ranking 7th behind clubs such as Manchester United, Real Madrid, Barcelona, Bayern München and Manchester City, and fell below the threshold of € 500 million.

Looking specifically at the different components of the revenues, revenues from the sale of audiovisual rights amounted to € 121.95 million (€ 123.98 million in 2015/16), accounting for 24.2% (22.9% in 2015/16) of net revenues. The decrease was € 2.03 million. Television revenues from European competitions represent 47.2% of total media revenues. Precisely, from the DNCG report, the following figures appear: € 57.6 million for European competitions (€ 70.3 million in 2015/16); € 57.6 million for "Ligue 1" (€ 47.1 million in 2015/16) and € 6.8 million for other audiovisual rights (€ 6.6 million in 2015/16). Other revenues amounted to € 184.48

[204] *Report Direction Nationale du Contrôle de Gestion 2016/2017, PSG Profit and Loss account*

million, with an incidence of 36.7%; while in 2015/16, they were € 225.15 million, with an incidence of 41.5%: in 2011/12, the retroactive effect of the contract with the Qatar Tourism Authority, about which there has been so much discussion in terms of Financial Fair Play, was allocated in this item. It is no coincidence that the Financial Fair Play Regulations introduced a rule that introduces the concept of "Significant Influence" and consequently qualifies the related party, setting a quantitative limit in percentage terms of 30% of revenues from one or more aggregated parties.
On the other hand, operating costs for 2016/17 decreased by only 2.2%, mainly due to the reduction in personnel costs, from € 543.51 million to € 531.69 million. These decreased by 20.2 million (-6.9%) from € 292.39 million to € 272.17 million, with an incidence on net turnover, without capital gains, of 54.1%, within the maximum limit desired by the Financial Fair Play. Player management costs include both the amortization of players' registration rights and transfer agent fees: this item increases by 13.5%, from € 105.79 million to € 120.04 million. Other costs amounted to € 139.48 million (€ 145.33 million in 2015/16) and recorded a decrease of € 5.84 million, or 4%.

Economic and financial analysis of the 2017/2018 football season

From a sporting point of view, this new season was characterized by the triumph in the Ligue1 with 93 points; the success in the "Coupe de la Ligue", with a victory in the final by 3 to 0 against AS Monaco; success in the "Coupe de France", with victory in the final by 2 to 0 against the club "Vendée Les Herbiers Football". The Parisian club therefore managed to win all the trophies available in their country; unfortunately, in the international field, they did not go beyond the round of 16 of the Champions League, eliminated by Real Madrid, who would then win the competition.
Looking at the economic and financial results, the accounts of this financial year of Paris Saint-Germain show a net positive result of €31.5 million (a marked improvement on the loss of €18.8 million, recorded the previous season), with turnover up by €54.3 million, from €503 million to €557.3 million.
PSG holds 32.9% of the revenues of the entire "Ligue 1" which amount to € 1.69 billion; those revenues continue to benefit from huge "contributions"/sponsorships and participation in the Champions League.
The 2017/18 financial statements marked a return to operating profit after the loss recorded in the previous financial year. Significant was the capital increase: an increase of € 316,000,000, resulting in a total share capital of € 340,000,000.

BALANCE SHEET

€000	
Intangible assets : transfer fees	410 715
Other fixed assets	99 852
Receivables relating to player transfers	133 083
Other current assets	234 422
Cash and short-term investments	138 047
TOTAL ASSETS	**1 016 120**
Net equity	439 984
Shareholder current accounts	104 717
Provisions for liabilities and charges	11 191
Financial liabilities	1
Liabilities relating to player transfers	192 378
Other liabilities	267 848
TOTAL LIABILITIES	**1 016 120**
GROUP NET PROFIT (LOSS)	**31 519**

From the club's financial statements[205], contained in the *Report Direction Nationale du Contrôle de Gestion*, we can see that the shareholders' equity, as of 30 June 2018, is positive at €439.98 million; while, as of 30 June 2017, it was positive at €77.92 million: the change corresponds to the profit for the year and the capital increase of €316 million mentioned above. Equity finances 43.3% of assets; in the previous year it was only 12.6%.

UEFA's Financial Fair Play regulations consider the rule of non-negative net assets as one of the fundamental indicators; in particular, the existence of negative impaired net assets is considered a violation of the regulations: PSG has no problems in this respect.

Unlike the previous year, when it was negative by € 98.1 million, the net financial position is positive by € 33.33 million, thanks to a significant increase in Cash and Cash equivalents from € 88.12 million to € 138.05 million and a decrease in Payables to shareholders from € 186.2 million to € 104.7 million. Intangible assets relating to players' registration rights amounted to € 410,715,000 (€ 186.2 million in 2016/17). The increase

[205] *Report Direction Nationale du Contrôle de Gestion 2017/2018, PSG Balance Sheet*

was € 224,539,000 (+120.6%), more than double. It is very likely that this increase is attributable to the acquisition from FC Barcelona of Neymar Jr for € 222 million to be paid in full.
The incidence on total assets, which is € 1.02 billion (€ 620.1 million in 2016/17), is 40.4% (30% in 2016/17).
Below is the profit and loss account[206] of the Parisian club.

PROFIT AND LOSS ACCOUNT

€000	
Broadcasting rights	127 864
Sponsors - Advertising	141 841
Gate receipts	48 370
Other income	239 263
TOTAL OPERATING INCOME	**557 338**
Total payroll	332 063
Armotisation of transfer compensation	149 479
Players' agents / Intermediaries fees	23 228
Other expenses	149 694
TOTAL OPERATING EXPENSES	**654 463**
OPERATING RESULT (LOSS)	**- 97 125**
PROFIT (LOSS) FROM TRANSFERS	**145 391**
Financial profit (loss)	- 12 298
Exceptional profit (loss)	3 648
PROFIT (LOSS) BEFORE TAX	**39 616**
Income tax	- 8 097
NET PROFIT (LOSS) FROM FOOTBALL ACTIVITY	**43 373**
GROUP NET PROFIT (LOSS)	**31 519**

In 2017/18, net turnover increased by 10.8%, while operating costs increased by 23.1%, more than proportionate to the increase in turnover: this result exceeds the €500 million threshold and ranks sixth behind clubs such as Manchester United, Real Madrid, Barcelona, Bayern München and Manchester City. In the previous financial period, net turnover had decreased by 7.3%, more than proportional to the reduction in operating costs (2.2%).
Now, we'll focus on the different items that make up net revenues:

- Revenues from the sale of audiovisual rights amounted to € 127.86 million (slightly higher than the € 121.95 million recorded for the previous financial year), accounting for 22.9% (like 24.2% in

[206] *Report Direction Nationale du Contrôle de Gestion 2017/2018, PSG Profit and Loss account*

2016/17) of net revenues. PSG holds 16.1% of the revenues from the sale of audiovisual rights of the entire "Ligue 1", which amount to € 791.3 million.

- Television revenues from European competitions represent 50% of total media revenues: in the 2017/18 Champions League, Paris Saint Germain achieved a similar result to the previous season, being eliminated in the round of 16.
- Match revenues increased by 14% from € 42.44 million to € 48.37 million, accounting for 8.7%. PSG holds 25.3% of all match revenues in Ligue 1, which amount to €190.6 million.
- Revenues from sponsors and advertising amount to €141.84 million; the previous financial period, an amount of € 154.16 million was shown: incidence on net turnover, of the item "Sponsors - Publicité" is only 25.4% (lower than the 30.6% of the previous financial year). PSG has 53.6% of the revenues from sponsors and advertising, merchandising and other revenues of the entire "Ligue 1", which amount to € 710.3 million: the purchases of high-profile players, such as Neymar Jr and Kylian Mbappé, have allowed an increase in merchandising sales and in particular T-shirts.
- Other revenues amounted to €239.26 million, with an incidence of 42.5%; while in 2016/17, they were reported as €184.48 million, with an incidence of 36.7%. The increase on the previous year was € 54.8 million (+29.7%).

On the cost side, however, operating costs for 2017/18 increased by 23.1% (from € 531.69 million to € 654.46 million), mainly due to the increase in depreciation, which rose by 24.5%, and personnel costs, which increased by 22%. In fact, personnel costs increased by € 59.89 million (+22%) from € 272.17 million to € 332.06 million, with an incidence on net turnover, without capital gains, of 59.6%; despite everything, within the maximum limit required by the Financial Fair Play. The increase in personnel costs was due to highly expensive signings of Kylian Mbappé and Neymar Jr.

Until 2016/17, in financial statements we could find the item “Player management costs”, which included both the amortization of players' registration rights and the commissions due to agents on transfers, and it amounted to € 120.04 million. From this football season, the cost of players' amortization, which amounts to € 149.48 million, and the cost of agents, which amounts to € 23.23 million, are shown separately.

Other costs amounted to € 149.69 million (€ 139.48 million in 2016/17) and recorded an increase of € 10.21 million, or 7.3%.

Economic and financial analysis of the 2018/2019 football season

The 2018/2019 season ended for Paris Saint-Germain with the victory in Ligue 1 with 91 points; the surprising (in negative) quarterfinals in the Coupe de la Ligue, defeated by the hands of Guingamp; the final in the Coupe de France, with the defeat on penalties against Rennes and once again an elimination in the round of 16 in the UEFA Champions League.

On the other hand, Paris Saint-Germain's 2018/19 accounts show a net positive result of €27.6 million with turnover up sharply by €101.3 million, from €557.3 million to €658.6 million. PSG thus holds 34.6% of the revenues of the entire "Ligue 1", which amount to € 1.9 billion (+210 million on 2017/18). The increase in turnover depends on the increase in sponsorship revenue and the profit depends on the remarkable positive result of player management, which managed to rebalance the negative result of operations. Turnover also continues to benefit revenues from participation in the Champions League in the amount of €91.6 million, which constitutes 13.9% of PSG's net revenue.

There were no capital increases for the 2018/2019 season, with the share capital remaining at €340 million.

According to the 2019 "Brand Finance Football 50" ranking, PSG ranks eighth with USD 1,025 million in brand value (better positioning than last year, where the club had ranked ninth with USD 913 million in 2018), with an enterprise value of USD 3,196 million. According to KPMG's "Football Clubs' Valuation: The European Elite 2019" ranking of May2019, PSG ranks seventh with USD 1.499 billions of "Enterprise Value".

BALANCE SHEET

	€000
Intangible assets : transfer fees	340 777
Other fixed assets	154 985
Receivables relative to player transfers	177 670
Other current assets	237 366
Cash and short-term investments	74 346
TOTAL ASSETS	**985 144**
Net equity	467 569
Shareholder current accounts	147 442
Provisions for liabilities and charges	4 354
Financial liabilities	1
Liabilities relative to player transfers	119 746
Other liabilities	246 032
TOTAL LIABILITIES	**985 144**
NET PROFIT (LOSS) GROUPE	**27 627**

As we can clearly see from the figure in the balance sheet[207] above, the total assets amount to €985,144,000 and record a decrease of 3.1% compared to the 2017/18 amount. The 34.59% of the assets are represented by intangible fixed assets referring to the net book value of the players' roster; in fact, intangible assets related to players' registration rights amounted to € 340,715,000 (€ 410.7 million in 201718), recording a decrease of almost € 69,938,000 (-17%). The net assets, as on 30 June 2019, were positive for € 467.57 million; while, as on 30 June 2018, they were positive for € 439.98 million. The change essentially corresponds to the profit for the year.

[207] *Report Direction Nationale du Contrôle de Gestion 2018/2019, PSG Balance Sheet*

Regarding the net financial position, on the other hand, considering shareholder loans, it was negative by € 73.1 million, while in 2017/18 it was positive by € 33.3 million. Shareholder financing increased from € 104.7 million to € 147.4 million; loans made by shareholders finance 15% of assets (10.3% in 2017/2018). Equity finances 47.5% of assets; in the previous year, the percentage was 43.3%.
Financial debts are negligible as they amount to approximately € 1,000. Cash and cash equivalents decreased from € 138.05 million to € 74.35 million.

PROFIT AND LOSS ACCOUNT

	€000
Broadcasting rights	156 632
Sponsors - Advertising	195 022
Gate receipts	50 464
Other income	256 559
TOTAL OPERATING INCOME	**658 677**
Total payroll	370 921
Amortisation of transfer compensation	122 874
Players' agents / Intermediaries fees	25 815
Other expenses	184 818
TOTAL OPERATING EXPENSES	**704 429**
OPERATING RESULT (LOSS)	**-45 752**
PROFIT (LOSS) FROM TRANSFERS	**75 916**
Financial profit (loss)	-2 229
Exceptional profit (loss): Other	4 276
PROFIT (LOSS) BEFORE TAX	**32 211**
Income tax	-4 583
RÉSULTAT DE L'ACTIVITÉ FOOT	
NET PROFIT (LOSS) GROUPE	**27 627**

From the profit and loss account figure[208], we can delve into the different components of operating revenues and costs. In 2018/19, net turnover increased by 18.2%, while operating costs increased by 7.6%, less than proportional to the increase in turnover. Excluding capital gains, the turnover amounted to €658.67 million, an increase of slightly more than €100 million compared to €557.3 million in the previous financial year. In any case, for the first time, turnover exceeds the €600 million threshold and ranks fifth behind clubs such as Manchester United, Real Madrid, Barcelona, and Bayern München.

[208] *Report Direction Nationale du Contrôle de Gestion 2018/2019, PSG Profit and Loss account*

Revenues from the sale of audiovisual rights amounted to € 156.63 million (€ 127.86 million in 2017/18), accounting for 23.8% of net revenue; the increase was € 28.8 million. PSG holds 17.4% of the revenue from the sale of audiovisual rights of the entire "Ligue 1", which amounted to € 900,786,000 (up from € 791.3 million in 2017/18). Television revenues from European competitions, amounting to € 91.6 million, represent 54% of PSG's total media revenues. Precisely, from the DNCG report, the following figures appear: € 91.6 million for European competitions (€ 64 million in 2017/18); € 59.9 million for "Ligue 1" (€ 56.7 million in 2017/18) and € 5.1 million for other audiovisual rights. Recall that, in the 2018/19 Champions League, Paris Saint Germain achieved a similar result to the previous two seasons, being eliminated in the round of 16. Match revenues increased by 4.3% from € 48.37 million to € 50.46 million, accounting for 7.7%. PSG holds 25.1% of all Ligue 1 match revenues, which amount to € 201.1 million. Ticket revenues from European competitions, amounting to € 10.5 million, represent 20.8% of total ticket revenues. Revenues from sponsors and advertising amount to € 195.02 million. PSG holds 56.4% of the sponsorship and advertising, merchandising and other revenues of the entire "Ligue 1", which amount to a total of € 800.5 million.
According to Deloitte, five new commercial agreements have been signed and contracts with six global brands have been extended; commercial revenues are expected to increase again in 2019/20 due to the start of the sponsorship of the new kit with "Accor Live Limitless", the extension of the agreement with Nike and the agreement for the sponsorship of the club's new training kit with Rwanda Development Board.[209]
Other revenues amounted to € 256.56 million, accounting for 39%; while in 2017/18, they were shown as € 239.26 million: the increase on the previous year was € 17.3 million (+7.2%).
Finally, if we focus on the cost side, operating costs for 2018/19 increased by only 7.6%, mainly due to the increase in personnel costs, which rose by 11.7%, offset by the decrease in depreciation costs, which fell by 17.8%. In fact, total operating costs increased by 7.6% (lower than the percentage increase of 23.1% recorded in 2017/18), from € 654.46 million to € 704.42 million. Personnel costs increased by € 38.86 million (+11.7%) from € 332.06 million to € 370.92 million, with an incidence on net turnover, without capital gains, of 56.3%, within the maximum limit desired by the Financial Fair Play.
In the 2018/19 scheme, the cost for player amortization amounts to € 122.87 million and the cost for agents is € 25.8 million. Other costs amount to € 184.8 million (€ 149.69 million in 2017/18) and show an increase of € 35.12 million, or 23.5%.

Conclusions on Paris Saint-Germain's compliance with Financial Fair Play regulation

As for the four previous cases (Juventus, Real Madrid, Manchester City and FC Bayern Munich), also for Paris Saint-Germain, after having carefully assessed and analyzed the balance sheets and relevant financial documents, we will define the club' position with respect to the indicators provided for in Article 62 of the Financial Fair Play regulations.

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[209] *Deloitte, Football Money League 2019*

1. *Indicator 1: Going concern.*

   The reports made available by the *Direction Nationale du Contrôle de Gestion* do not provide an explicit opinion on the company's ability to continue as a going concern; however, given that the financial statements have been prepared in accordance with IFRS, the directors state in the notes to the financial statements that there are no risks or uncertainties regarding the company's ability to continue as a going concern. Therefore, the going concern requirement is met.

2. *Indicator 2: Negative equity.*

   To understand whether the "Negative Equity" indicator is met by Paris Saint-Germain, it is necessary to compare the Equity value of each year analyzed with that of the previous year: if the variation between the two periods considered is negative, the criterion is not considered to be met; vice versa, a positive variation is synonymous with compliance with the criterion.

   Below is a table[210] summarizing the value of the club's equity in each of the three years under observation.

	2016/2017	*2017/2018*	*2018/2019*
Shareholder's Equity	€ 77.9 million	€ 440.0 million	€ 467.6 million

   In our case, we can see that the Equity of Paris Saint-Germain is positive and constantly growing in the three years under observation. The significant positive change that we note between the 2016/2017 financial year and the following one is partially given by the €316 million capital increase carried out by the Parisian club. Therefore, the second indicator can also be considered fulfilled.

3. *Indicator 3: Break-even result.*

   The third indicator is the break-even result: the difference between relevant revenues and expenses, the values of which are identified according to the definitions provided by the UEFA Club Licensing and Financial Fair Play Regulations, must be positive throughout the monitoring period.

   The following table shows the calculation of the break-even result for the 2016/2017, 2017/2018 and 2018/2019 football seasons.

[210] *The table shows the values of Paris Saint-Germain's Equity for the 2016/2018, 2017/2018 and 2018/2019 football seasons.*

	2016/2017	*2017/2018*	*2018/2019*
Broadcasting rights	€ 121.95 million	€ 127.86 million	€ 156.63 million
Matchday revenues	€ 42.44 million	€ 48.37 million	€ 50.46 million
Other commercial revenues	€ 154.16 million	€ 141.84 million	€ 195.02 million
Other operating revenues	€ 184.48 million	€ 239.26 million	€ 256.56 million
Relevant Revenues	**€ 503.03 million**	**€ 557.34 million**	**€ 658.67 million**
Personnel costs	€ -272.17 million	€ -332.06 million	€ -370.92 million
Players and agents' costs	€ - 120.04 million	€ -149.48million	€ -122.87 million
Other operating costs	€ -139.48 million	€ -149.69 million	€ -184.82 million
Relevant Expenses	**€ -531.69 million**	**€ -631.24 million**	**€ -678.61 million**
Financial management	€ -7.84 million	€ -12.3 million	€ -2.23 million
Capital gains-minus on players	€ 13.75 million	€ 145.39 million	€ 75.92 million
Break-Even Result	**€ -22.48 million**	**€ 59.19 million**	**€ 53.75 million**

As we can see in the table[211] above, the break-even result for each financial period considered, except for the negative result recorded for 2016/2017, showed a surplus in the following two years; therefore, the requirement set out in indicator number three of the Financial Fair Play, which considers the surplus/deficit based on the aggregate three-year period, can be considered to have been met.

4. *Indicator 4: Sustainable debt indicator for T-1.*

The fourth indicator (the same as the fifth indicator, from which it differs only in terms of the reference period) requires the joint non-violation of two constraints: the relevant debt must not exceed the figure of €30 million and must not exceed 7 times the average difference between revenues and costs of production.

The notion of Net Debt has recently been modified with the 2018 version of the Financial Fair Play. The current Net Debt value is given, according to Article 3 of the regulations, by "the aggregate of the following balances: net borrowings (i.e., the net of bank overdrafts, bank and other loans, accounts payable to group entities and other related parties less of cash and cash equivalents); net player transfers

[211] *The table contains the values needed to calculate the break-even point. The data has been taken from the PSG's Financial Report for the financial periods 2016/2017, 2017/2018 and 2018/2019.*

balance (i.e. the net of accounts receivable from players' transfers and accounts payable from players' transfers); accounts payable to social/tax authorities (non-current)"[212].

The relevant debt required by Indicator 4 and 5, on the other hand, is the difference between the net debt and the amount of debt directly attributable to the construction and/or substantial modification of the stadium and/or training facilities from the inception of the debt until 25 years after the date on which the asset is declared ready for use.

Below are the calculations carried out for the evaluation of indicator 4.

	2016/2017	*2017/2018*
Cash and Cash equivalents	€ 88.12 million	€ 138.05 million
Debts to shareholders	€ -186.2 million	€ -104.72 million
Financial debts	€ -1 million	€ -1 million
Net Debt	**€ -98.07 million**	**€ 33.3 million**
Receivables from football clubs	€ 31.45 million	€ 133.08 million
Payables to football clubs	€ -72.48 million	€ -192.38 million
Net player transfers balance	**€ -41.03 million**	**€ -59.3 million**
Accounts payable to social/tax authorities	/	/
Net Debt Financial Fair Play	**€ -139.1 million**	**€ -26 million**
Debt Stadium/Training Facilities	/	/
Relevant Debt	**€ -139.1 million**	**€ -26 million**

The notion of relevant earnings[213] corresponds to the sum of total revenues and the net result of player transfers minus total operating expenses. It can be approximated to the difference between value and cost of production.

	2016/2017	*2017/2018*
Total revenues	€ 503.3 million	€ 557.34 million
Total operating expenses	€ -531.69 million	€ -631.24 million
Capital gains-minus on players	€ 13.75 million	€ 145.39 million
Relevant Earnings	**€ -14.64 million**	**€ 71.49 million**
Average Relevant Earnings	**€ 28.43 million**	

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213 The table contains the values needed to calculate the relevant earnings for the financial biennium 2016/2017 and 2017/2018. The data have been taken from PSG' BS and IS.

As we can see from the table[214] of relevant debt, the first constraint, which sets a maximum threshold of 30 million for relevant debt, is largely exceeded by the club.

The second constraint, however, provides for the calculation of the average relevant earnings for the period considered and the immediately preceding one, which must then be compared to the relevant debt multiplied by 7. The calculated relevant debt is no larger than 7 times the average relevant earnings for the period. Consequently, the constraint can be considered as largely satisfied.

5. *Indicator 5: Sustainable debt indicator for T.*

   A very similar calculation is made for indicator number 5, which refers (in our case) to the financial period 2018/2019 for sustainable debt.

	2017/2018	*2018/2019*
Cash and Cash equivalents	€ 138.05 million	€ 74.35 million
Debts to shareholders	€ -104.72 million	€ -147.44 million
Financial debts	€ -1 million	€ -1 million
Net Debt	**€ 33.3 million**	**€ -73.1 million**
Receivables from football clubs	€ 133.08 million	€ 177.67 million
Payables to football clubs	€ -192.38 million	€ -119.75 million
Net player transfers balance	**€ -59.3 million**	**€ 57.92 million**
Accounts payable to social/tax authorities	/	/
Net Debt Financial Fair Play	**€ -26 million**	**€ -15.17 million**
Debt Stadium/Training Facilities	/	/
Relevant Debt	**€ -26 million**	**€ -15.17 million**

As we can see from the table[215] of relevant debt, PSG's debt is still decreasing and for the second time in a row it is below the 30 million deficiency threshold required by Fair Play Finance.

[214] The table contains the values needed to calculate the relevant debt for the financial biennium 2016/2017 and 2017/2018. The data have been taken from PSG' BS and IS.

[215] The table contains the values needed to calculate the relevant debt for the financial biennium 2017/2018 and 2018/2019. The data have been taken from PSG' BS and IS.

	2017/2018	2018/2019
Total revenues	€ 557.34 million	€ 658.68 million
Total operating expenses	€ -631.24 million	€ -678.61 million
Capital gains-minus on players	€ 145.39 million	€ 75.92 million
Relevant Earnings	**€ 71.49 million**	**€ 56 million**
Average Relevant Earnings (T, T-1, T-2)	**€ 37.62 million**	

As we can see from this table, the calculated relevant debt is no larger than 7 times the average relevant earnings[216] for the period. Consequently, the constraint can be considered as satisfied.

6. *Indicator 6: Player transfer balance.*

Indicator 6 "Player transfer balance" concerns the balance of the player transfer campaign. The licensee must not report a player transfer campaign deficit more than €100 million in any transfer campaign period during the season of validity of the license. If the total costs incurred exceed the total income generated in a registration period, then the club has a player transfer deficit.

This rule only applies from the 2018/2019 season, as it was introduced in the latest Financial Fair Play reform (2018).

	2018/2019
Balance of acquisitions/disposals	**€ -72.77 million**

We can see from the table[217] that the value is negative for € 72.77 million. Therefore, the threshold is not exceeded, and this last criterion can also be considered fulfilled.

Among the additional indicators, i.e., those whose non-compliance could lead the Club Financial Control Body to request further information of an economic-financial nature from the licensee club, we have:

- Personnel costs must not exceed 70% of total revenues.
- Financial indebtedness must not exceed 100% of total revenues.

	2016/2017	2017/2018	2018/2019
Personnel Costs/Revenues	**54.1%**	**59.6%**	**56.3%**
Net Financial Debt/Revenues	**27.7%**	**4.7%**	**2.3%**

[216] *The table contains the values needed to calculate the relevant earnings for the financial biennium 2017/2018 and 2018/2019. The data have been taken from PSG' BS and IS*

[217] *The table contains the net value related to the players' registration rights acquisitions/disposals of the 2018/2019 season. The data have been taken from PSG's BS and IS*

The table[218], which shows us respectively the ratio of personnel costs to total revenue and the ratio of net financial debt to total revenue, denotes how in each financial period considered Paris Saint Germain is fully within the additional constraints of Financial Fair Play.
Consequently, both additional parameters are met.

[218] The table contains the ratio of personnel costs to total revenue and the ratio of net financial debt to total revenue. The data have been taken from PSG's BS and IS

Conclusions

After outlining the historical path that led to the birth of Financial Fair Play and its evolution over the years up to the latest measures to contain the impact of the Coronavirus pandemic on European financial system, we have illustrated specifically what are the famous monitoring requirements to be met by clubs in order to obtain the UEFA license and then to participate in the European competitions, the economic-financial but also corporate information that is required from the clubs, the annexes containing the main information required by the Club Financial Control Body for the break-even result, the legislation on transactions with related parties and the agreements (settlement and voluntary) granted by CFCB to fall within the parameters provided after violating them.
In the third chapter we have listed what goals have been achieved and what goals have been missed by the regulation, what are the current problems and what is missing to reach the ideal economic-financial level imagined for European football when Financial Fair Play was born, and we have also ventured some possible solutions to the shortcomings present today, which have allowed (and we have had the opportunity to analyze the most relevant cases in this regard) some clubs to "evade" the regulation.
Finally, in the fourth and last chapter we have examined and analyzed the economic-financial results of five European football clubs, one club from each of the top five European championships, also considering the relevant geographical factor. For our analysis, we have chosen five of the most important companies (Juventus, Real Madrid, Manchester City, Bayern München and Paris Saint-Germain), investigating their financial structures and their sporting and economic-financial results related to the last three football seasons, i.e., 2016/2017, 2017/2018 and 2018/2019, with the aim of understanding how these clubs have adapted over the years to UEFA's Financial Fair Play.
For each individual case we have tried to verify, based on the data available, the compliance of the examined club with the six indicators set out in Article 62 of the UEFA Club Licensing and Financial Fair Play Regulations, which are reproduced below:

1. "Indicator 1: Going concern: The auditor's report in respect of the annual financial statements for reporting period T-1 and/or interim financial statements (if applicable) submitted in accordance with Articles 47 and 48 includes, regarding the going concern, either a key audit matter or a qualified opinion/conclusion.
2. Indicator 2: Negative equity: The annual financial statements (i.e. reporting period T-1) submitted in accordance with Article 47 disclose a net liabilities position that has deteriorated relative to the comparative figure contained in the previous year's annual financial statements (i.e. reporting period T-2), or the interim financial statements submitted in accordance with Article 48 disclose a net liabilities position that has deteriorated relative to the comparative figure at the preceding statutory closing date (i.e. reporting period T-1).

3. Indicator 3: Break-even result: The licensee reports a break-even deficit as defined in Article 60 for either or both reporting periods T-1 and T-2.
4. Indicator 4: Sustainable debt indicator for T-1: At the end of reporting period T-1, the relevant debt is greater than EUR 30 million and it is greater than 7 times the average of the relevant earnings of T-1 and T-2. In this connection, the relevant debt and earnings are calculated as follows:
   a. The relevant debt is calculated as the net debt less the amount of debt that is directly attributable to the construction and/or substantial modification of the stadium, and/or training facilities from the inception of this debt until 25 years after the date when the asset is declared ready for use.
   b. The relevant earnings for a reporting period is calculated as the sum of total revenue (as calculated for the break-even result) and the net result from player transfers less the total operating expenses (as calculated for the break-even result).
5. Indicator 5: Sustainable debt indicator for T: At the end of reporting period T, the relevant debt (as defined above for indicator 4) is greater than EUR 30 million and it is greater than 7 times the average of the relevant earnings (as defined above for indicator 4) of T, T- 1 and T-2.
6. Indicator 6: Player transfer balance: The licensee reports a player transfer deficit greater than EUR 100 million in any player registration period that ends during the licence season.
   In this connection, the player transfer balance in respect of a registration period is calculated as the net of:
   a. the aggregate costs of acquiring each player's registration in respect of all new and existing player registrations, being all such costs paid and/or payable, and
   b. the aggregate proceeds of transferring-out a player's registration, being all such proceeds received and/or receivable (net of any direct costs of disposal).

   If the aggregate of the costs incurred exceeds the aggregate of the proceeds generated in a registration period, then the club has a player transfer deficit."[219]

In addition, we are also going to examine the fulfilment or non-fulfilment of the two additional indicators, which are as follows:

- Expenditure on employee benefits exceeds 70% of the club's revenue.
- The company's net debt exceeds 100% of revenue.

Regarding the first indicator, related to business continuity, we have seen that none of the selected clubs have problems with this indicator, as the preparation of financial statements in accordance with IFRS assumes the absence of risks or uncertainties capable of hindering the principle of business continuity.

An important reflection should be made on the second indicator, "Negative Equity". This parameter is violated when the licensee shows negative variations from one financial period to another between the monitored years. Among the clubs examined, only Juventus violates this indicator: the Italian club, in fact, is in an important

[219] *UEFA Club Licensing and Financial Fair Play Regulations, Article 62 – Break-even information*

negative trend, which has seen the Shareholders Equity item first reduce from € 93,773,793 million (2016/2017) to € 72,044,071 million (2017/2018), until reaching € 31,242,712 million in the last financial period considered, 2018/2019. The negative change of € 40,801,359, compared to the shareholders' equity on 30 June 2018, is essentially due to the net loss recorded for the financial year (-€ 39,895,794). This parameter will certainly have to be monitored by the Turin club, as well as by the Club Financial Control Body, in order not to incur possible sanctions by UEFA. The other clubs, however, comply with the second indicator, reaching in almost all cases excellent equity situations.

The aggregate break-even result, which is the best-known indicator and the one most considered by UEFA, which has always promoted balanced budgets and the "spend as much as I earn" philosophy, is met by all five clubs analyzed. It is worth pointing out the situation of Juventus, which has recorded decreases in the last 2 financial periods, and a constant and important decrease in the break-even result: from € 71,373,345 million in 2016/2017 to only € 2,486,118 million in 2018/2019. Certainly, it is a decrease to be kept under control, but that still fully meets the threshold required by the European financial parameter. Also, worth highlighting is the case of Paris Saint-Germain, which in 2016/2017 achieved a negative annual break-even result of € -22.48 million, mainly due to the disappointing sporting season that led to less than exciting economic and financial results. Obviously, given that the indicator considers the aggregate result of the three-year period under consideration, the Parisian club largely complies with what is required by the regulations.

The fourth indicator and the fifth indicator, related to the concept of sustainable debt, require the joint non-violation of two constraints: the relevant debt must not exceed the figure of €30 million and must not exceed 7 times the average difference between revenues and production costs. The notion of Net Debt has recently been modified with the 2018 version of the Financial Fair Play: the current Net Debt value is given, according to Article 3 of the regulations, by "the aggregate of the following balances: net borrowings (i.e. the net of bank overdrafts, bank and other loans, accounts payable to group entities and other related parties less of cash and cash equivalents); net player transfers balance (i.e. the net of accounts receivable from players' transfers and accounts payable from players' transfers); accounts payable to social/tax authorities (non-current)"[220]. The relevant debt required by Indicator 4 and 5, on the other hand, is the difference between the net debt and the amount of debt directly attributable to the construction and/or substantial modification of the stadium and/or training facilities from the inception of the debt until 25 years after the date on which the asset is declared ready for use. All the companies analyzed complied with the two indicators, most of them appealing to the easier of the two constraints to achieve, that is, not to exceed 7 times the average difference between revenues and production costs. In particular, the club that largely respected the concept of sustainable debt was Real Madrid, which satisfied both constraints by realizing 'positive' debts thanks to the high value of the liquid assets that emerged from the Spanish club's financial statements, which compensated for financial loans and the negative imbalance determined by the net player transfers balance (2016/2017 and 2018/2019) and debts

[220] *UEFA Club Licensing and Financial Fair Play Regulations, Article 3 – Definition of terms*

related to stadium/training facilities. Manchester City, on the other hand, realized a "positive" debt in the last financial year examined (2018/2019), thanks mainly to the high volume of cash put on the balance sheet (£129,856,000 million). Finally, Paris Saint-Germain, although it realized negative debts in the three-year period under consideration, in the last two years showed a relevant debt below 30 million, which is the threshold provided for by indicator 4 and indicator 5 to Article 62 of the Financial Fair Play.

The sixth and last parameter, called "Player transfer balance", was introduced by the last Financial Fair Play reform, the one of 2018, and should therefore only be applied to the last financial period of the three-year period examined, i.e., 2018/2019. This indicator stipulates that the licensed club must not report a player transfer campaign deficit of more than €100 million in any period of the transfer campaign during the season in which the license is valid. The 100 million deficit is breached by two clubs, Juventus and Real Madrid. Manchester City shows a deficit but is still within the threshold (-£83,034,000 million); as is Paris Saint-Germain, which shows a transfer deficit for the 2018/2019 financial year of € -72.77 million. The only club that recorded a surplus was Bayern Munich: the Bavarian club, in fact, showed a positive balance of € 41.9 million. For the violation of this parameter, the Italian club and the Spanish club could be questioned by the CFCB: the *Bianconeri* confirmed the negative balance of over 100 million between expenditure and income, underlining that the new criterion is aimed at the possibility of UEFA to intervene promptly, being able to ask clubs for information faster than in the past regarding economic data. The same applies to the Madrid club, which will have to worry (like Juventus) about making up this deficit in the next market sessions in order not to incur sanctions from UEFA.

Article 62 of the European financial regulations also contain two additional parameters, the non-compliance of clubs with which could lead to the Club Financial Control Body requesting additional information of an economic and financial nature from the clubs applying for a license. On a positive note, all five cases were found to comply (some more, some less) with the two additional parameters. Going to look at the specific situations, we notice that both Juventus' ratios are increasing, but the one that raises the most concern is the Net financial debt/revenues ratio, which stands at almost 75% for the 2018/2019 financial year, much higher than the 29% of just two years earlier. A result synonymous above all with the high level of investment maintained by the Italian club in recent sporting seasons, which has resulted in a significant increase in debt.

The best performing club is, in this case, Real Madrid: *The Blancos* have a personnel costs/revenues ratio of 57.6%, a little higher than the so-called threshold of excellence (50%), and even a net financial debt/revenues ratio of zero, as in the last four football seasons the club has had a 'positive' debt, i.e., a positive net cash position. Manchester City and Bayern Munich have quite similar results: an increasing personnel costs/revenues ratio (Bayern Munich at 53.7% and Manchester City almost close to 60%), and a decreasing debt/revenues ratio, with the English club even having a positive net cash position in 2018/2019. The Bavarian club's result was also excellent, with a debt/revenues ratio of 17.2% in 2018/2019. Finally, the French club has always recorded values above 54% in the three-year period considered regarding the first parameter, with a peak of 59.6% in 2017/2018; while 2.3% is the exceptional value recorded by the Parisians in the last financial period analyzed (2018/2019) regarding the second ratio.

As can be seen from the tables in chapter four, commercial revenues represent the largest percentage of total revenues, followed by TV and Media revenues.

Among the cost items, the largest percentage is related to personnel costs, mostly referred to the cost of players' salaries, which have higher and higher demands, attracted by the idea of receiving huge salaries and no longer by the simple concept of playing for a club. As a result, the greater bargaining power of players and the increase in salary costs, whose gradual rise in importance, as widely seen above, is even considered to have originated with the famous Bosman ruling, have significantly increased expenses, which have, however, been offset by the peremptory growth in the turnover of these large clubs in recent years.

This growth has been the logical consequence of the huge and targeted investments made by the clubs, which have focused mainly on unexplored markets such as Asia and America, where the passion for football was recently born. This is demonstrated by the growth in commercial revenues of the teams analyzed, surpassing broadcasting revenues, which was the main item of operating revenues at the beginning of the decade.

Although it is not possible to prove that the development of the football industry during the last decade can mainly be attributed to the introduction of Financial Fair Play (2011), it can be concluded that since 2011 the finances of clubs in Europe's top division have undoubtedly improved, resulting in a bigger and healthier business. It is true that there has been a general improvement in financial conditions, but, on the other hand, the gap between elite football clubs and other European clubs has increased, with the size of the former growing at a faster pace since the introduction of Financial Fair Play. Moreover, this growing gap is reflected in the competitive balance: in fact, each of the five big European leagues has experienced a clear increase in the competitive imbalance since the introduction of UEFA's Financial Fair Play. Thus, it can be concluded that, although club finances are incredibly healthier now, the rules imposed by UEFA have widened the financial gap between the elite clubs and the rest: the growing disparities in wealth seem to have undermined the competitive balance in European football leagues.

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