



Real Madrid

# Management Report & Financial Statements

2018-2019





Real Madrid

**Management Report &  
Financial Statements**  
2018-2019

# CONTENTS



Real Madrid

## Management Report & Financial Statements 2018-2019

	<b>MANAGEMENT REPORT FOR THE YEAR ENDED JUNE 30, 2019</b>	<b>04</b>
---	---	-----------

	<b>FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019</b>	<b>26</b>
--	--	-----------

	<b>AUDIT REPORT ON THE FINANCIAL STATEMENTS</b>	<b>132</b>
---	---	------------

	<b>BUDGET 2019/2020</b>	<b>140</b>
---	-----------------------------	------------

# MANAGEMENT REPORT

For the year ended June 30, 2019.

The Management Report for Real Madrid Club de Fútbol, including an analysis of its earnings performance in 2018-2019, is presented below.



## OPERATING INCOME

(before disposal of non-current assets)

Operating income amounted to €757 million in 2018/19, up €6 million or 1% from the year before, extending the growth trend that has kept the Club among the world's leading revenue-earning sports entities in the past 14 years despite losing in the round of 16 in the 2018-19 UEFA Champions League

This item includes revenue from the various business lines (stadium, international and friendly matches, broadcasting, and marketing), but excludes revenue from player transfers, which is recognized in the income statement under "Gains/(losses) on disposal of non-current assets".

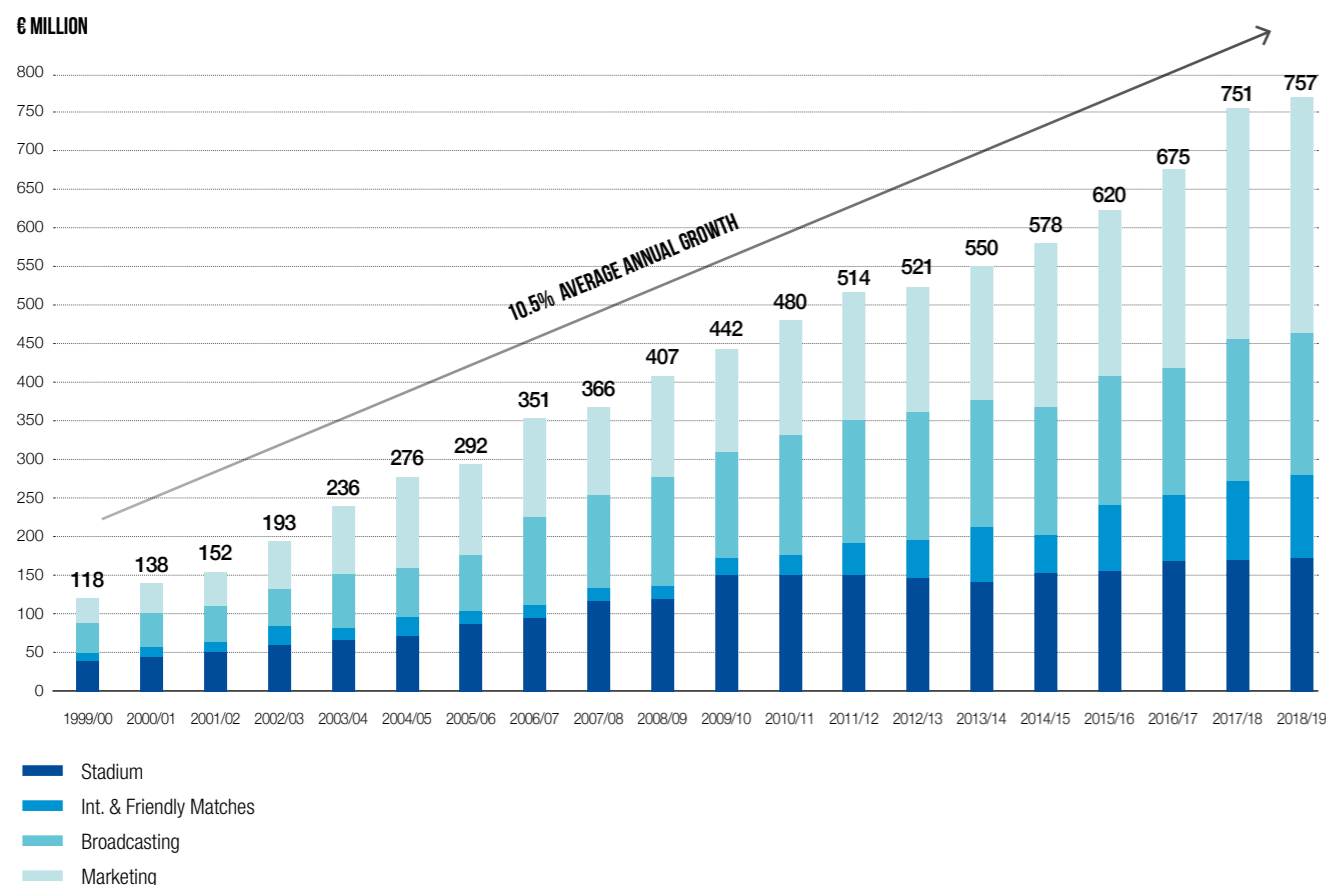
Club membership fees and season tickets accounted for 7.2% of total revenue (compared to 16.5% in 2000 and 9.7% in 2009).

In the 2000-2019 period, revenue grew at an average annual rate of 10.5%.

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

### OPERATING INCOME

(BEFORE DISPOSAL OF NON-CURRENT ASSETS)



## BREAKDOWN OF OPERATING INCOME

(before disposal of non-current assets)

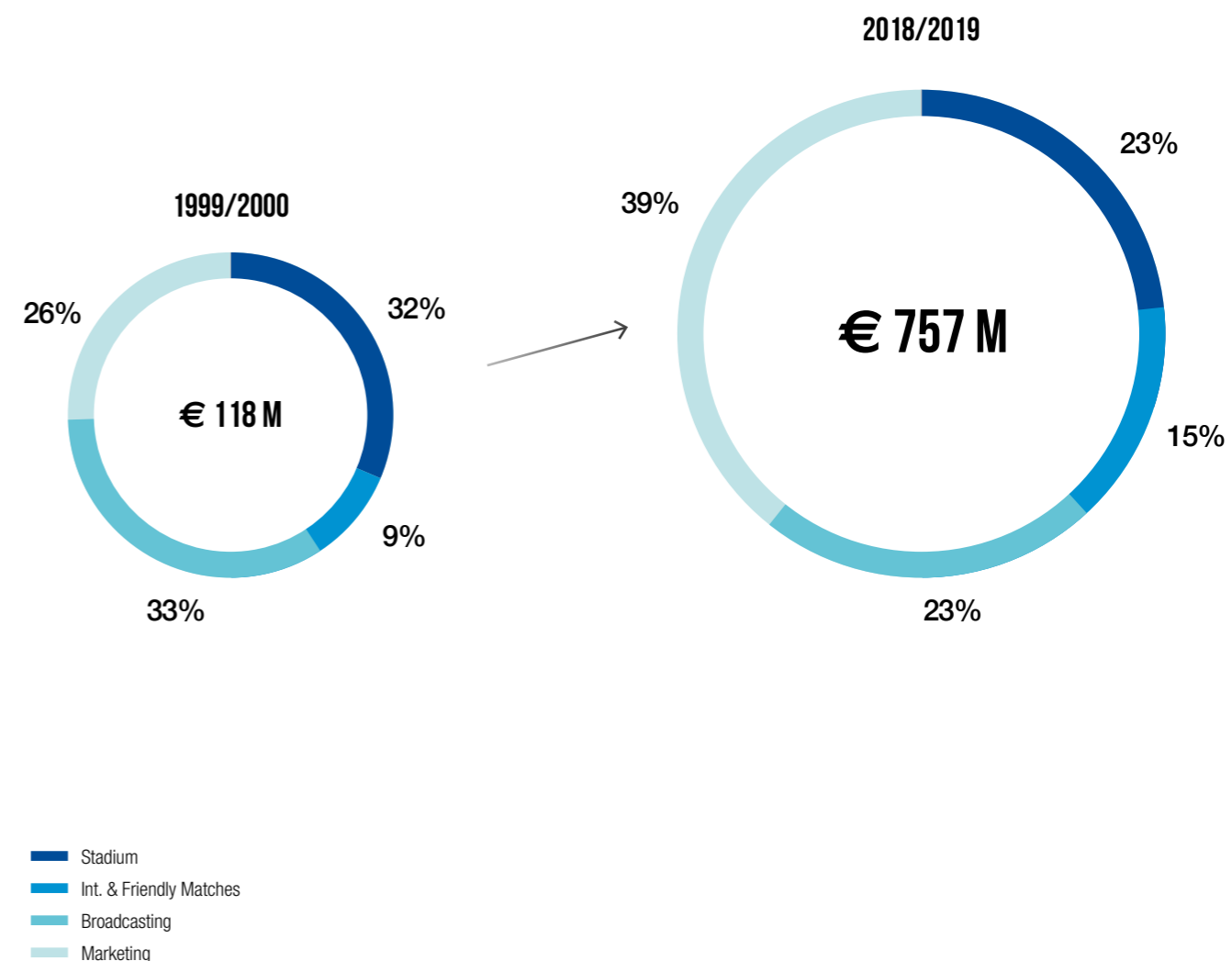
The Club enjoys a balanced revenue mix, with the three largest lines (stadium, television and marketing) each making up around a third of the total.

The Club has gradually reduced the weight of television revenue (La Liga and Champions League matches) and increased the weight of other revenue sources.

This diversified stream of recurring revenues lends financial stability to the Club, cushioning the impact of potential fluctuations in revenue caused by varying performance on the sporting front or by changes in the economic landscape.

### BREAKDOWN OF OPERATING INCOME

(BEFORE DISPOSAL OF NON-CURRENT ASSETS)



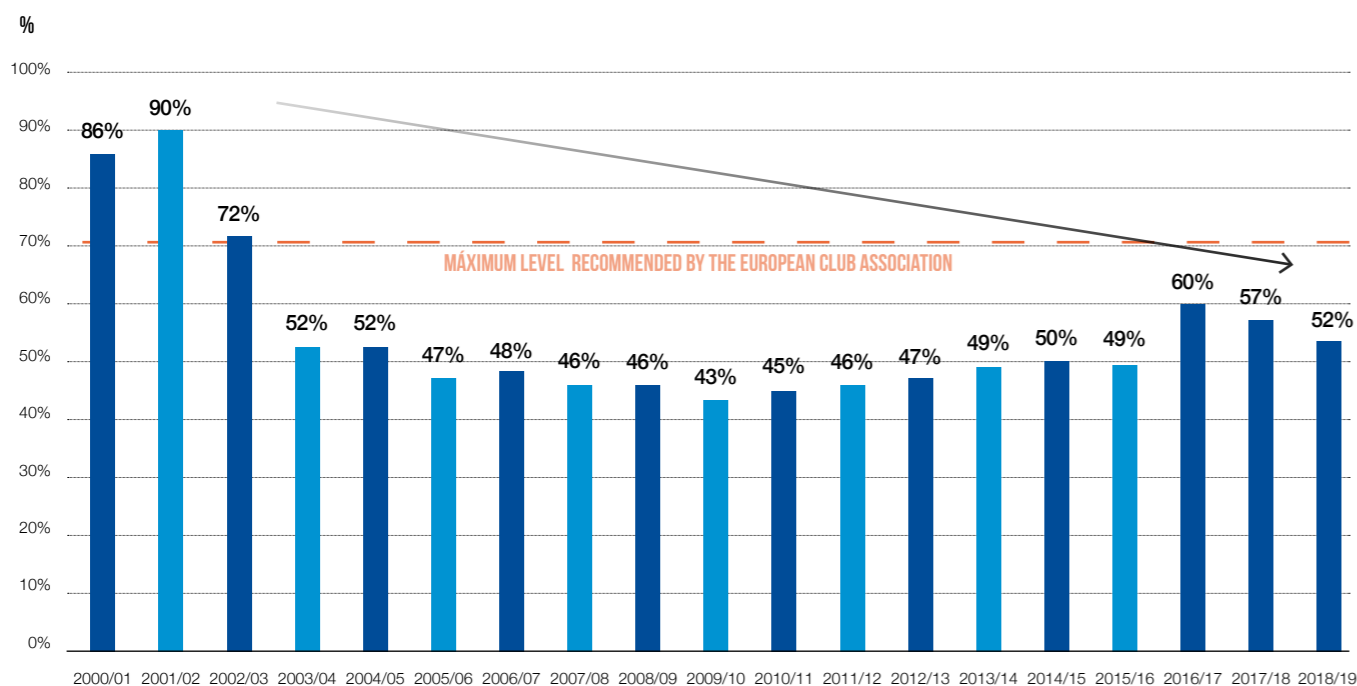


## PERSONNEL EXPENSES/ OPERATING INCOME: EFFICIENCY RATIO

The efficiency ratio, calculated by dividing the Club's total personnel expenses by operating income (before disposal of non-current assets), is the most widely used indicator internationally to measure a football club's operational efficiency. The lower the ratio, the more efficient the Club.

The efficiency ratio in 2018/19 was 52%, near the 50% level considered the threshold for excellence and well below the 70% maximum level recommended by the European Club Association (ECA).

## PERSONNEL EXPENSES/ OPERATING INCOME



## OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION (EBITDA)

Operating profit before depreciation and amortization, or EBITDA before disposal of non-current assets, is the Club's earnings from operating activities after subtracting personnel and other operating expenses from the revenue obtained by the business lines.

EBITDA before disposal of assets amounted to €124 million in 2018/19, up from €93 million the year before, leaving an EBITDA before disposal of assets/operating income ratio of 16%.

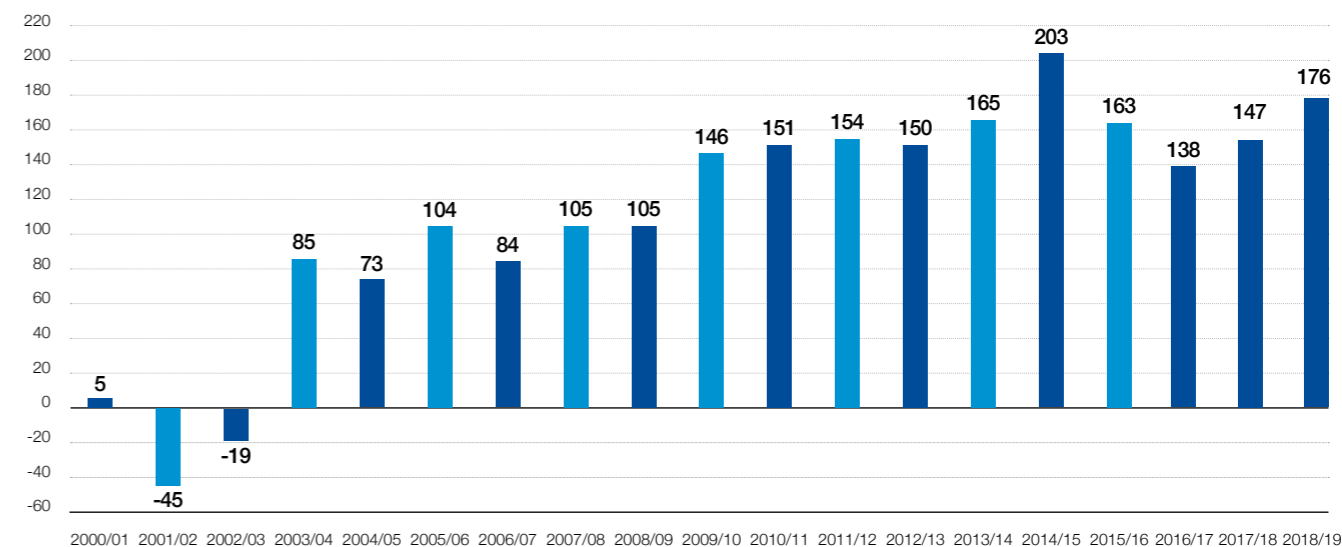
Nevertheless, EBITDA after the disposal of assets (player registrations), or simply EBITDA, must be considered when assessing the cash flows from operating activities generated by the Club. Football clubs are subject to a limit

on player registrations. Therefore, before they can add new players, they must release other players. As a result, player transfers among football clubs is hardly an exception, but rather part of the Club's standard practice so that it can renew staff, generating proceeds that can be used to self-finance part of the cost of new additions. In 2018/19, gains on player disposals amounted to €52 million (with average gains in the last five years of €48 million), resulting in EBITDA of €176 million, compared to €147 million the year before.

The EBITDA performance in recent years is the result of a financial management that pursues profitability through by combining efforts to boost revenue and rein in costs.

## OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION (EBITDA)

€ MILLION



## INCOME STATEMENT KEY HIGHLIGHTS

Operating income in 2018/19 amounted to €757 million, up €6 million or 1% from the year before despite losing in the round of 16 in the 2018-19 UEFA Champions League

EBITDA before disposal of non-current assets totaled €124 million, with gains on player disposals of €52 million (2018: €54 million), leaving EBITDA of €176 million, compared to €147 million in 2017/18.

From this €176 million, €122 million of depreciation and amortization (2018: €102 million) and €1 million of net financial costs (2018: €2 million) are subtracted.

Profit before tax was €53 million (€43 million in the previous year), which, after applying the nominal tax rate of 25% and other tax legislation, leaves net profit of €38 million, €7 million (23%) higher than the year before.

The Club has reported average profit after tax of €33 million in the last five years.

## INCOME STATEMENT KEY HIGHLIGHTS

€ MILLION	2017/2018	2018/2019
<b>OPERATING INCOME</b>	<b>751</b>	<b>757</b>
<b>Annual Growth</b>	<b>11.3%</b>	<b>0.8%</b>
<b>OPERATING PROFIT</b> before depreciation and amortization, and disposal of non-current assets (EBITDA before disposal of non-current assets)	<b>93</b>	<b>124</b>
<b>% of revenue</b>	<b>12%</b>	<b>16%</b>
<b>OPERATING PROFIT</b> before depreciation and amortization (EBITDA)	<b>147</b>	<b>176</b>
<b>PROFIT BEFORE TAX</b>	<b>43</b>	<b>53</b>
<b>PROFIT AFTER TAX</b>	<b>31</b>	<b>38</b>

## TAX BALANCE: CONTRIBUTION BY REAL MADRID TO TAX REVENUE AND SOCIAL SECURITY

Real Madrid contributed €319.1 million directly to state and local taxes, and social security in 2018/19. The breakdown by item is as follows:

- €243.4 million paid in state and local income tax and social security, representing a cost of 32% of the Club's revenue; i.e. for every €100 of income, Real Madrid allocates €32 to tax and social security payments.
- €75.7 million in VAT paid to the tax authorities (difference between output VAT charged to customers and input VAT paid to suppliers), arising from Real Madrid's economic activity.

At June 30, 2019, Real Madrid was current on the payment of all its tax obligations, as always.

## TAX BALANCE

AMOUNTS PAID DURING THE 2018/2019 FINANCIAL YEAR	€ THOUSAND
Personal income tax withholding and non-resident income tax (deductions from staff remuneration and image rights)	203,874
INCOME TAX	15,062
Property and other local taxes	15,742
SOCIAL SECURITY CONTRIBUTIONS (company)	7,207
SOCIAL SECURITY CONTRIBUTIONS (employee)	1,557
<b>TOTAL COST OF TAXES AND SOCIAL SECURITY</b>	<b>243,441</b>
<b>% OF REVENUE</b>	<b>32%</b>
NET VAT PAID	<b>75,663</b>
<b>TOTAL CONTRIBUTION BY REAL MADRID TO TAX REVENUE AND SOCIAL SECURITY</b>	<b>319,104</b>

## INVESTMENTS

The Club invested €272 million in 2018/19, of which €23 million went to the upgrade and development of facilities; €249 million were invested on the acquisition of players.

Part of the investment in players was self-financed with proceeds from transfers, which amounted to €124 million. Net investment in 2018/19 in sports personnel (acquisitions - transfers) was €125 million (2017/18: €-18 million). Average annual net investment in the 2000-2019 period was €69 million.

In addition to investing in players, the Club allocated a significant amount to building and upgrading its facilities and for technological development. In the 2000-2019 period, Real Madrid invested:

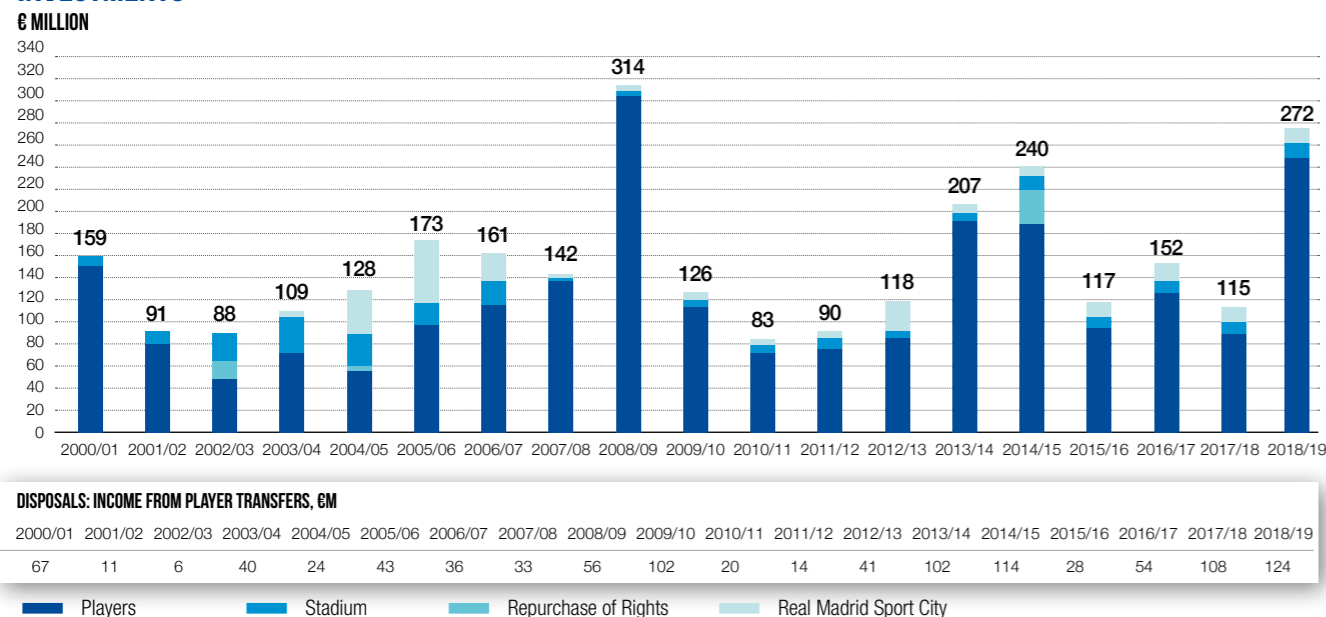
- €277 million on the stadium, modernizing the facilities and enhancing their quality and functionality for spectators, as well as providing the facilities with the resources and services to broaden the stadium's commercial offering and develop the Club's IT platform. All this investment has generated a considerable annual financial return. Investments in 2018/19 in the Stadium related mainly to previous investments made in the Santiago Bernabéu Stadium remodeling project, particularly the

amount for the payment to the Madrid City Council of tax on construction, installations and works (ICIO) arising from the grant of the building permit. Specific disclosures on this project are provided in another section of the report.

- €233 million on the construction of Real Madrid City, considered the largest sports complex ever built by a football club, with a total surface area of 120 hectares, 10 times bigger than the former complex. Ideally located in one of the fastest growing areas of Madrid and with excellent public transportation, Real Madrid City is a strategic enclave and a first-rate sports and entertainment center. Noteworthy in recent years is the marked improvement made to the installations, with the construction of the first-team and youth team residences -a Club goal for many years- and a basketball training arena and two new training fields. Last year, construction was completed on the new office building where the Club's various operating departments work, which will pave the way for a greater integration and free up space in the stadium.

Overall, these investments have helped drive Real Madrid's economic growth, social development and sports successes.

### INVESTMENTS



## SANTIAGO BERNABÉU STADIUM REMODELING PROJECT

On May 8, 2019, the Board of Directors awarded the remodeling contract to FCC Construcción, with a term of 39 months.

The remodeling work will be carried out without affecting the matches scheduled or the stadium's normal activities (e.g. Tour Bernabéu, official club store, restaurants).

To fund the remodeling project, the Real Madrid Board of Directors, under authorization by the General Assembly of Delegated Members held on September 23, 2018, arranged the financing of €575 million for a term of 30 years and a fixed rate of 2.5%.

The financing was structured through a loan with three drawdowns, one each in July 2019, July 2020 and July 2021, in line with scheduled

payments for the works. The first drawdown on the loan is in July 2019, so it is not reflected in the balance sheet as of June 30, 2019.

The facility also includes a three-year grace period for repayment of principal. Therefore, Real Madrid will pay a fixed annual amount of €29.5 million as from July 30, 2023, until maturity on July 30, 2049.

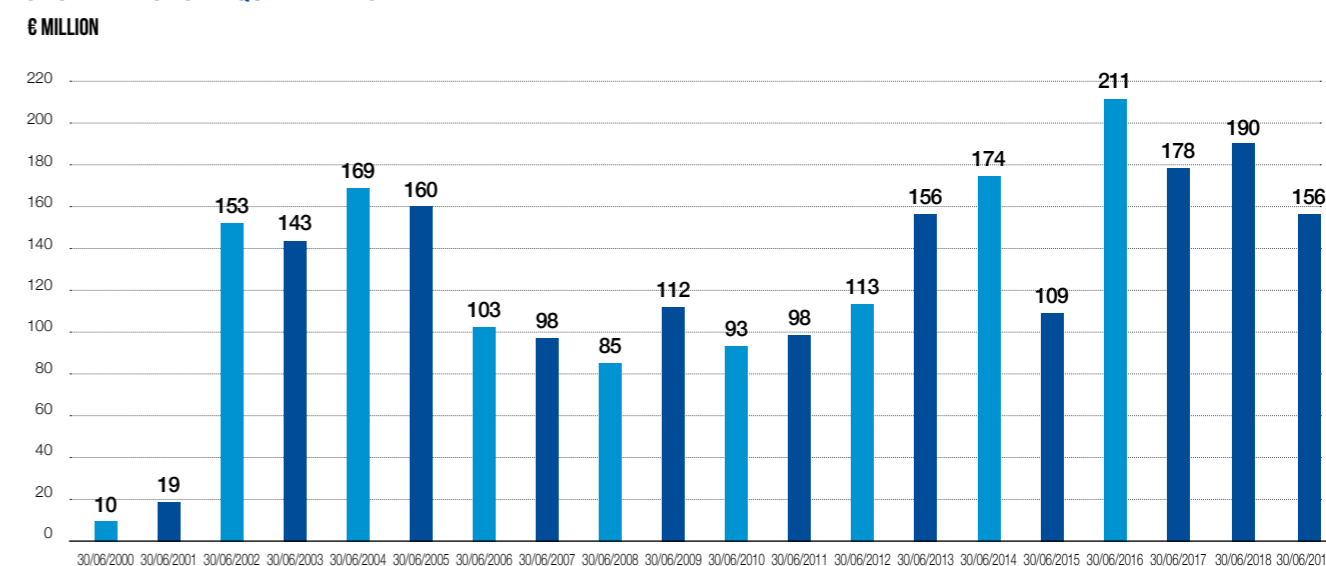
Real Madrid closed the deal without having to provide any mortgage guarantees or accepting any restrictions on the Club's management or debt, allowing it to carry out its normal activity with no impact from payment of the works.

## CASH AND CASH EQUIVALENTS

The Club ended 2018/19 with €156 million of cash, thanks to strong cash flows from operating activities. This includes the bonuses paid for sports achievements the year before.

The cash balance, coupled with undrawn facilities, leave Real Madrid in shape to comfortably meet its scheduled payment obligations.

### CASH AND CASH EQUIVALENTS





## WORKING CAPITAL

Working capital (i.e. the difference between current assets and current liabilities) at June 30, 2019 can be broken down into operating working capital (€-267 million), financial working capital (€126 million) and other working capital (available-for-sale assets, provisions and taxes amounting to €81 million).

The Club's working capital is structurally negative as the nature of its operations leads to operating working capital with large creditor balances (between €-120 million and €-290 million for player registrations, net trade payable and upfront collection of membership fees and season tickets).

Significant efforts have been made in recent years to lower its negative working capital,

which has gone from €-182 million in 2010 to €-60 million as of June 30, 2019. The reduction in the working capital/revenue ratio is greater: from 41% in 2010 to 11% in 2019.

This negative working capital is recurring; i.e. rolled over each year due to the intrinsic nature of operations, as reflected in the trend in balances; figures are broadly similar from year to year, with occasional variations due to operating trends each season (e.g. sport achievement prizes).

These balances are rolled over and, therefore, present similar amounts at each year-end, so they do not represent debt, or a liquidity or business continuity problem.

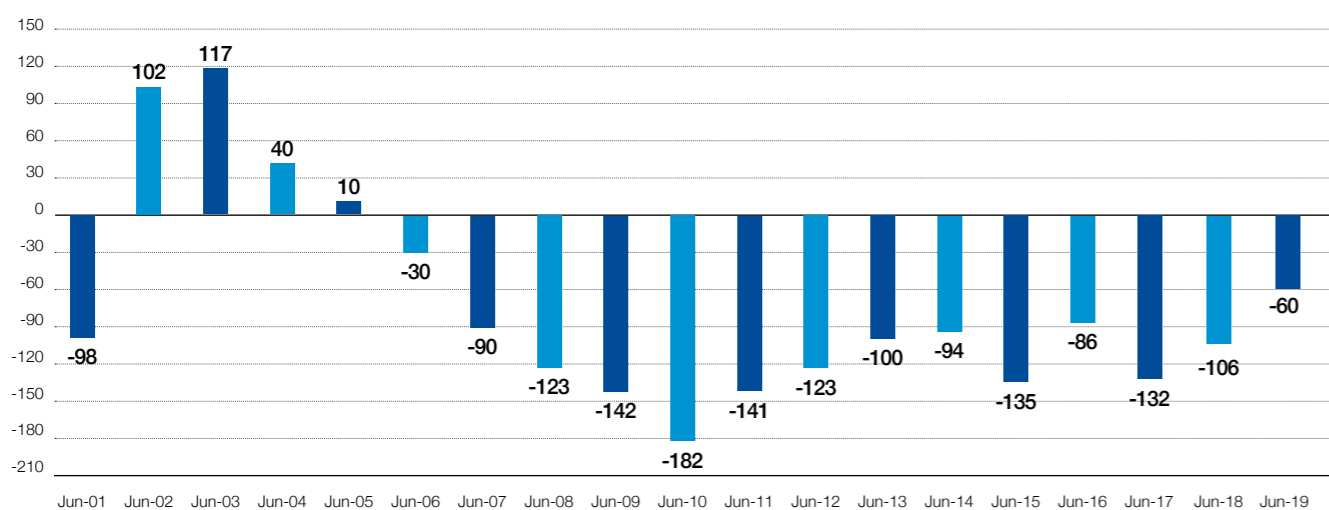
Due to the large volumen of transactions carried out by the Club in the present, the only way to offset recurring negative working capital would be to have a large positive financial working capital through a large balance of cash and cash equivalents.

Apart from exceptional requirements at specific moments, a large cash balance relative to the size of the Club's balance

sheet would not be consistent with an adequate cash flow management and is not compatible with the not-for-profit status of the Club, which invests funds obtained in the development of its sports and its facilities.

### WORKING CAPITAL

€ MILLION



CASH+SHORT TERM INVESTMENTS (€ MILLION)

Year	Cash+Short Term Investments (€ Million)
Jun-01	19
Jun-02	153
Jun-03	143
Jun-04	169
Jun-05	160
Jun-06	103
Jun-07	98
Jun-08	85
Jun-09	112
Jun-10	93
Jun-11	98
Jun-12	154
Jun-13	156
Jun-14	174
Jun-15	109
Jun-16	211
Jun-17	178
Jun-18	190
Jun-19	156

### WORKING CAPITAL

€ MILLION

6/30/09 6/30/10 6/30/11 6/30/12 6/30/13 6/30/14 6/30/15 6/30/16 6/30/17 6/30/18 6/30/19

#### OPERATING WORKING CAPITAL

Trade receivables + Inventories	32	58	71	66	54	46	57	67	108	103	90
Receivables from public administrations	4	1	1	1	1	1	7	0	0	0	0
Trade payables	-47	-74	-67	-75	-73	-63	-64	-66	-63	-63	-58
Payables to public administrations	-7	-11	-15	-13	-15	-15	-22	-15	-27	-23	-26
Salaries and wages payable (50% player registration, bonuses)	-50	-56	-71	-93	-82	-114	-104	-144	-197	-208	-149
Accruals	-48	-66	-69	-67	-60	-58	-62	-64	-85	-96	-124
<b>Subtotal</b>	<b>-116</b>	<b>-149</b>	<b>-151</b>	<b>-181</b>	<b>-176</b>	<b>-202</b>	<b>-189</b>	<b>-222</b>	<b>-265</b>	<b>-287</b>	<b>-267</b>

#### Financial Working Capital

Cash	112	93	98	113	156	174	109	211	178	190	156
Current investments	0	0	0	41	0	0	0	0	0	0	0
Player transfer receivables	13	34	28	21	24	36	58	53	20	52	79
Bank borrowings	-24	-48	-7	-43	-26	-16	0	0	0	-10	0
Player transfer and other investments payable	-146	-115	-92	-74	-76	-91	-111	-131	-70	-55	-108
<b>Subtotal</b>	<b>-45</b>	<b>-37</b>	<b>27</b>	<b>59</b>	<b>77</b>	<b>103</b>	<b>56</b>	<b>133</b>	<b>128</b>	<b>177</b>	<b>126</b>

#### Other

Available-for-sale financial assets	29	0	0	0	0	0	0	0	0	0	79
Provisions	-10	-1	-1	-1	-2	-2	-3	-1	-2	-2	-2
Taxes	1	4	-17	0	1	7	1	5	7	6	4
<b>Subtotal</b>	<b>20</b>	<b>4</b>	<b>-18</b>	<b>-1</b>	<b>-1</b>	<b>5</b>	<b>-2</b>	<b>4</b>	<b>5</b>	<b>4</b>	<b>81</b>

#### TOTAL WORKING CAPITAL

<b>TOTAL WORKING CAPITAL</b>	<b>-142</b>	<b>-182</b>	<b>-141</b>	<b>-123</b>	<b>-100</b>	<b>-94</b>	<b>-135</b>	<b>-86</b>	<b>-132</b>	<b>-106</b>	<b>-60</b>
------------------------------	-------------	-------------	-------------	-------------	-------------	------------	-------------	------------	-------------	-------------	------------

## LIABILITIES AND GROSS DEBT

The Club had total liabilities at June 30, 2019 of €606 million (2018: €595 million) and equity of €533 million (2018: €494 million), giving a total balance sheet value of €1,138 million (2018: €1,089 million).

Liabilities comprise gross debt, trade payables (€207 million at June 30, 2019 and €271 million at June 30, 2018) and other liabilities, composed of provisions, accruals, and taxes

(€224 million at June 30, 2019 and €189 million at June 30, 2018).

The Club's gross debt at June 30, 2019, in accordance with Spanish GAAP, totaled €174 million, of which €50 million corresponded to bank borrowings and €124 million to debt relating to investments in players and facilities (€135 million in the previous year: €60 million bank borrowings and €75 million investments).

### REAL MADRID LIABILITIES AT JUNE 30, 2018

€ MILLION	CURRENT	NON-CURRENT	TOTAL
<b>Borrowings</b>	<b>66</b>	<b>69</b>	<b>135</b>
Trade and other payables	271		271
<b>Financial liabilities</b>	<b>337</b>	<b>69</b>	<b>406</b>
Provisions	2	24	26
Deferred taxes		16	16
Current tax	0		0
Public Administrations	23		23
Accruals	99	24	123
<b>Total other liabilities</b>	<b>124</b>	<b>64</b>	<b>189</b>
<b>TOTAL LIABILITIES</b>	<b>461</b>	<b>134</b>	<b>595</b>

### REAL MADRID LIABILITIES AT JUNE 30, 2019

€ MILLION	CURRENT	NON-CURRENT	TOTAL
<b>Borrowings</b>	<b>108</b>	<b>66</b>	<b>174</b>
Trade and other payables	207		207
<b>Financial liabilities</b>	<b>316</b>	<b>66</b>	<b>381</b>
Provisions	2	14	16
Deferred taxes		19	19
Current tax	0		0
Public Administrations	26		26
Accruals	129	33	163
<b>Total other liabilities</b>	<b>157</b>	<b>67</b>	<b>224</b>
<b>TOTAL LIABILITIES</b>	<b>473</b>	<b>133</b>	<b>606</b>

## NET DEBT

Gross debt was discussed in the previous section.

However, the Club's key metric is its net debt; it does not make sense to discuss what one owes without factoring in what one owns.

Net debt is gross debt minus cash and cash equivalents, of €156 million at June 30, 2019 (2018: €190 million) and receivables from other clubs from player transfers (in keeping with a core principle of consistency, since gross debt includes amounts paid to other clubs for player acquisitions and as player acquisitions/sales are mirror sides of the business), of €79 million at June 30, 2019 (2018: €76 million), recognized in "Financial assets" in the balance sheet.

The Club includes as debt the balance of advances on income accruing in the future, which stood at €33 million at June 30, 2019 (2018: €24 million).

Net debt at June 30, 2019 amounted to €-27 million (2018: €-107 million), which is actually net liquidity as the sum of cash and cash equivalents and receivables from transfers, exceeds the amounts payable on investments, bank borrowings, and advances. Net debt represents the external resources which, coupled with own funds, are used to fund the capital invested by the Club to carry out its activity. Therefore, as debt is negative, own funds are used to fund more than all the capital invested.

### NET DEBT AT JUNE 30, 2018

€ MILLION	CURRENT	NON-CURRENT	TOTAL
Payables for player transfers, works and repurchase of rights	-56	-20	-75
Player transfer receivables	52	24	76
<b>Net investments/transfers</b>	<b>-3</b>	<b>4</b>	<b>1</b>
Bank borrowings	-10	-50	-60
Cash	190	0	190
Cash advance		-24	-24
<b>Subtotal other net debt</b>	<b>180</b>	<b>-74</b>	<b>106</b>
<b>TOTAL NET DEBT</b>	<b>177</b>	<b>-70</b>	<b>107</b>

### NET DEBT AT JUNE 30, 2019

€ MILLION	CURRENT	NON-CURRENT	TOTAL
Payables for player transfers, works and repurchase of rights	-108	-16	-124
Player transfer receivables	79	0	79
<b>Net investments/transfers</b>	<b>-29</b>	<b>-16</b>	<b>-45</b>
Bank borrowings	0	-50	-50
Cash	156	0	156
Cash advance		-33	-33
<b>Subtotal other net debt</b>	<b>156</b>	<b>-83</b>	<b>73</b>
<b>TOTAL NET DEBT</b>	<b>126</b>	<b>-99</b>	<b>27</b>

### MANAGEMENT BALANCE

€ MILLION	06/30/2018	06/30/2019
Players, facilities and other property	698	786
Provisions and other	-23	-13
Net operating working capital	-287	-267
<b>TOTAL NET CAPITAL INVESTED</b>	<b>387</b>	<b>506</b>
EQUITY	494	533
NET DEBT	-107	-27
<b>TOTAL FUNDING SOURCES</b>	<b>387</b>	<b>506</b>

## NET DEBT

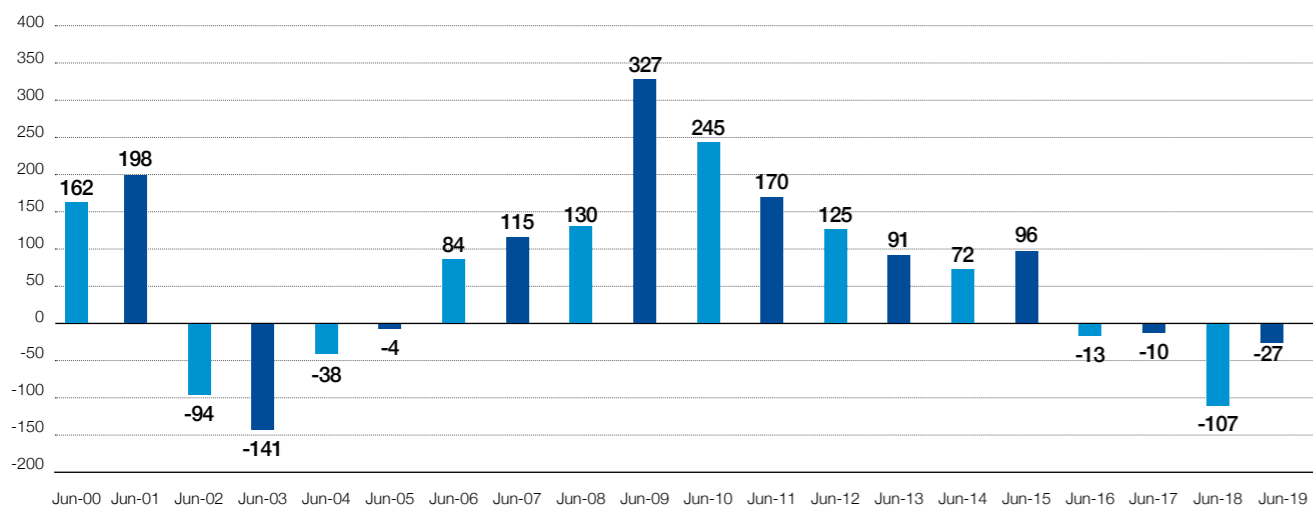
The Club's net debt at June 30, 2019 was €-27 million. Rather than a debt, this actually represents net liquidity as the sum of cash and cash equivalents and receivables from transfers, exceeds the amounts payable on investments, bank borrowings, and advances. The Club has had negative net debt for the fourth year in a row, i.e. it enjoys a net liquidity position.

Since June 2009, it has made ongoing and considerable efforts to reduce debt.

Comparing debt with the Club's payment capacity represented by ordinary cash flow (measured using EBITDA: €176 million), yields a debt/EBITDA ratio — one of the most commonly used solvency indicators — at June 30, 2019 of 0.0, which is commensurate with a maximum credit rating for financial institutions.

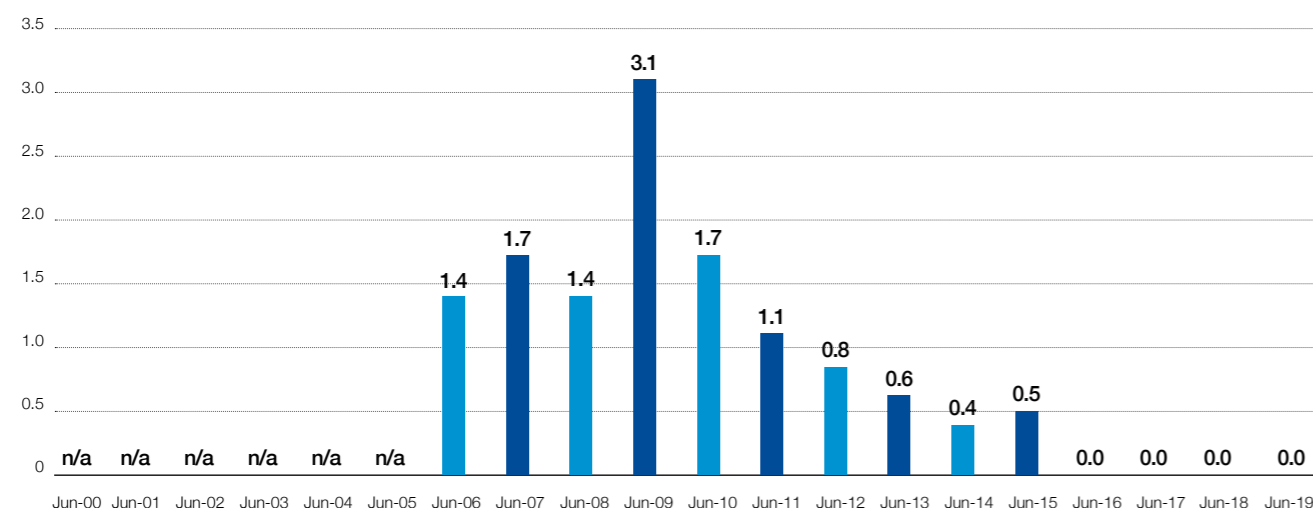
### NET DEBT

€ MILLION



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

### NET DEBT/EBITDA RATIO



EBITDA : Operating profit before depreciation and amortization. As of 2008/09, with new Spanish GAAP, it includes gains/(losses) on disposals and impairment of non-current assets.

## EQUITY

Equity represents the Club's own funds; i.e. the funds which, with borrowings, fund the Club's needs to carry out its activities.

Equity is the accounting measure of enterprise value. For an entity like Real Madrid, which does not distribute dividends, the annual change in equity relates to annual profit after tax (and any balance sheet revaluation).

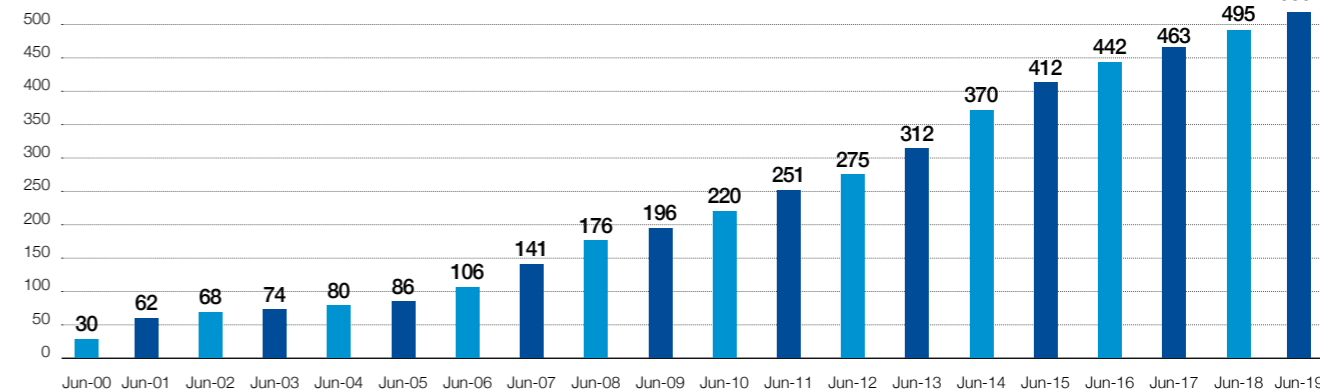
Through the profits it obtains, the Club has increased equity each year to €533 million at June 30, 2019, up €38 million from the year before (net profit for the year).

The greater the amount of equity relative to debt, the higher the Club's value, solvency and financial autonomy, as capital invested is financed more by equity than debt. The debt/equity ratio is used as an indicator of solvency and financial autonomy: the lower this ratio, the higher the Club's solvency and financial autonomy.

Real Madrid's debt/equity ratio has decreased in recent years, to -0.0 at June 30, 2019; the value of net debt represented 0% of the value of equity, indicating maximum solvency and financial autonomy.

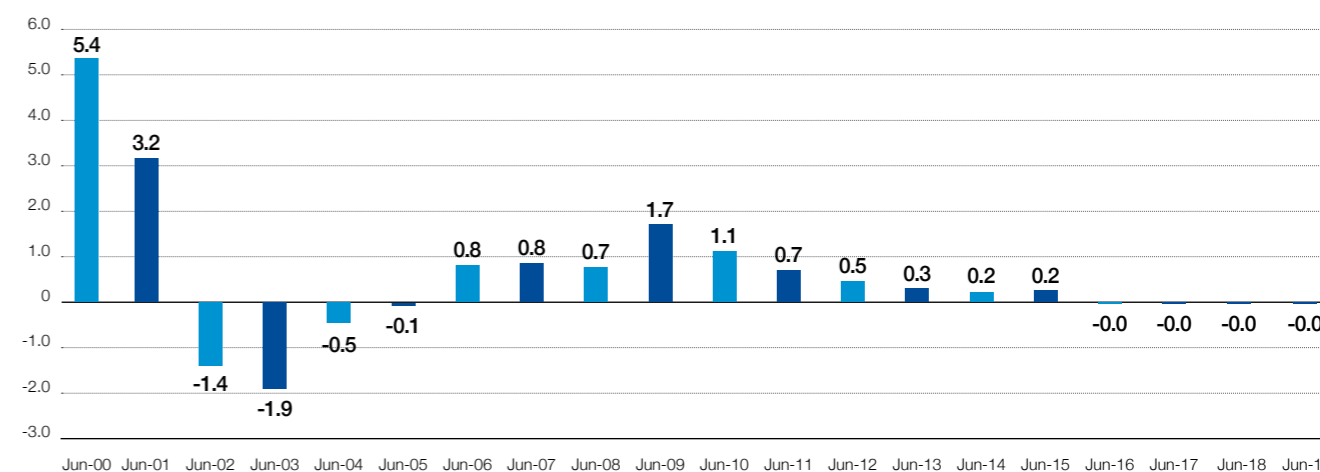
### EQUITY

€ MILLION



### NET DEBT/EQUITY RATIO

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



## BALANCE SHEET

### 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
<b>TOTAL NON-CURRENT ASSETS</b>	<b>725,776</b>	<b>734,557</b>
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
<b>TOTAL CURRENT ASSETS</b>	<b>412,607</b>	<b>354,468</b>
<b>TOTAL ASSETS</b>	<b>1,138,383</b>	<b>1,089,025</b>

### 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
<b>CAPITAL AND RESERVES</b>	<b>528,480</b>	<b>490,086</b>
Grants received	4,276	4,420
<b>EQUITY</b>	<b>532,756</b>	<b>494,506</b>
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
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>132,868</b>	<b>133,731</b>
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
<b>TOTAL CURRENT LIABILITIES</b>	<b>472,759</b>	<b>460,788</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,138,383</b>	<b>1,089,025</b>

Assets/liabilities at June 30, 2019 amounted to €1,138 million, an increase of €49 million from the year before.

Highlights on the assets side: The carrying amount of sports intangible assets decreased by €6 million due the net result of investment less amortization, disposals, impairment and transfers to available-for-sale. The value of property, plant and equipment increased by €9 million due mainly to previous investments in the stadium remodeling project. Other investments increased by €9 million due to payments of wages, which are accrued as expenses over the long term. Current- and non-current receivables for player transfers increased by €3 million. Available-for-sale assets increased by €79 owing to the reclassification from sports intangible assets. The cash balance decreased by €34 million due primarily to the payment during the year of bonuses for sports achievements the year before.

Highlights on the liability side: Bank borrowings decreased by €10 million. Outstanding payables on investments were €49 million higher as a result of the investments made. The balance of salaries payable decreased by €58 million due primarily to the payment during the year of bonuses for sports achievements the year before. The balance of provisions and non-current accruals was practically unchanged. Equity at the end of the reporting period amounted to €533 million, up €38 million from the year before (net profit for the year).

## OTHER MANAGEMENT INFORMATION

### USE OF FINANCIAL INSTRUMENTS

Real Madrid has established a series of procedures and controls that make it possible to identify, measure, and manage the risks arising from financial instrument activity. Financial instrument activity exposes the Club to credit, market, and liquidity risk.

### CREDIT RISK

Credit risk is the risk that a Club counterparty will not meet its contractual obligations, i.e. the possibility that financial assets will not be recovered at their carrying amount within the established time frame.

With regard to trade receivables, the Club has a procedure in place to measure, manage and control the risks arising from each of its loans. The procedure covers risk measurement and the initial authorization, ongoing monitoring of the exposure and subsequent controls. The Club, through its various departments, assesses and monitors these exposures on a monthly basis with a view to identifying risky situations and collection delays, taking the necessary precautions, including legal measures if warranted, to enable recovery of amounts past due as quickly as possible. In many cases, in order to guarantee collection of receivables, the Club often demands suitable collateral and guarantees. As a result of all these measures the Club's losses on uncollectible receivables are insignificant in relation to the its annual revenue.

The Club's investment policies establish that financial investments must be made in accordance with the following guidelines: They must be arranged with financial institutions domiciled in Spain and of renowned solvency

and liquidity. Acceptable investment products include bank deposits, repos, commercial paper issued by highly solvent financial institutions, interest-bearing accounts and other similar financial products. Specifically, investment in speculative financial products or those in which the counterparty is not clearly and explicitly identified are expressly prohibited. Investments should be diversified to ensure that the risk is not significantly concentrated in any one institution. Investments in current financial assets must be liquid assets with a maturity of three months or less, with a repurchase commitment or a secondary market that guarantees their immediate liquidity if required. Compliance with these requirements minimizes investment risk and therefore the Club has seen no impairment on any of its financial investments since 2000, the first year for analysis of the Club's economic and financial performance considered in this management report.

### MARKET RISK

Market risk entails interest rate risk caused by uncertainty over the future performance of the financial markets and interest rates with the consequent negative impact on the results of the Club's operations and cash flows. As described in other sections of this management report, the Club employs an extremely prudent debt policy and arranges its operations with variable interest rates indexed to the Euribor plus a small spread. Therefore, the annual interest charge in its income statement is insignificant (less than 1% of EBITDA) and risk in the event of a rise in interest rates is immaterial. Considering the cost that this would imply, the Club does not use hedging derivatives to manage interest rate risk.

### LIQUIDITY RISK

The risk that the Club will have a shortage of funds or lack access to sufficient funds at an acceptable cost to meet its payment obligations at all times. To address this risk the Club aims to maintain sufficient available funds to carry out its operating activities and make the investments it requires at any given time. On June 30, 2019, the Club had a cash balance of €156 million and undrawn credit lines for the amount of €285 million at a highly competitive variable interest rate. If drawn down, the entire amount would mature in the long term.

These funds, plus the cash flows generated regularly by the Club through its operating activities, allow it to comfortably meet all its payment commitments and have sufficient flexibility to make decisions on potential new investments.

## OTHER MANAGEMENT INFORMATION

### AVERAGE SUPPLIER PAYMENT PERIOD

The Club's average supplier payment period in 2018/19 was 57 days, below the legal maximum established in Law 15/2010 of July 5.

### PERSONNEL

In 2018/19, the Club had an average of 814 employees, of which 410 were players and coaches (2017: 795 and 407, respectively).

At June 30, 2019, the Club had 817 employees (2018: 811), of which 404 (2018: 417) were players and coaches.

### ENVIRONMENTAL INFORMATION

Given the nature of its activities, the Club has no environmental liabilities, expenses, assets, provisions or contingencies that could have a significant effect on its equity, financial position and results.

Real Madrid, in compliance with its sustainability and energy efficiency policy, continues to study and carry out measures to reduce its consumption and ensure the responsible management of resources.

### RESEARCH, DEVELOPMENT AND INNOVATION

Given the nature of its activities, the Club's most relevant activity in this area is the design, development and start up of the technology platform to support its digital activities.

### TREASURY SHARES

As the Club is a sports association it has no shares and therefore no treasury shares.

### EVENTS AFTER THE REPORTING PERIOD

The most significant events that occurred between the end of the reporting period and the date of authorization for issue of these financial statements and management report were as follows:

- Acquisition of player transfer rights for approximately €274,000 thousand.
- Sales, transfers or share in third-party transactions involving player transfer rights for approximately €112,000 thousand.

No other significant events occurred between the end of the reporting period and the date of authorization for issue of these financial statements that are not included in this report.

### OUTLOOK

The Club expects to build on the success of its sport model, pursuing further sports successes in football and basketball, which have set the Club apart throughout its history and especially over the last six years. This performance must be supported by an economic model that aims to achieve self-sustaining growth, where, through the combination of diversified revenue and contained costs, a profitability and financial structure are achieved to provide the solvency that enables the Club to make the investments it needs to carry out its business. The stadium remodeling project is under way in 2019/20 and will be carried out without affecting the matches scheduled or the stadium's normal activities

# FINANCIAL STATEMENTS

For the year ended June 30, 2019.

The Financial Statements of Real Madrid Club de Fútbol is presented below.



## BALANCE SHEET AT JUNE 30, 2019



### ASSETS

€ THOUSAND	NOTE	6/30/2019	6/30/2018
<b>NON-CURRENT ASSETS</b>		<b>725,776</b>	<b>734,557</b>
Sports intangible assets	4	310,913	316,787
Other intangible assets	5	4,042	7,479
Property, plant and equipment	6	350,344	341,215
Investment properties	7	11,551	11,920
Non-current investments	8.1	29,825	44,113
Deferred tax assets	16	19,111	13,043
<b>CURRENT ASSETS</b>		<b>412,607</b>	<b>354,468</b>
Non-current assets held for sale	4.2	78,935	-
Inventories	9	5,570	3,671
Trade and other receivables	8.2	167,442	157,024
Current accruals		4,954	3,664
Cash and cash equivalents	8 y 10	155,706	190,109
<b>TOTAL ASSETS</b>		<b>1,138,383</b>	<b>1,089,025</b>

### EQUITY AND LIABILITIES

€ THOUSAND	NOTE	6/30/2019	6/30/2018
<b>EQUITY</b>		<b>532,756</b>	<b>494,506</b>
<b>Capital and reserves</b>	11	<b>528,480</b>	<b>490,086</b>
Entity's fund		451,894	423,459
Revaluation reserve RD 7/96		8,548	8,548
Revaluation reserve law 16/2012		20,277	20,277
Capitalization reserve		9,367	6,628
Profit for the year		38,394	31,174
<b>Grants, donations and bequests received</b>	12	<b>4,276</b>	<b>4,420</b>
<b>NON-CURRENT LIABILITIES</b>		<b>132,868</b>	<b>133,731</b>
Non-current provisions	13.1	14,293	23,906
Non-current payables	14.1	65,896	69,368
Bank borrowing		49,693	49,793
Other financial liabilities		16,203	19,575
Deferred tax liabilities	16	19,390	16,230
Non-current accruals	15	33,289	24,227
<b>CURRENT LIABILITIES</b>		<b>472,759</b>	<b>460,788</b>
Current provisions	13.2	2,163	1,920
Current payables	14.2	108,244	65,656
Bank borrowings		94	10,151
Other financial liabilities		108,150	55,505
Trade and other payables	14.3	232,974	293,997
Current accruals	15	129,378	99,215
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,138,383</b>	<b>1,089,025</b>



## INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2019

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

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2019

A) Statement of recognized income and expense for the year ended June 30, 2019

€ THOUSAND	NOTE	2018/2019	2017/2018
<b>Profit for the year</b>		<b>38,394</b>	<b>31,174</b>
<b>Income and expense recognized directly in equity</b>		<b>-</b>	<b>-</b>
<b>Amounts transferred to the income statement</b>			
Grants, donations and bequests received	12	(192)	(192)
Tax effect	12	48	48
<b>Total amounts transferred to the income statement</b>		<b>(144)</b>	<b>(144)</b>
<b>Total recognized income and expense</b>		<b>38,250</b>	<b>31,030</b>

B) Statement of total changes in equity for the year ended June 30, 2019

€ THOUSAND	ENTITY'S FUND	REVALUATION RESERVE RD 7/96	REVALUATION RESERVE LAW 16/2012	CAPITALIZATION RESERVE	PROFIT FOR THE YEAR	TOTAL EQUITY	GRANTS, DONATIONS AND BEQUESTS RECEIVED	TOTAL EQUITY
<b>Balance at June 30, 2017</b>	<b>404,513</b>	<b>8,548</b>	<b>20,277</b>	<b>4,202</b>	<b>21,372</b>	<b>458,912</b>	<b>4,564</b>	<b>463,476</b>
Total recognized income and expense for the year ended June 30, 2018	-	-	-	-	31,174	31,174	(144)	31,030
Distribution of prior year profit	18,946	-	-	2,426	(21,372)	-	-	-
<b>Balance at June 30, 2018</b>	<b>423,459</b>	<b>8,548</b>	<b>20,277</b>	<b>6,628</b>	<b>31,174</b>	<b>490,086</b>	<b>4,420</b>	<b>494,506</b>
Total recognized income and expense for the year ended June 30, 2019	-	-	-	-	38,394	38,394	(144)	38,250
Distribution of prior year profit	28,435	-	-	2,739	(31,174)	-	-	-
<b>Balance at June 30, 2019</b>	<b>451,894</b>	<b>8,548</b>	<b>20,277</b>	<b>9,367</b>	<b>38,394</b>	<b>528,480</b>	<b>4,276</b>	<b>532,756</b>

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2019

€ THOUSAND	NOTE	2018/2019	2017/2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit for the year before tax</b>		<b>53,482</b>	<b>42,983</b>
<b>Adjustments for:</b>		<b>61,757</b>	<b>59,741</b>
Depreciation and amortization	4,5,6,7	122,061	102,415
Impairment losses	17.5	46,378	(626)
Change in provisions	17.4	(8,847)	10,008
Grants recognized in the income statement	12	(192)	(192)
Proceeds from derecognition and disposals of non-current assets	17.5	(98,548)	(53,583)
Finance income	17.6	(795)	(1,004)
Finance expenses	17.6	1,599	2,819
Other income and expenses		101	(96)
<b>Working capital adjustments</b>		<b>(24,105)</b>	<b>(9,449)</b>
Inventories		(1,899)	(1,120)
Trade and other receivables		15,678	(20,122)
Other current assets		(1,290)	1,460
Trade and other payables		(65,121)	4,218
Other current liabilities		30,163	8,723
Other non-current assets and liabilities		(1,636)	(2,608)
<b>Other cash flows from operating activities</b>		<b>(14,673)</b>	<b>(8,806)</b>
Interest paid		(1,212)	(2,296)
Interest received		417	684
Income tax received/(paid)		(13,878)	(7,194)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>76,461</b>	<b>84,469</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Payments for investments</b>		<b>(222,509)</b>	<b>(146,987)</b>
Group companies and associates		-	-
Sports intangible assets		(189,025)	(125,112)
Other intangible assets		(861)	(860)
Property, plant and equipment		(32,623)	(20,270)
Investment properties		-	(745)
<b>Proceeds from sale of investments</b>		<b>121,645</b>	<b>96,639</b>
Group companies and associates		-	-
Sports intangible assets		121,605	96,392
Other intangible assets		-	-
Property, plant and equipment		40	247
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>(100,864)</b>	<b>(50,348)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Proceeds from and payments for financial liability instruments</b>		<b>(10,000)</b>	<b>(22,000)</b>
Issue of bank borrowings		-	50,000
Redemption and repayment of bank borrowings		(10,000)	(72,000)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<b>(10,000)</b>	<b>(22,000)</b>
<b>EFFECT OF EXCHANGE RATE FLUCTUATIONS</b>			
		-	-
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(34,403)</b>	<b>12,121</b>
Cash and cash equivalents at beginning of period		190,109	177,988
Cash and cash equivalents at end of period	10	155,706	190,109
		<b>(34,403)</b>	<b>12,121</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019



### 1. CORPORATE INFORMATION

Real Madrid, Club de Fútbol (the “Club”) was formed in 1902 as a sports entity to engage in, and use its assets for, primarily and principally, the promotion of football at all levels and ages and, in general, of all sports.

Its sporting activities focus currently on playing and promoting football and basketball. The Club has teams competing at various levels in both of these sports.

At its meeting of June 25, 2019, the Board of Directors agreed to lay a proposal before the next General Assembly of Members for the merger through absorption of the women’s football club, Club Deportivo Tacón, with effect from July 1, 2020. During the course of next season, the 2019/20 campaign, the C. D. Tacón first team will train and play their matches at Real Madrid City as a part of the transitory collaboration between the two clubs.

At June 30, 2019 and 2018, the Club held 100% of the shares of Real Madrid Consulting (Beijing) Co, Ltd. This company was incorporated on March 24, 2015 with share capital of 150 thousand US dollars (USD) and began operations on July 1, 2015. At June 30, 2019, share capital had not been called. The Club has five years from the date of incorporation to pay this amount. Real Madrid Consulting (Beijing) Co, Ltd.’s core activity is to support the expansion of Real Madrid in China and other countries in Asia.

Real Madrid Club de Fútbol does not prepare consolidated financial statements with its subsidiary, Real Madrid Consulting (Beijing) Co, Ltd, in accordance with article 7 of RD 1159/2010 on the preparation of consolidated financial statements, which regulates the release of companies from the obligation to present consolidated financial statements. It considers that its interest in the subsidiary is not material, individually or collectively, with respect to the fair presentation of the equity, financial position and results of operations of the Group.

## 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with new Spanish GAAP (Plan General Contable) approved by Royal Decree 1514/2007, of November 16, as amended, upholding the specifics contained in Spanish GAAP applicable to sporting public limited companies (sociedades anónimas deportivas) and sports entities insofar as they do not contradict the accounting standards. The accompanying financial statements are for the year ended June 30, 2019.

The figures shown herein are in thousands of euros (€ Thousand), unless stated otherwise.

### 2.1 FAIR PRESENTATION

The accompanying financial statements have been prepared from the auxiliary accounting records of the Club in accordance with Spanish GAAP and other prevailing accounting legislation to present fairly the Club's equity, financial position and results of operation. The statement of cash flows was prepared to present fairly the source and use of the Club's cash flows represented by cash and cash equivalents. The accompanying financial statements have been authorized for issue by the Club's Board of Directors.

### 2.2 COMPARATIVE INFORMATION

In accordance with company law, for comparative purposes the Club has included, for each item of the balance sheet, the income statement, the statement of changes in equity and the statement of cash flows, in addition to figures for the year ended June 30, 2019, those for the year ended June 30, 2018.

Quantitative information for the previous year is also included in the notes to the financial statements unless an accounting standard specifically states that this is not required.

### 2.3 CRITICAL ISSUES REGARDING THE MEASUREMENT AND ESTIMATION OF UNCERTAINTIES

The Club's Board of Directors prepared the financial statements using estimates based on historical experience and other factors considered reasonable under the circumstances. The carrying amounts of assets and liabilities, which were not readily apparent from other sources, were established on the basis of these estimates. Although the Club reviews these estimates on an ongoing basis, there is a series of risks and uncertainties that depend on the future outcome of certain assumptions and considerations described herein that could result in the need to revise the carrying amounts of assets and liabilities in future periods or other disclosures contained in these notes.

Key assumptions concerning the future and other key sources of estimation uncertainty of estimates at the reporting date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

- **Impairment of non-current assets and non-current assets held for sale recognized as current assets**

The measurement of non-current assets requires estimates to determine their recoverable amount (Notes 3.5) for assessing whether there is any impairment. To determine recoverable amount, where it is not possible to use a market value, the Club's directors estimate, as at the date of authorization for issue of the financial statements and whenever feasible, the present value of the estimated and probable future cash flows to be generated by the assets discounted using an appropriate discount rate. The Club makes estimates to determine fair value less costs to sell for assets classified as non-current assets held for sale (Note 3.5). These estimates are based primarily on offers received by the Club for the assets and on the analysis of comparable transactions in the market.

- **Deferred tax assets**

Deferred tax assets are recognized for the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that future taxable profit will be available against which they can be utilized and, accordingly, the assets recovered. To determine the amount of deferred tax assets that can be recognized, the Club's directors estimate the amounts and dates on which future taxable profits will be obtained, and the period of reversal of taxable temporary differences.

- **Provisions**

The Club makes judgments and estimates regarding the probability of occurrence of risks that could require the recognition of a provision and, where appropriate, the related amounts. A provision is recognized only when the risk is considered probable, in which case the cost that would be arising from the obligating event is estimated. On other occasions, the cost is determined after the reporting date and prior to the authorization for issue of the financial statements, once additional information and documentation has been obtained that confirms the assessment or estimate of the risk materializing at the close.

- **Calculation of fair value, value in use and present value**

Calculating fair value, value in use and present value entails, in certain cases, calculating future cash flows and making assumptions on the future amounts of the cash flows, as well as the applicable discount rates. The estimates and related assumptions are based on historical experience and various other factors considered reasonable under the circumstances.

- **Operating lease commitments - The Club as lessor**

The Club has entered into leases to carry out its business. Based on an evaluation of the terms and conditions of the arrangements, it has determined that the lessor retains all the risks and rewards of ownership of the assets. Therefore, it accounts for these arrangements as operating leases. Operating lease payments are recognized as expenses in the income statement on a straight-line basis over the lease term.

## 2.4 DISTRIBUTION OF PROFIT

Until the year ended June 30, 2015, the Club allocated all profit for the year to increase the balance of “Reserves”.

In the wake of changes to tax legislation effective from the year ended June 30, 2016, specifically in compliance with article 25 of the Corporate Income Tax Law 27/2014, the Club set aside a reserve, called the “Capitalization reserve,” earmarking 10% of the increase in equity of the previous year, up to a limit of 10% of taxable income for the year (Note 16.3).

## 2.5 BALANCE SHEET REVALUATION

In the 1996/1997 financial year, the Club availed of the balance sheet revaluation provided for in RD Law 7/1996, of June 7, increasing the net value of its property, plant, and equipment by €8,548 thousand. The impact on the depreciation charge for the year ended June 30, 2019 was €160 thousand (2018: €160 thousand).

Similarly, in the 2013/2014 financial year, the Club decided to avail of the revaluation provided for in Law 16/2012, of December 27, resulting in a net increase in its property, plant and equipment of €21,344 thousand. At the Extraordinary General Assembly held on September 22, 2013, the revaluations were approved, along with the ad hoc balance sheet issued by the Board of Directors. The ad hoc balance sheet and the breakdown of the revaluations of the various items of property, plant, and equipment were provided in the 2013/14 financial statements.

The impact on the depreciation charge for the year ended June 30, 2019 was €526 thousand (2018: €589 thousand).

### 3. RECOGNITION AND MEASUREMENT STANDARDS

The main recognition and measurement standards applied by the Club in the preparation of the accompanying financial statements for the year ended June 30, 2019, are as follows:

#### 3.1 SPORTS INTANGIBLE ASSETS

Sports intangible assets includes mainly player transfer rights (“transfers”) and the costs incurred to acquire such rights. These rights are measured at acquisition cost and amortized from the moment they are acquired on a straight-line basis over the term of each player’s contract. These intangible assets are initially recognized on the date the related acquisition agreement becomes effective.

After initial recognition, these assets are carried at cost less accumulated amortization and any accumulated impairment.

The cost of the intermediation services in player acquisitions or renewals is recognized as an increase in the acquisition cost and amortized on a straight line basis over the life of the player’s contract.

At the end of each reporting period, these intangible assets are assessed for indications of impairment. If there is objective and clear evidence that the Club’s sports intangible assets are impaired before the date of authorization for issue of the financial statements, the related impairment loss is recognized.

Player purchase options not exercised at the end of the reporting period are measured at acquisition cost, given the difficulties inherent in estimating the options’ fair value, as there are no active market or comparable transactions for these assets.

In general, players are derecognized at the date of disposal, transfer, cancellation of the contract, or expiry of the contractual rights over the players. Even though contact may have been initiated with other clubs, agents, or the players themselves, for the purpose of negotiating their departure from the Club, and given the difficulties and uncertainties that arise before signing agreements, in general, the related gain or cost is not recognized until either the sale or transfer contract has been signed, or until the player’s contract expires, since up to that moment there is no real transfer of rights and risks incidental to ownership of the contractual rights over the Club’s players.

However, if at the end of the period the Club considers that certain players meet the requirements for the related sports intangible assets to be classified as non-current assets held for sale (Note 3.5), the player is reclassified to this item and measured in accordance with the policy explained in the related note.

#### 3.2 OTHER NON-SPORTS INTANGIBLE ASSETS

Other intangible assets are initially recognized at acquisition cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

This type of intangible asset is recognized if, and only if, it is probable that it will generate future benefits for the Club, its cost can be measured reliably and it is identifiable.

Intangible assets are amortized on a systematic basis in accordance with their estimated useful life and residual value. Amortization methods and periods are reviewed at the end of each reporting period, and adjusted prospectively where applicable. Intangible assets are tested for impairment at least at each financial period end. If any such indication exists, the company estimates the recoverable amount and recognizes the related impairment.

##### • Concessions

This item includes expenditure made to obtain the concession for certain of the Club’s activities. These arrangements are amortized on a straight-line basis over a period of seven years. The Club’s concession assets are fully amortized.

This line item also includes the grant of an operator’s license for free-to-air broadcasting via TDT through a HD TV channel. The license was granted to the Club by the Ministry for Industry via Ministerial Order of November 19, 2015, following a public tender held in accordance with the tender terms approved by the Council of Ministers on April 17, 2015. The amount recognized is the present value of the fees payable for use of the concession over its 15-year term, which is also its amortization period.

- **Patents, licenses, trademarks, and similar rights**

These items reflect the amounts paid to register the Club's trademark. This asset is amortized on a straight-line basis over a period of 10 years.

- **Computer software and IT platforms**

These assets are amortized on a straight-line basis over periods ranging from three to four years. Software maintenance costs are recognized as an expense when incurred.

- **Other non-sports intangible assets**

This item includes:

- a) **Merchandising rights**

Merchandising rights include the value of rights repurchased by the Club on June 26, 1998, for €80,070 thousand, for merchandising, rights to use the sporting facilities, and adjacent bars and restaurants, audiovisual broadcasting rights to matches in European competitions, and static and dynamic in-game advertising and sponsorship of the football and basketball teams. These rights were amortized on a straight-line basis over periods ranging from four to 21 years, which ended this year.

These rights also include other management and exploitation rights repurchased by the Club in 2002/03 over several boxes located in the Santiago Bernabéu Stadium from Palcos Blancos, S.L. for €9,423 thousand. These rights were fully amortized at June 30, 2019 and 2018.

Finally, this item includes the merchandising, image, website and distribution rights repurchased by the Club from the former owners of the Real Madrid Gestión de Derechos, S.L. subsidiary for €29,610 thousand. These rights were fully amortized at June 30, 2019 and 2018.

- b) **Exploitation rights to stadium boxes acquired in business combinations**

This item includes the rights acquired in 2002/03 arising from the business combination carried out by the Club that year with Inversiones Incas 2000, S.L. and Real Madrid Eventos Deportivos, S.L. These two companies operated a number of boxes in the Santiago Bernabéu

Stadium that were acquired by the Club that year for €955 thousand and €4,029 thousand, respectively. These rights were fully amortized at June 30, 2019 and 2018.

### 3.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment are measured initially at cost, determined as the purchase price or production cost, including all costs and expenses related directly to the assets acquired until they are in operating condition. Cost also includes the revaluations made in accordance with legislation (Note 2.5).

After initial recognition, property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment.

Borrowing costs accrued until assets that required more than one year to be brought into working condition are ready to enter service are included in the purchase price or production cost of the asset.

Expenses for repairs that do not extend the useful life of the assets, as well as maintenance expenses, are taken to the income statement in the year incurred. Costs incurred to enlarge or improve items of property, plant and equipment which increase capacity or productivity or extend the useful life of the asset are capitalized as an increase in the value of the asset.

When available for use, property, plant and equipment are depreciated on a straight-line basis over their estimated useful life.

The years of estimated useful life of property, plant and equipment are as follows:

	YEARS OF USEFUL LIFE
Sports stadiums and pavilions	50
Other buildings	35
Other installations, equipment and furniture	10 - 38
Other property, plant and equipment	5 - 10

The Club reviews the assets' residual value, useful lives and depreciation methods at the end of each reporting year or period and adjusts them prospectively where applicable.

Items of property, plant and equipment are derecognized on disposal or when no future economic benefits are expected from them. The gain or loss on derecognition of an item of property, plant or equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the income statement for the year or period when the asset is derecognized.

### 3.4 INVESTMENT PROPERTIES

Investment property include assets held to earn rentals or for capital appreciation, as well as assets that are not used in operations and do not form part of the Club's ordinary course of business. The Santiago Bernabéu Stadium facilities leased to third parties are classified as investment properties.

The criteria set out for measuring property, plant, and equipment are applied to investment properties.

Properties classified as investment property are depreciated on a straight-line basis over their estimated useful lives of between 8 and 35 years.

### 3.5 NON-CURRENT ASSETS HELD FOR SALE

The Club classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use and provided that the following requirements are met:

- the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets;
- an active program to locate a buyer has been initiated; and
- the sale is highly probable within a year from the date of classification as a non-current asset held for sale.

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. These assets are not depreciated and, where necessary, the corresponding impairment is recognized so that the carrying amount does not exceed the fair value less costs to sell.

When an asset no longer meets the conditions for classification as held for sale, it is reclassified according to its nature and measured at the lower of the carrying amount before it was classified as held for sale, adjusted for any depreciation, amortization or impairment that would have been recognized had the asset not been classified as held for sale, and the recoverable amount at the reclassification date. Any difference is recognized in the income statement according to its nature.

These measurement provisions do not apply to deferred tax assets, assets arising from employee benefits and financial assets not related to equity investments in group companies, jointly controlled companies and associates included in the category of assets non-current assets held for sale, which are covered by specific standards.

Any related liabilities that may be canceled when the asset is sold are classified under "Liabilities associated with non-current assets held for sale".

### 3.6 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Club assesses, at least at the end of each financial year or period, whether there is an indication that a non-current asset or, where applicable, a cash-generating unit, may be impaired. If any such indication exists, the Club estimates the asset's recoverable amount and recognizes an impairment.

Impairment and any reversals thereof are recognized in the income statement. Impairment losses are reversed only if the circumstances that gave rise to the impairment cease to exist. Impairment is only reversed up to the limit of the carrying amount of the asset that would have been determined had the impairment loss not been recognized.

To determine whether there are indications of impairment, the Club carries out the following analysis:

#### a) Sports intangible assets / Sports property, plant and equipment

For sports intangible assets, the Club considers that, due to the complexity of negotiations to determine market value upon acquisition of the sports intangible asset, the lack of an active and transparent market, the

difficulties identifying comparable transactions and the significant changes in market value that can occur from one day to the next as a function of player performance and/or injuries, the differing economic circumstances of the selling and buying clubs, and the stance of players/agents, among others, in general it is not possible to determine the fair value of each of these assets objectively and reasonably until their sale. Nevertheless, the Club performs a detailed (individual and collective) analysis of the value of players' potential based on certain sports and financial parameters to identify whether there are any indications that a sports intangible asset may be impaired. If any clear indication or object evidence of impairment exists, the Club's management estimates the asset's recoverable amount based on the best information available at the date of authorization for issue of the financial statements and recognizes an impairment loss.

Sports property, plant, and equipment (e.g. sports stadiums and pavilions) present the same challenges to determine the market value, as there is no active and transparent market in which comparable transactions can be identified. To assess whether these assets may be impaired, the Club analyzes whether the income from these assets is sufficient to cover the related depreciation charges and other operating expenses.

**b) Other intangible assets, other property, plant and equipment and investment property**

The recoverable amount is the higher of fair value less costs to sell and value in use. The asset is considered impaired when its carrying amount exceeds its recoverable amount. The value in use is the present value of the expected future cash flows, discounted using a market risk-free rate and adjusted for any risks specific to the asset. For those assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In addition, the Club recognizes impairment on assets classified as non-current assets held for sale (Notes 2.3, 3.1 and 3.5).

### 3.7 LEASES

Arrangements are classified as finance leases when the economic conditions of the lease indicate that substantially all the risks and rewards incidental to ownership of the asset are transferred. All other lease arrangements are classified as operating leases.

- **Club as lessee**  
Operating lease payments are recognized as expenses in the income statement when accrued.
- **Club as lessor**  
Rental income from operating leases is recognized in the income statement when accrued.

### 3.8 FINANCIAL ASSETS

- **Classification and measurement**

Financial assets are classified for measurement purposes into one of the following categories: loans and receivables, available-for-sale financial assets, and equity investments in group companies.

The Club determines the classification of its financial assets at initial recognition and reviews the classification at the end of each financial year or reporting period.

- a) **Loans and receivables**

The Club recognizes in this category trade and non-trade receivables, which include financial assets with fixed or determinable payments not traded in an active market for which the Company expects to recover all of its initial investment, for reasons other than credit deterioration.

Loans and receivables are initially measured at fair value. In the absence of evidence to the contrary, this is the transaction price, which is equivalent to the fair value of the consideration given plus directly attributable transaction costs.



The financial assets included in this category are subsequently measured at amortized cost. Nonetheless, trade receivables falling due within one year for which there is no contractual interest rate, and loans and advances to personnel, expected to be collected in the short term are measured initially and subsequently at their nominal amount, provided that the effect of not discounting the cash flows is not material.

Security deposits provided on operating leases are measured at the amount given, which does not differ significantly from fair value.

Amounts received or past-due amounts receivable related to multi-year contracts for the transfer of certain rights or the rendering of services that are deferred over time are recognized in the balance sheet on the liabilities side under “Non-current accruals” or “Current accruals” and, for the most part, taken to profit or loss on a straight-line basis over the life of the related contracts.

These amounts are classified as current (less than a year) or non-current (more than a year) depending on the period of settlement.

#### b) Available-for-sale financial assets

This category includes equity instruments not classified in any other financial asset category.

These assets are initially measured at fair value. In the absence of evidence to the contrary, this is the transaction price, which is equivalent to the fair value of the consideration given plus directly attributable transaction costs.

Available-for-sale assets are subsequently measured at fair value, without deducting any transaction costs incurred on disposal. Changes in fair value are accounted for directly in equity until the financial asset is derecognized or impaired, and subsequently in the income statement. Investments in equity instruments for which the fair value cannot be estimated reliably are measured at cost less any accumulated impairment.

#### • Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or have been transferred, provided that substantially all the risks and rewards of ownership have been transferred.

If the Club has neither transferred nor retained substantially all the risks and rewards, it derecognizes the financial asset when it has not retained control over that asset. If the Club retains control over the asset, it continues to recognize the asset at the amount of the exposure to variability in the value of the transferred asset; that is, to the extent of its continuing involvement in the financial asset. The associated liability is also recognized.

The gain or loss on derecognition of the financial asset is determined as the difference between the consideration received net of attributable transaction costs, including any new asset obtained less any liability assumed, and the carrying amount of the financial asset, plus any accumulated amount recognized directly in equity. The gain or loss is recognized in profit or loss for the reporting period in which it arises.

### 3.9 IMPAIRMENT OF FINANCIAL ASSETS

The Club adjusts the carrying amount of financial assets with a charge to the income statement when there is objective evidence that the asset is impaired.

To determine impairment losses on financial assets, the Club assesses the potential loss of individual as well as groups of assets with similar risk exposure.

#### • Debt instruments and other receivables

There is objective evidence that a debt instrument is impaired as a result of an event occurring after initial recognition and leading to a reduction or delay in estimated future cash flows.

The Club classifies debt instruments as impaired assets (doubtful exposures) when there is objective evidence of impairment and when circumstances make it reasonable to classify collection of these assets as doubtful; these

circumstances refer basically to the existence of unpaid balances, non-compliance issues, refinancing and data which evidence the possible irrecoverability of total agreed-upon future cash flows or a delay in their collection.

For financial assets measured at amortized cost, the amount of the impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate calculated upon initial recognition.

Reversals of impairment are recognized as income in the income statement up to the limit of the carrying amount of the financial asset that would have been recorded at the reversal date had the impairment loss not been recognized.

- **Equity instruments**

There is objective evidence that equity instruments are impaired as a result of one or more events that occurred after initial recognition giving rise to a failure to recover the carrying amount due to a significant or prolonged decline in the fair value.

The impairment loss is measured as the difference between the carrying amount and the recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and the present value of future cash flows from the investment. When estimating impairment, the investee's equity is taken into consideration, corrected for any unrealized gains existing at the measurement date. The losses are recognized in the consolidated income statement through a direct reduction in equity.

The reversal of an impairment loss is recognized in the income statement. The loss can only be reversed up to the limit of the carrying amount of the investment that would have been disclosed at the reversal date had the impairment loss not been recognized.

### 3.10 FINANCIAL LIABILITIES

- **Classification and measurement**

The Club determines the classification of its financial liabilities at initial recognition and reviews the classification at the end of each financial year or reporting period.

Financial liabilities are classified for measurement purposes into one of the following categories:

- a) Debts and payables**

This category includes financial liabilities arising on the purchase of goods and services in the course of the Club's trade operations, and non-trade payables that are not derivatives.

Financial liabilities included in this category are initially measured at fair value. In the absence of evidence to the contrary, this is the transaction price, which is equivalent to the fair value of the consideration, adjusted for directly attributable transaction costs.

The financial liabilities included in this category are subsequently measured at amortized cost. Accrued interest is recognized in the income statement using the effective interest rate method.

Nonetheless, trade payables falling due within one year for which there is no contractual interest rate expected to be paid in the short term are measured at their nominal amount, provided that the effect of not discounting the cash flows is immaterial.

- b) Liabilities at fair value through profit or loss**

This category includes financial derivatives not designated as hedging instruments.

These liabilities are measured initially at fair value, with any changes in fair value recognized in profit or loss for the financial year or reporting period.

- **Derecognition**

The Club derecognizes a financial liability when the obligation is extinguished.

### 3.11 INVENTORIES

Inventories are measured at purchase price. The purchase price comprises the amount invoiced by the seller, after deducting any discounts, rebates or other similar items, plus any additional costs incurred to bring the goods to a saleable condition.

As the Club's inventories do not require a period of more than one year to be in a saleable condition, purchase price or production cost does not include borrowing costs.

The Club uses the weighted average cost method to allocate value to inventories.

When the net realizable value of inventories is lower than the cost, the Club recognizes an impairment loss with an expense in the income statement.

### 3.12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, current accounts, short-term deposits and purchases of assets under resale agreements which meet the following criteria:

- They are convertible to cash,
- They have a maturity of three months or less from the date of acquisition,
- There is no significant risk of changes in value, and
- They form part of the Club's usual cash management strategy.

For the purposes of the statement of cash flows, cash may also include occasional overdrafts when these form an integral part of the Club's cash management.

### 3.13 GOVERNMENT GRANTS

Monetary grants are measured at the fair value of the consideration awarded.

Grants are classified as non-refundable when the conditions attached to them are met, at which time they are recognized directly in equity, net of the related tax effect.

Repayable grants are recognized as liabilities until they meet the criteria for classification as non-repayable. Until then, no income is recorded.

Grants awarded to finance specific expenses are recognized as income in the reporting period in which the financed expenses are incurred. Grants awarded to acquire assets or settle liabilities are recognized as income for the reporting period in proportion with the amortization or depreciation charges for those assets.

### 3.14 PROVISIONS

The Club recognizes provisions when it has a present obligation (legal, contractual, constructive or tacit) arising from past events that is known before the end of the financial year or reporting period, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

In other situations where no present obligation exists yet or there is clear uncertainty with respect to the outcome of an event (e.g. claims, appeals), the Club and its legal or tax advisors assess the prospects of a future event that could result in a gain or loss for the Club. If the future occurrence of a particular event is highly probably, the resulting contingent asset or liability is estimated.

Provisions are measured at the present value of the best estimate of the amount required to settle the obligation or transfer it to a third party. Adjustments arising from the discounting of the provision are recognized as a finance expense when accrued. Provisions expiring within one year are not discounted where the financial effect is not material. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the obligation at the date of authorization for issue of the financial statements.

### 3.15 LIABILITIES ARISING FROM LONG-TERM EMPLOYEE BENEFITS

Neither the Club employees to whom its collective labor agreement is applicable nor the management are entitled to any supplementary pension benefits.

### 3.16 INCOME TAX

Income tax expense for the year is calculated as the sum of current tax resulting from applying the corresponding tax rate to taxable profit for the year, less deductions and other tax relief, and changes during the period in recognized deferred tax assets and liabilities. The tax expense is recognized in the income statement, except when it relates to transactions recognized directly in equity, in which case the related tax is likewise recognized in equity.

Deferred taxes are recognized for temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts. The tax base of an asset or liability is the amount attributed to it for tax purposes.

The tax effect of temporary differences is included in “Deferred tax assets” or “Deferred tax liabilities” on the balance sheet, as applicable.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities using the tax rates prevailing at the reporting date, including any other adjustments for taxes from prior years.

The Club recognizes deferred tax liabilities for all temporary differences, except where disallowed under prevailing tax legislation.

The Club recognizes deferred tax assets for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred assets are recognized to the extent that it is probable that taxable profit will be available against which the deferred tax assets can be utilized, except where disallowed by prevailing tax legislation.

At the end of each reporting period, the Club reassesses recognized and previously unrecognized deferred tax assets. Based on this analysis, the Club then derecognizes previously recorded deferred tax assets when recovery is no longer probable, or recognizes a previously unrecorded deferred tax asset to the extent that it is probable that future taxable profit will be available against which it can be utilized.

Deferred tax assets and liabilities are measured using the tax rates expected to prevail upon their reversal, based on tax

legislation approved, and in accordance with the manner in which the assets are reasonably expected to be recovered and liabilities settled.

Deferred tax assets and deferred tax liabilities are not discounted and are classified as non-current assets or non-current liabilities.

### 3.17 CLASSIFICATION OF CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

Assets and liabilities are classified in the balance sheet as current or non-current. Accordingly, assets and liabilities are classified as current when they are associated with the Club's normal operating cycle and it is expected that they will be sold, consumed, realized or settled within that cycle; they are expected to mature, or to be sold or realized within one year; they are held for trading; or are cash and cash equivalents whose use is not restricted for a period of over one year.

### 3.18 REVENUE AND EXPENSES

In accordance with the accruals principle, revenue and expenses are recognized when the goods or services represented by them take place, regardless of when the actual payment or collection occurs. Amounts received in a period related to income of the subsequent period are recognized under liabilities in the balance sheet as current or non-current accruals, as appropriate.

Revenue is recognized when it is probable that the profit or economic benefits associated with the transaction will flow to the Club and the amount of revenue and costs incurred or to be incurred can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, less any trade discounts, rebates or similar items granted by the Club. The following specific recognition criteria must also be met before revenue is recognized:

- Membership fees, ticket sales and stadium revenue: recognized in the season in which they are accrued.
- Revenue from international and friendly matches, broadcasting and marketing: recognized in the season in which they are accrued.
- Interest income: recognized as the interest accrues.

### 3.19 FOREIGN CURRENCY TRANSACTIONS

The Club's functional and presentation currency is the euro.

Foreign currency transactions are translated into euros at the spot exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currency are translated at the spot rate prevailing at the reporting date.

Exchange gains or losses arising on this process and on settlement of these assets and liabilities are recognized in the income statement for the financial year or reporting period in which they occur.

### 3.20 JOINT OPERATIONS

In the year ended June 30, 2018, the Club signed a participation account agreement related to management of its sponsorship revenue (Note 17.1.4), as regulated by articles 239 to 243 of the Spanish Commercial Code. The Club, acting as "manager participant," recognizes any operating profit or loss related to management of its sponsorship income, calculated in accordance with the annual contribution of the "non-managing participant."

### 3.21 ENVIRONMENTAL ASSETS AND LIABILITIES

Expenses relating to decontamination and restoration work in contaminated areas, as well as the elimination of waste and other expenses incurred to comply with environmental protection legislation, are recognized in the year in which they are incurred, unless they correspond to purchases of assets incorporated in equity to be used over an extended period. In this case, they are recognized in the corresponding line of "Property, plant and equipment" and depreciated using the same criteria as described in Note 3.3 above.

At June 30, 2019 and 2018, the Club had not incurred any such environmental expenditure or recognized any property, plant or equipment of this kind in the balance sheet.

### 3.22 RELATED PARTY TRANSACTIONS

Related party transactions are measured using the same criteria described above.

The Club considers members of the Club's Board, key managers and the Real Madrid Foundation as related parties.

## 4. SPORTS INTANGIBLE ASSETS AND NON-CURRENT ASSETS HELD FOR SALE

The breakdown and movement in this item are as follows:

### 2018/2019

€ THOUSAND	OPENING BALANCE	ADDITIONS AND ALLOWANCES	DISPOSALS	TRANSFERS	CLOSING BALANCE
<b>Football</b>					
Cost	847,729	248,528	(162,339)	(340,317)	593,601
Accumulated amortization	(531,662)	(103,546)	136,738	215,049	(283,421)
Impairment	(300)	(46,333)	300	46,333	-
<b>Net carrying amount football</b>	<b>315,767</b>	<b>98,649</b>	<b>(25,301)</b>	<b>(78,935)</b>	<b>310,180</b>
<b>Basketball</b>					
Cost	10,745	460	(912)	-	10,293
Accumulated amortization	(9,725)	(516)	671	-	(9,570)
Impairment	-	-	-	-	-
<b>Net carrying amount basketball</b>	<b>1,020</b>	<b>(56)</b>	<b>(241)</b>	<b>-</b>	<b>723</b>
<b>TOTAL NET CARRYING AMOUNT</b>	<b>316,787</b>	<b>98,593</b>	<b>(25,542)</b>	<b>(78,935)</b>	<b>310,903</b>

### 2017/2018

€ THOUSAND	OPENING BALANCE	ADDITIONS AND ALLOWANCES	DISPOSALS	TRANSFERS	CLOSING BALANCE
<b>Football</b>					
Cost	862,090	89,220	(103,581)	-	847,729
Accumulated amortization	(497,309)	(83,365)	49,012	-	(531,662)
Impairment	-	(300)	-	-	(300)
<b>Net carrying amount football</b>	<b>364,781</b>	<b>5,555</b>	<b>(54,569)</b>	<b>-</b>	<b>315,767</b>
<b>Basketball</b>					
Cost	10,318	1,153	(726)	-	10,745
Accumulated amortization	(8,853)	(1,557)	685	-	(9,725)
Impairment	-	-	-	-	-
<b>Net carrying amount basketball</b>	<b>1,465</b>	<b>(404)</b>	<b>(41)</b>	<b>-</b>	<b>1,020</b>
<b>TOTAL NET CARRYING AMOUNT</b>	<b>366,246</b>	<b>5,151</b>	<b>(54,610)</b>	<b>-</b>	<b>316,787</b>

#### 4.1 DESCRIPTION OF THE MAIN MOVEMENTS IN THE PERIOD

Additions of sports intangible assets relate to investments in new players for the professional football and basketball teams and include the amount of transfers and other acquisition costs incurred in the related transactions.

The acquisition costs in the year related to intermediation services was €31,625 thousand (2018: €41,532 thousand).

As indicated in Note 3.6 above, the Club recognizes impairment when there are clear indications and evidence of impairment of its sports intangible assets up to the date of authorization of the financial statements.

During the year ended June 30, 2019, the Club obtained revenue of €124,090 thousand (2018: €107,991 thousand) on disposals from the transfer of rights over several players to other clubs. The net gain from all disposals after deducting the carrying amount amounted to €98,548 thousand (2018: €53,381 thousand) (Note 17.5).

There were transfers from sports intangible assets to non-current assets held for sale in the year ended June 30, 2019.

#### 4.2 NON-CURRENT ASSETS HELD FOR SALE

As explained in Note 3.5, the Club classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use and provided that the following requirements are met: the asset is available for immediate sale, an active program to locate a buyer has been initiated, and the sale is highly probable within a year. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

As explained, the Club reclassified certain assets that met these requirements at the end of the reporting period to non-current assets held for sale and recognized impairment losses, where required and based on the best information available at the date of authorization of the financial statements, for a total amount of €46,333 thousand (Note 17.5).

The net amount reclassified was €78,935 thousand, which related to the assets' fair value less costs to sell.

#### 4.3 OTHER INFORMATION

Fully amortized player acquisition rights at June 30, 2019 amounted to €6,708 thousand (2018: €331 thousand).

At June 30, 2019, there were firm investment commitments amounting to €274,096 thousand and firm player transfer commitments of €108,000 thousand (2018: €53,925 thousand and €2,000 thousand, respectively).

There were no player purchase options measured at either June 30, 2019 or June 30, 2018.

The average duration of the contracts of players signed to the Professional Football League (LFP for its initials in Spanish) is five years.

The Real Madrid Club's policy is to arrange the insurance policies necessary to cover any risk to which members of its professional football and basketball squads may be exposed.

## 5. OTHER INTANGIBLE ASSETS

The breakdown and movement in this item are as follows:

### 2018/2019

€ THOUSAND	OPENING BALANCE	ADDITIONS AND ALLOWANCES	DISPOSALS	TRANSFERS	CLOSING BALANCE
<b>Cost:</b>					
Concessions	3,159	-	-	-	3,159
Patents, licenses, trademarks, and similar rights	1,666	139	-	-	1,805
Computer software	15,331	3	-	275	15,609
Other intangible assets	125,047	-	-	0	125,047
Advances	1,706	113	-	(1,390)	429
<b>Total cost</b>	<b>146,909</b>	<b>255</b>	<b>-</b>	<b>(1,115)</b>	<b>146,049</b>
<b>Accumulated amortization:</b>					
Concessions	(2,278)	(70)	-	-	(2,348)
Patents, licenses, trademarks, and similar rights	(1,094)	(92)	-	-	(1,186)
Computer software	(11,198)	(2,185)	-	-	(13,383)
Other intangible assets	(124,815)	(230)	-	-	(125,045)
<b>Total accumulated amortization</b>	<b>(139,385)</b>	<b>(2,577)</b>	<b>-</b>	<b>-</b>	<b>(141,962)</b>
<b>Impairment:</b>					
Computer software	(45)	-	-	-	(45)
<b>NET CARRYING AMOUNT</b>	<b>7,479</b>	<b>(2,322)</b>	<b>-</b>	<b>(1,115)</b>	<b>4,042</b>

### 2017/2018

€ THOUSAND	OPENING BALANCE	ADDITIONS AND ALLOWANCES	DISPOSALS	TRANSFERS	CLOSING BALANCE
<b>Cost:</b>					
Concessions	3,159	-	-	-	3,159
Patents, licenses, trademarks, and similar rights	1,526	140	-	-	1,666
Computer software	14,400	518	-	413	15,331
Other intangible assets	125,047	-	-	-	125,047
Advances	1,461	658	-	(413)	1,706
<b>Total cost</b>	<b>145,593</b>	<b>1,316</b>	<b>-</b>	<b>-</b>	<b>146,909</b>
<b>Accumulated amortization:</b>					
Concessions	(2,208)	(70)	-	-	(2,278)
Patents, licenses, trademarks, and similar rights	(1,019)	(75)	-	-	(1,094)
Computer software	(8,948)	(2,250)	-	-	(11,198)
Other intangible assets	(124,585)	(230)	-	-	(124,815)
<b>Total accumulated amortization</b>	<b>(136,760)</b>	<b>(2,625)</b>	<b>-</b>	<b>-</b>	<b>(139,385)</b>
<b>Impairment:</b>					
Computer software	(45)	-	-	-	(45)
<b>NET CARRYING AMOUNT</b>	<b>8,788</b>	<b>(1,309)</b>	<b>-</b>	<b>-</b>	<b>7,479</b>

Note 3.2 “Other intangible assets” describes the most significant operating rights held by the Club at June 30, 2019.

### 5.1 OTHER INFORMATION

The following table presents a summary of the cost of fully-amortized other intangible assets:

€ THOUSAND	6/30/19	6/30/18
Concessions	2,103	2,103
Patents, licenses, trademarks, and similar rights	806	806
Computer software	7,453	7,228
Other intangible assets	125,047	120,209
	<b>135,409</b>	<b>130,346</b>

## 6. PROPERTY, PLANT AND EQUIPMENT

The breakdown and movement in this item are as follows:

### 2018/2019

€ THOUSAND	OPENING BALANCE	ADDITIONS AND ALLOWANCES	DISPOSALS	TRANSFERS	CLOSING BALANCE
<b>Cost:</b>					
Sports stadiums and pavilions	322,303	483	(271)	1,450	323,965
Other land and buildings	61,622	286	(90)	2,560	64,378
Technical installations and other items	108,609	3,143	(495)	3,614	114,871
Under construction and advances	31,578	19,314	(9,706)	(6,492)	34,694
<b>Total cost</b>	<b>524,112</b>	<b>23,226</b>	<b>(10,562)</b>	<b>1,132</b>	<b>537,908</b>
<b>Accumulated depreciation:</b>					
Sports stadiums and pavilions	(94,709)	(6,894)	195	-	(101,408)
Other buildings	(7,741)	(1,351)	90	-	(9,002)
Technical installations and other items	(70,036)	(6,739)	348	-	(76,427)
<b>Total accumulated depreciation</b>	<b>(172,486)</b>	<b>(14,984)</b>	<b>633</b>	<b>-</b>	<b>(186,837)</b>
<b>Impairment</b>					
Buildings and other property, plant, and equipment	(10,411)	-	9,684	-	(727)
<b>NET CARRYING AMOUNT</b>	<b>341,215</b>	<b>8,242</b>	<b>(245)</b>	<b>1,132</b>	<b>350,344</b>

### 2017/2018

€ THOUSAND	OPENING BALANCE	ADDITIONS AND ALLOWANCES	DISPOSALS	TRANSFERS	CLOSING BALANCE
<b>Cost:</b>					
Sports stadiums and pavilions	347,935	358	(1,039)	(24,951)	322,303
Other land and buildings	22,215	3	-	39,404	61,622
Technical installations and other items	96,138	4,487	(916)	8,900	108,609
Under construction and advances	37,227	18,175	(471)	(23,353)	31,578
<b>Total cost</b>	<b>503,515</b>	<b>23,023</b>	<b>(2,426)</b>	<b>-</b>	<b>524,112</b>
<b>Accumulated depreciation:</b>					
Sports stadiums and pavilions	(90,062)	(6,878)	393	1,838	(94,709)
Other buildings	(4,863)	(1,040)	-	(1,838)	(7,741)
Technical installations and other items	(64,386)	(6,512)	862	-	(70,036)
<b>Total accumulated depreciation</b>	<b>(159,311)</b>	<b>(14,430)</b>	<b>1,255</b>	<b>-</b>	<b>(172,486)</b>
<b>Impairment</b>					
Buildings and other property, plant, and equipment	(11,504)	-	1,093	-	(10,411)
<b>NET CARRYING AMOUNT</b>	<b>332,700</b>	<b>8,593</b>	<b>(78)</b>	<b>-</b>	<b>341,215</b>

## 6.1 DESCRIPTION OF THE MAIN MOVEMENTS IN THE PERIOD

Aside from investments in the Sports City, additions in the year related mainly to previous investments made in the Santiago Bernabéu Stadium remodeling project, particularly the amount for the payment to the Madrid City Council of tax on construction, installations and works (ICIO) arising from the grant of the building permit.

On May 8, 2019, the Board of Directors awarded the remodeling contract to FCC Construcción, with a term of 39 months. The remodeling work will be carried out without affecting the matches scheduled or the stadium's normal activities (e.g. Tour Bernabéu, official club store, restaurants).

To fund the remodeling project, the Real Madrid Board of Directors, under authorization by the General Assembly of Delegated Members held on September 23, 2018, arranged financing of €575 million for a term of 30 years and a fixed rate of 2.5%. The financing was structured through a loan with three drawdowns, one each in July 2019, July 2020 and July 2021, in line with scheduled payments for the works. The facility also includes a three-year grace period for repayment of principal. Therefore, Real Madrid will pay a fixed annual amount of approximately €29.5 million as from July 30, 2023, until maturity on July 30, 2049. Real Madrid closed the deal without having to provide any mortgage guarantees (only pledges on certain stadium revenue) or accepting any restrictions on the Club's management or debt (only compliance with a certain coverage ratio between the pledged stadium revenue and debt service), so it can carry out its normal activity with no impact from payment of the works.

## 6.2 URBAN DEVELOPMENT UNITS

The Club acquired urban development units to existing plots in the Valdebebas area. These units were registered with the respective property registers (as an annotation in the original property inscription).

These development units have, for all intents and purposes, the same consideration as the land contributed, since the units are ultimately what generate the right to obtain a plot adjudication once the Reparcelling Project is prepared. In fact, both the purchase deeds and the registry inscriptions establish that these units will be applied to the resulting plot earmarked for private



sports usage in the amount of 16,401.6 development units and approximately 1,200,000m<sup>2</sup> of land under the Reparcelling Project.

Real Madrid Club de Fútbol presented these development rights to the “Parque de Valdebebas” Compensation Board, and on November 25, 2009, definite approval was received from the Madrid City Council through administrative channels for the Reparcelling Project, by virtue of which Real Madrid won the replacement plot. Real Madrid Club de Fútbol was duly registered as the owner of said plot in Madrid Property Registries 11 and 33.

Following the definitive approval of the Reparcelling Project, the Madrid taxation authorities issued payment notices to the former owners for capital gains tax arising from the increase in the value of the related urban land. These payment notices were appealed, since both the former owners and the Club disagree, given that the Club assumed the obligation to pay or put up surety for this tax in the purchase deeds. Prior to the appeals process, the Club provided the required guarantees for the amounts claimed, which is a total €12 million (Note 13.3). The majority of the rulings in the appeals process have been in favor of the Club. It will be able to release the bulk of the amount guaranteed once the rulings are final and the guarantee is released.

### 6.3 OPERATING LEASES

#### • Club as lessee

At June 30, 2019 and 2018, the Club had entered into operating leases on certain items of property, plant, and equipment, primarily buildings, technical installations and computer hardware. The lease terms range from one to five years, depending on the leased asset. In most cases, the leases are updated in accordance with the annual CPI. The Club is in no way encumbered by virtue of these leases.

Payments in the year ended June 30, 2019 on these leases amounted to €2,203 thousand (Note 17.4) (2018: €1,808 thousand).

Future minimal rentals payable under operating leases are as follows:

€ THOUSAND	6/30/2019	6/30/2018
Within one year	1,801	1,867
After one year but not more than five years	666	389
More than 5 years	-	-
	<b>2,467</b>	<b>2,256</b>

### 6.4 OTHER INFORMATION

At June 30, 2019, fully depreciated items of property, plant, and equipment, mainly technical installations, amounted to €51,868 thousand (2018: €49,671 thousand).

No borrowing costs were capitalized in the years ended June 30, 2019 and 2018.

At June 30, 2019, the Club had purchase commitments with suppliers for a small portion of the total estimated costs of the Santiago Bernabéu Stadium remodeling project (Note 6.1).

The Club’s policy is to arrange the insurance policies necessary to cover the risks to which its property, plant and equipment are exposed.

In previous years, the Club received a grant related to assets amounting to €9,607 thousand to finance the acquisition of property, plant and equipment. The breakdown of these assets is as follows:

#### 2018/2019

€ THOUSAND	COST	ACCUMULATED DEPRECIATION	NET CARRYING AMOUNT
Buildings	9,607	(3,906)	5,701

#### 2017/2018

€ THOUSAND	COST	ACCUMULATED DEPRECIATION	NET CARRYING AMOUNT
Buildings	9,607	(3,714)	5,893

At June 30, 2019, this grant was recognized in equity for an amount of €4,276 thousand (Note 12) (2018: €4,420 thousand) and in deferred tax liabilities for €1,426 thousand (2017: €1,474 thousand) (Notes 3.13 and 16.2).

## 7. INVESTMENT PROPERTIES

The breakdown and movement in this item are as follows:

### 2018/2019

€ THOUSAND	OPENING BALANCE	ADDITIONS AND ALLOWANCES	DISPOSALS	TRANSFERS	CLOSING BALANCE
<b>Cost</b>					
Land	13,620	-	-	-	13,620
Buildings	15,024	-	(14,645)	-	379
Installations	171	-	(123)	-	48
Construction in progress	1,393	-	(1,287)	(91)	15
<b>Total cost</b>	<b>30,208</b>	<b>-</b>	<b>(16,055)</b>	<b>(91)</b>	<b>14,062</b>
<b>Accumulated depreciation</b>					
Buildings	(11,111)	(424)	11,436	-	(99)
Installations	(76)	(14)	47	-	(43)
<b>Total accumulated depreciation</b>	<b>(11,187)</b>	<b>(438)</b>	<b>11,483</b>	<b>-</b>	<b>(142)</b>
<b>Impairment</b>					
Buildings	(4,024)	-	4,024	-	-
Land	(2,529)	-	160	-	(2,369)
Construction in progress	(548)	-	548	-	-
<b>Total impairment</b>	<b>(7,101)</b>	<b>-</b>	<b>4,732</b>	<b>-</b>	<b>(2,369)</b>
<b>NET CARRYING AMOUNT</b>	<b>11,920</b>	<b>(438)</b>	<b>160</b>	<b>(91)</b>	<b>11,551</b>

### 2017/2018

€ THOUSAND	OPENING BALANCE	ADDITIONS AND ALLOWANCES	DISPOSALS	TRANSFERS	CLOSING BALANCE
<b>Cost</b>					
Land	13,620	-	-	-	13,620
Buildings	15,024	-	-	-	15,024
Installations	171	-	-	-	171
Construction in progress	648	745	-	-	1,393
<b>Total cost</b>	<b>29,463</b>	<b>745</b>	<b>-</b>	<b>-</b>	<b>30,208</b>
<b>Accumulated depreciation</b>					
Buildings	(10,687)	(424)	-	-	(11,111)
Installations	(62)	(14)	-	-	(76)
<b>Total accumulated depreciation</b>	<b>(10,749)</b>	<b>(438)</b>	<b>-</b>	<b>-</b>	<b>(11,187)</b>
<b>Impairment</b>					
Buildings	-	-	779	(4,803)	(4,024)
Land	(2,709)	-	180	-	(2,529)
Construction in progress	(5,351)	-	-	4,803	(548)
<b>Total impairment</b>	<b>(8,060)</b>	<b>-</b>	<b>959</b>	<b>-</b>	<b>(7,101)</b>
<b>NET CARRYING AMOUNT</b>	<b>10,654</b>	<b>307</b>	<b>959</b>	<b>-</b>	<b>11,920</b>

“Land” includes mainly the plots related to the agreement signed with the Madrid City Council, and correspond to the sale of plots 1, zones 1 and 3, 4 and 5 zone 2 of the API 11.12 “Mercedes Arteaga, Jacinto Verdaguer” and the TER. 02. 189-A1 tertiary plot of the 4.01 UPN “Ciudad Aeroportuaria parque de Valdebebas” obtained through the segregation of the TER. 02 189-A plot.

“Buildings” includes mainly capital expenditure by the Club to equip a number of premises for hospitality and catering usage. There are four premises located within the Club’s installations that are operated by a third party which pays Real Madrid a royalty. The direct royalty revenue generated by this activity in the year ended June 30, 2019 amounted to €1,721 thousand (2018: €1,751 thousand).

The amount of disposals related to the “La Esquina del Bernabéu” shopping center. Its demolition began at the end of the period as a preliminary step in the stadium remodeling project. This property comprised a series of premises and a car park. It was leased out to a third party under an operating concession arrangement executed in 1992, originally for a period of 20 years and renewed successively until it expired this year. This assignment and operation arrangement generated revenue totaling approximately €376 thousand in the year ended June 30, 2019 (2018: €467 thousand).

Impairment was recognized on the real estate assets, based on market value for land and expectations regarding use for buildings.

Future minimal rentals receivable under operating leases are as follows:

€ THOUSAND	6/30/2019	6/30/2018
Within one year	2,278	2,170
After one year but not more than five years	3,687	4,528
More than five years	2,691	3,306
	<b>8,656</b>	<b>10,004</b>

## 8. FINANCIAL ASSETS

The breakdown and movement in this item are as follows:

### 2018/2019

€ THOUSAND	EQUITY INSTRUMENTS	LOANS AND OTHER FINANCIAL ASSETS	TOTAL
<b>NON-CURRENT FINANCIAL ASSETS</b>			
<b>Non-current financial assets</b>			
Loans and receivables:			
Non-current investments	-	29,480	29,480
Available-for-sale financial assets			
Non-current investments	345	-	345
	<b>345</b>	<b>29,480</b>	<b>29,825</b>
<b>CURRENT FINANCIAL ASSETS</b>			
<b>Current financial assets</b>			
Loans and receivables			
Trade and other receivables (*)	-	163,551	163,551
Cash and cash equivalents (Note 10)	-	155,706	155,706
	-	<b>319,257</b>	<b>319,257</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>345</b>	<b>348,737</b>	<b>349,082</b>

(\*) Does not include public administrations

### 2017/2018

€ THOUSAND	EQUITY INSTRUMENTS	LOANS AND OTHER FINANCIAL ASSETS	TOTAL
<b>NON-CURRENT FINANCIAL ASSETS</b>			
<b>Non-current financial assets</b>			
Loans and receivables:			
Non-current investments	-	43,768	43,768
Available-for-sale financial assets			
Non-current investments	345	-	345
	<b>345</b>	<b>43,768</b>	<b>44,113</b>
<b>CURRENT FINANCIAL ASSETS</b>			
<b>Current financial assets</b>			
Loans and receivables			
Trade and other receivables (*)	-	151,269	151,269
Cash and cash equivalents (Note 10)	-	190,109	190,109
	-	<b>341,378</b>	<b>341,378</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>345</b>	<b>385,146</b>	<b>385,491</b>

(\*) Does not include public administrations

## 8.1 NON-CURRENT INVESTMENTS

The breakdown and movement in this item are as follows:

### 2018/2019

€ THOUSAND	OPENING BALANCE	ADDITIONS	DISPOSALS	TRANSFERS TO CURRENT	CLOSING BALANCE
Equity instruments	345	-	-	-	345
Non-current receivables from sports entities for player transfers	23,812	52,754	-	(76,510)	56
Other financial assets	19,956	9,468	-	-	29,424
<b>Total non-current investments</b>	<b>44,113</b>	<b>62,222</b>	<b>-</b>	<b>(76,510)</b>	<b>29,825</b>

### 2017/2018

€ THOUSAND	OPENING BALANCE	ADDITIONS	DISPOSALS	TRANSFERS TO CURRENT	CLOSING BALANCE
Equity instruments	345	-	-	-	345
Non-current receivables from sports entities for player transfers	16,894	59,957	-	(53,039)	23,812
Other financial assets	9,438	10,518	-	-	19,956
<b>Total non-current investments</b>	<b>26,677</b>	<b>70,475</b>	<b>-</b>	<b>(53,039)</b>	<b>44,113</b>

- “Equity instruments” includes the Club’s ownership interests in several unlisted entities that organize competitions in which the Club’s professional basketball team participates and over which the Club exercises neither control nor significant influence. The Club has measured these investments at cost rather than at fair value, as it does not have sufficient information to determine their fair value reliably.
- “Non-current receivables from sports entities for player transfers” includes the amounts receivable from a number of sports entities primarily relating to the sale of rights over professional players. These amounts do not accrue explicit interest. The detail by maturity is as follows:

€ THOUSAND	6/30/2019	6/30/2018
Year 2	54	23,807
Year 3	2	3
Year 4 and beyond	-	2
	<b>56</b>	<b>23,812</b>

The aforementioned amounts are recognized using the amortized cost method, which includes the financial effect of discounting. Accrued finance income in the year ended June 30, 2019 amounted to €378 thousand (2018: €320 thousand) (Note 17.6).

Additions during the year corresponded mainly to the sale of player transfer rights. Transfers to current liabilities include balances on loans which fall due within one year from the date of the accompanying balance sheet.

- The amount of “Other financial assets” is related mainly to sports personnel contract bonuses accruing in the long term.

## 8.2 TRADE AND OTHER RECEIVABLES

The breakdown of “Trade and other receivables” is as follows:

€ THOUSAND	6/30/2019	6/30/2018
Trade receivables		
Stadium revenues	11,378	11,587
Broadcasting rights	313	1,512
Marketing revenues	54,769	67,504
	66,460	80,603
Receivables from sports entities		
Player transfers	78,802	52,305
Other	10,585	11,081
	89,387	63,386
Other financial assets		
Personnel	7,704	7,280
	7,704	7,280
<b>Total financial assets</b>	<b>163,551</b>	<b>151,269</b>
Current tax assets and other (Note 16)	3,881	5,743
Other receivables from public administrations (Note 16)	10	12
<b>Total receivables from public administrations</b>	<b>3,891</b>	<b>5,755</b>
<b>TOTAL TRADE AND OTHER RECEIVABLES</b>	<b>167,442</b>	<b>157,024</b>

### • Trade receivables

The balance of “Trade receivables” is presented net of impairment. The movement in impairment losses is as follows:

€ THOUSAND	6/30/2019	6/30/2018
Initial impairment	15,324	15,711
Charge for the year (Note 17.4)	633	410
Utilized (Note 17.4)	(1,012)	(28)
Unused amounts reversed (Note 17.4)	(140)	(760)
Transfer in the year	(188)	(9)
<b>Final impairment</b>	<b>14,617</b>	<b>15,324</b>

The breakdown of foreign currency balances included in this item at June 30, 2019 is as follows:

THOUSANDS	FOREIGN CURRENCY AMOUNT	EURO AMOUNT
US dollars	3,371	2,962
Australian dollars	24	15
<b>Total</b>		<b>2,977</b>

The breakdown of foreign currency balances included in this item at June 30, 2018 is as follows:

THOUSANDS	FOREIGN CURRENCY AMOUNT	EURO AMOUNT
US dollars	977	838
Australian dollars	25	16
<b>Total</b>		<b>854</b>

### • Current receivables from sports entities

The balance of “Current receivables from sports entities” is presented net of impairment. The movement in impairment losses is as follows:

€ THOUSAND	6/30/2019	6/30/2018
Initial impairment	28	277
Charge for the year (Note 17.4)	150	-
Utilized	-	-
Unused amounts reversed (Note 17.4)	(28)	(277)
Transfer in the year	28	28
<b>Final impairment</b>	<b>178</b>	<b>28</b>

“Other receivables from sports entities” at June 30, 2019 includes a balance with the Professional Football League of €5,948 thousand confirmed with the latter (2018: €3,642 thousand).

There were no significant foreign currency balances at June 30, 2019 and 2018.

## 9. INVENTORIES

The balance of inventories at June 30, 2019 was €5,570 thousand (2018: €3,671 thousand). No impairment losses were recognized at either June 30, 2019 or 2018.

The increase was due to the new merchandising agreement (Note 17.1.2).

## 10. CURRENT INVESTMENTS, CASH AND CASH EQUIVALENTS

The breakdown of these items is as follows:

€ THOUSAND	6/30/2019	6/30/2018
Cash	6	9
Demand current accounts	155,700	190,100
<b>Cash and cash equivalents</b>	<b>155,706</b>	<b>190,109</b>

At June 30, 2019 and 2018, there were no restrictions on withdrawals from demand current accounts.

## 11. EQUITY - CAPITAL AND RESERVES

The breakdown and movement in “Capital and reserves” are shown in the statement of changes in equity.

### • Reserves

“Reserves” consists mainly of the initial endowment and subsequent contributions arising from the distribution of profits. In addition, the impact of the transition to the new General Accounting Plan in Spain were recognized under this item which, as required therein, must be recorded in unrestricted reserve accounts.

### • Revaluation reserve RD 7/96

The revaluation reserve allocated by the Club in the 1996/1997 financial year may be used to offset tax losses or to increase the “Reserves” account or unrestricted reserves, once the revalued assets have been fully depreciated or derecognized from inventories.

### • Revaluation reserve law 16/2012

In the 2013/2014 financial year the Club availed of the balance sheet revaluation provided in Law 16/2012 of December 27 (Note 2.5). Amounts arising from the accounting revaluations were recognized under “Revaluation Reserve Law 16/2012 of December 27”. Since the period for verifying the revaluation by the Taxation Authorities has expired, the balance of this account may be used to offset losses and increase share capital, or after 10 years have transpired from the date of the balance sheet in which the revaluations were made, allocated to unrestricted reserves. This balance may only be distributed, indirectly or directly, when the revalued assets have either been fully depreciated, disposed of or derecognized.

### • Capitalization reserve

In accordance with article 25 of Corporate Income Tax (CIT) Law 27/2014, of November 27, the Club includes in the calculation of income tax a reduction in taxable income for the year of 10% of the increase in equity of the prior year, up to 10% of taxable income for the year.

In the 2017/2018 financial year, the Club allocated the “Capitalization reserve” in compliance with the requirements of the CIT to be eligible for this reduction. This reserve is restricted for a period of five years.

## 12. EQUITY - GRANTS, DONATIONS, AND BEQUESTS RECEIVED

The movements in non-refundable capital grants included in the consolidated statement of changes in equity are as follows:

### 2018/2019

€ THOUSAND	OPENING BALANCE	ADDITIONS	TAX EFFECT OF ADDITIONS	AMOUNTS TRANSFERRED TO PROFIT OR LOSS (NOTE 17.1)	TAX EFFECT OF TRANSFERS	CLOSING BALANCE
Non-refundable grants	4,420	-	-	(192)	48	4,276
<b>Total non-refundable grants</b>	<b>4,420</b>	<b>-</b>	<b>-</b>	<b>(192)</b>	<b>48</b>	<b>4,276</b>

### 2017/2018

€ THOUSAND	OPENING BALANCE	ADDITIONS	TAX EFFECT OF ADDITIONS	AMOUNTS TRANSFERRED TO PROFIT OR LOSS (NOTE 17.1)	TAX EFFECT OF TRANSFERS	CLOSING BALANCE
Non-refundable grants	4,564	-	-	(192)	48	4,420
<b>Total non-refundable grants</b>	<b>4,564</b>	<b>-</b>	<b>-</b>	<b>(192)</b>	<b>48</b>	<b>4,420</b>

The grants awarded are mainly grants related to assets from sports bodies, primarily the Professional Football League, in conjunction with certain capital expenditure made by the Club during the 1996/1997 season (Note 6.4).

The Club's Board believes it has fulfilled all the conditions attached to the grants for consideration as non-refundable.

## 13. PROVISIONS AND CONTINGENCIES

### 13.1 NON-CURRENT PROVISIONS

The breakdown and the movement in this item are as follows:

#### EJERCICIO 2018/2019

€ THOUSAND	OPENING BALANCE	ADDITIONS	DISPOSALS	NET TRANSFERS	CLOSING BALANCE
Other provisions	23,906	2,011	(9,513)	(2,111)	14,293
<b>Total non-current provisions</b>	<b>23,906</b>	<b>2,011</b>	<b>(9,513)</b>	<b>(2,111)</b>	<b>14,293</b>

#### EJERCICIO 2017/2018

€ THOUSAND	OPENING BALANCE	ADDITIONS	DISPOSALS	NET TRANSFERS	CLOSING BALANCE
Other provisions	13,699	13,364	(3,012)	(145)	23,906
<b>Total non-current provisions</b>	<b>13,699</b>	<b>13,364</b>	<b>(3,012)</b>	<b>(145)</b>	<b>23,906</b>

During the year, the Club set aside provisions of €2,011 thousand to cover certain risks (2018: €13,364 thousand).

It also reversed €9,513 thousand of unused provisions (2018: €1,000 thousand) since the circumstances that gave rise to them no longer existed (Note 17.1).

The Club did not utilize provisions in the year ended June 30, 2019 (2018: €2,012 thousand).

### 13.2 CURRENT PROVISIONS

The breakdown and the movement in this item are as follows:

#### 2018/2019

€ THOUSAND	OPENING BALANCE	ADDITIONS	DISPOSALS	NET TRANSFERS	CLOSING BALANCE
Current provisions for liabilities and charges	1,920	238	(2,106)	2,111	2,163
<b>Total current provisions</b>	<b>1,920</b>	<b>238</b>	<b>(2,106)</b>	<b>2,111</b>	<b>2,163</b>

#### 2017/2018

€ THOUSAND	OPENING BALANCE	ADDITIONS	DISPOSALS	NET TRANSFERS	CLOSING BALANCE
Current provisions for liabilities and charges	1,745	30	-	145	1,920
<b>Total current provisions</b>	<b>1,745</b>	<b>30</b>	<b>-</b>	<b>145</b>	<b>1,920</b>

### 13.3 GUARANTEES AND DEPOSITS GIVEN

The Club has granted guarantees and deposits to third parties for different purposes.

The breakdown of these guarantees by maturity is as follows:

€ THOUSAND	6/30/2019	6/30/2018
Indefinite	29,509	25,802
2018/2019	-	600
<b>Total guarantees and deposits given</b>	<b>29,509</b>	<b>26,402</b>

The bulk of the amount drawn down on guarantees with indefinite maturity relate to claims arising from settlement of tax on the increase in the value of urban land in Valdebebas (Note 6.2), to a guarantee provided to comply with the commitments of the grant of a license to broadcast an HD channel through TDT, and to a guarantee provided to comply with the obligations regarding the treatment of waste during the stadium remodeling project. No liabilities are expected to arise from these guarantees.

Income from membership fees is currently pledged in favor of Banco de Santander in guarantee of a credit facility maturing on July 27, 2023 (Note 14.2).

### 13.4 COMMITMENTS, CONTINGENT ASSETS, AND LIABILITIES

For some of the following agreements, information is provided regarding different issues without any indication of financial amounts, as this is confidential commercial information and its disclosure could be damaging for the Club.

1. In 2005/2006 a contract was signed with Siemens AG, which was then assumed by BenQ Mobile GmbH & Co. This company declared bankruptcy in the 2006/2007 financial year and, consequently, the Club set aside a provision for the full amount of the debt that period.

As a result of the liquidation process, until June 30, 2015, 80% of the total debt filed for creditor protection was collected (2008/09: 35%; 2011/12: 30%; 2013/14: 15%). In the 2015/2016 financial year, notification was received from the bankruptcy trustee indicating that another 15% was to be liquidated. Subsequently, on October 19, 2016, the bankruptcy trustee presented its findings report to the court, raising the final amount of collection to 97.27%. The definitive amount was 97.77%, which was settled in April this year.

2. Variable collection rights from different clubs and image/ sponsorship contracts were also recognized in the year ended June 30, 2019 amounting to €162 thousand (2018: €6,754 thousand). Payment obligations of €6,250 thousand were also recognized at June 30, 2019 (2018: no payment obligations).

In addition, there are potential liabilities arising from agreements with sports entities that would be triggered if certain sports objectives are achieved in future seasons. In the unlikely event that all the objectives were to be met, the maximum amount to be paid over the term of all the agreements up until their expiration would amount to €31,250 thousand (2018: €18,000 thousand). If payment were made, these amounts would be more than offset by the increased revenue from sports competitions, especially the Champions League.

There are also potential assets related to sponsorship agreements that are contingent upon fulfillment of established sports objectives in future seasons. In the unlikely event that all the objectives were met, the maximum amount to be paid over the term of all the agreements up until their expiration would amount to €70,110 thousand (2018: €42,848 thousand).

3. On July 29, 2011, an agreement was signed and ratified by public deed on December 21, 2011 with the Madrid City Council legalizing the earlier agreements entered into between the two parties on May 29, 1998 and December 20, 2001.

This agreement included compensation from the Madrid City Council due to the legal impossibility of transferring the entire “Las Tablas” plot as stipulated in the agreement signed on May 29, 1998, as well as Real Madrid’s compensation for breach of the main obligation of the underground parking lot on the Paseo de la Castellana’s lateral section established in the Agreement dated December 20, 2001.

The Madrid City Council paid the compensation by transferring a plot of land located between Rafael Salgado, Paseo de la Castellana, and Concha Espina on API 05.12 “Santiago Bernabéu”, Plots 1, zone 1 and 3, 4 and 5 Zone 2 of API 11.12 “Mercedes Arteaga, Jacinto Verdaguer” and the tertiary plot TER. 02 189-A1 of UNP 4.01 “Ciudad Aeroportuaria parque de Valdebebas” obtained by segregating plot TER.02 189-A.

All the property, plant, and equipment included in the scope of the agreement were appraised by the Technical Services Department of the Sub-Directorate General of Urban Adaptation under the General Directorate for Town Planning Management of the Government, Development and Housing Area. The appraisal was carried out by an external appraiser. Where the appraised amount was lower than net carrying amount, the related impairment loss was recognized. A new appraisal is made each year, with the impairment charge adjusted in accordance with the new valuation. Impairment at June 30, 2019 and 2018 amounted to €2,369 thousand, recognized in the related balance sheet item (Note 7).

On March 21, 2012, Madrid Federal Court of Appeals 14 upheld the request for an injunction filed regarding the agreement between the Club and the Madrid City Council on July 21, 2011, entailing suspension of enforcement of the agreement. Both the Club and the City Council appealed the injunction, and on July 12, 2012, the Administrative Appeals section of the Madrid Supreme Court handed down a sentence revoking the injunction issued by the Judge from the Madrid Court of Administrative Appeals 14, considering that there were no grounds for the injunction.

Regarding the main legal proceeding, on April 25, 2012, a claim was filed before the Court against the agreement signed on July 29, 2011, seeking its annulment and restitution of the assets to their situation prior to the signing of the agreement, along with the related cancellation of any files on register, and requiring a new appraisal of the obligations arising from the agreements signed in 1991 and 1998. The Administrative Appeals court handed down a ruling on October 10, 2013, notified on October 15, 2013, rejecting the appeal and upholding the sentence, which was ruled as final through an organization procedure dated November 20, 2013.

For its part, the European Commission notified Spain of its decision to initiate proceedings regarding alleged State aid arising from the appraisal of a plot of land located in Las Tablas (Madrid), which the Madrid City Council was forced to turn over to Real Madrid, in compliance with a land-swap agreement signed by the parties in 1998. Due to the legal impossibility of handing the plot over, it was appraised by the City Council at its value for tax purposes, and replaced by other land of equivalent value.

On July 4, 2016, the European Commission issued a decision concluding that the Club obtained an advantage of €18.4 million from the over-evaluation of a plot of land. The Club, considering that this did not constitute State aid since the Club received, via the delivery of other land, an amount equivalent to that which it was entitled to receive, appealed this decision before the General Court of the European Union, seeking the annulment of the decision.

Irrespective of the appeal, on October 28, 2016, the Club paid the City Council the required €18.4 million plus €1.9 million of late payment interest (for a total of €20.33 million).

On May 22, 2019, the General Court of the European Union issued its judgment, annulling in its entirety the contested decision of the European Commission of July 4, 2016, which concluded that the Madrid Town Council granted State aid to Real Madrid of €18.4 million.

The European Commission has two months to bring an appeal before the European Court of Justice. In any case, the General Court’s ruling is enforceable immediately, irrespective



of whether the European Commission lodges an appeal. As a result, Real Madrid has already enforced this through a procedure of reimbursement of undue revenue with the Madrid City Council. It has requested reimbursement of the €20.33 million paid on October 28, 2016, plus late payment interest as of that date up to the date of the reimbursement.

Since the Town Council had not responded or made this reimbursement, and the deadline for appealing before the European Commission had not been reached as at the date of authorization for issue of the annual financial statements, the Club, in keeping with criteria of prudence, elected not to recognize the income from the reimbursement requested in the financial statements for this year.

4. In December 2013, the European Commission notified Spain of its decision to commence proceedings regarding alleged State aid to different Spanish football clubs, including Real Madrid Club de Fútbol, for applying legislation to this type of entity that, for tax purposes, included a lower tax rate.

On July 4, 2016, the European Commission issued a decision in which it considered that by being taxed at a lower rate, the clubs benefited by an estimated €0 to €5 million per club, the precise amount of which the Spanish authorities needed to determine on a case-by-case basis. The Club considers that the application of this legislation did not constitute state aid, since the tax benefits come in addition to other prejudices; an analysis of the years contemplated by the European Commission regarding the Club's tax returns showed that the Club would have suffered economic damage amounting to €7 million had it been taxed as a limited liability company (*sociedad anónima*). This favorable economic assessment for the Club was also included in the European Commission's decision of July 4, 2016. In addition, last year the Club was subject to a tax audit regarding the EU case by the Spanish taxation authorities. This procedure was resolved without requiring any material adjustment to the economic loss estimated by the Club. In light of this situation, in the 2016/2017 reporting period, the Club commenced a procedure to claim reimbursement of the amount of economic loss caused by the discriminatory treatment of the legislation, plus late payment interest. Last year, the Club filed an appeal with the Supreme Court.

On February 12, 2019, the Supreme Court issued its judgment, rejecting the appeal and considering unjustified the claim for reimbursement on the grounds that the liability suit was brought before there was any effective loss since the Commission's decision is not final as other clubs have contested it and since the procedure for recovering the State aid granted had just begun when the financial liability claim was lodged.

On February 26, 2019, the 2019, the General Court of the European Union issued a judgment annulling the Commission's decision of July 4, 2016 classifying the tax regime of four Spanish professional football clubs as State aid. An appeal against this decision has been brought by the Commission.

On April 24, 2019, the taxation authorities ruled on the procedure for recovering State aid, rejecting the request for reimbursement presented by the Club. It considered that the reimbursement arises directly from the Commission decisions annulled by the General Court, so the request should be denied. In addition, the recovery of the aid is not warranted since it would imply the return of the €7 million higher amount taxed relative to the general regime claimed by the Club and recognition of tax assets for an equal amount, which would go against the purpose pursued in the proceedings of State aid.

The Club has brought an appeal before the TEAC to this judgment and will assess the possibility of taking further legal action in defense of its claim.

5. On April 30, 2015, Royal Decree Law 5/2015 governing the joint operation of TV rights was approved. This Royal Decree became effective in the 2016/2017 season, marking the first year that clubs no longer had individual rights.

Real Madrid filed an appeal against this agreement with the LFP in its Assembly held during the 2015/2016 season regarding the distribution of the year's TV broadcast rights, as it considered that since the Royal Decree had not yet entered into force during the season, the distribution of the capital gains generated by the overall management of the individual contracts made by the LFP was not yet applicable. It considered that, in accordance with the LFP bylaws for the distribution of the remaining joint LFP income (e.g. sponsorships, advertising,

football pool revenue), the distribution should be made by attributing 60% of income to the 20 first division clubs (an even 3% each), and 40% for the 22 second division clubs (an even 1.82% each). Failing this, Real Madrid proposed an even distribution between the 42 LFP clubs.

At the date of authorization for issue of the financial statements, the appeal filed by the Club was still being heard by the Federal Court of Appeals, subsequent to the dismissal of the Club's injunction proceedings proposed regarding the LFP assembly agreement and after the High Sports Council ratified the agreement. Should the appeal be accepted, for its rights related to the 2015/2016 season, the Club would collect an amount in addition to that already collected under the terms of its individual contract.

6. In October of 2014, the Club signed an agreement with International Petroleum Investment Company (IPIC) as its new sponsor for the 2014/15, 2015/16 and 2016/17 seasons. In December 2014, the sponsorship agreement was partially assigned by IPIC to CEPSA. This assignment was still effective at June 30, 2017. The agreement with IPIC included the possibility of extending the sponsorship agreement for another two seasons, which occurred de facto in the 2017/18 season according to Club criteria. Therefore, last season the related invoices were issued, which are currently under dispute.

The agreement stated the possibility of IPIC having Stadium naming rights in upcoming seasons, in which case the amounts receivable and the term of the agreement would increase significantly. The effectiveness of the naming right was contingent on acceptance by IPIC to comply with certain legal requirements regarding town planning. Although Real Madrid notified IPIC of compliance prior to June 30, 2017, this compliance is still being discussed between the parties. Therefore, in 2018, as provided for in the agreement, the Club applied for arbitration by the The International Court of Arbitration of the International Chamber of Commerce. The Club filed its suit in February 2019, with the proceedings still under way at the date of authorization for issue of the accompanying financial statements.

## 14. FINANCIAL LIABILITIES

The breakdown of "Financial liabilities" is as follows:

### 2018/2019

€ THOUSAND	BANK BORROWINGS	OTHER FINANCIAL LIABILITIES	TOTAL
<b>NON-CURRENT FINANCIAL LIABILITIES</b>			
<b>Non-current financial liabilities</b>			
Debts and payables:			
Non-current payables	49,693	16,203	65,896
	<b>49,693</b>	<b>16,203</b>	<b>65,896</b>
<b>CURRENT FINANCIAL LIABILITIES</b>			
<b>Current financial liabilities</b>			
Debts and payables			
Current payables	94	108,150	108,244
Trade and other payables (*)	-	207,121	207,121
	<b>94</b>	<b>315,271</b>	<b>315,365</b>
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>49,787</b>	<b>331,474</b>	<b>381,261</b>

(\*) Does not include public administrations.

### 2017/2018

€ THOUSAND	BANK BORROWINGS	OTHER FINANCIAL LIABILITIES	TOTAL
<b>NON-CURRENT FINANCIAL LIABILITIES</b>			
<b>Non-current financial liabilities</b>			
Debts and payables:			
Non-current payables	49,793	19,575	69,368
	<b>49,793</b>	<b>19,575</b>	<b>69,368</b>
<b>CURRENT FINANCIAL LIABILITIES</b>			
<b>Current financial liabilities</b>			
Debts and payables			
Current payables	10,151	55,505	65,656
Trade and other payables (*)	-	270,861	270,861
	<b>10,151</b>	<b>326,366</b>	<b>336,517</b>
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>59,944</b>	<b>345,941</b>	<b>405,885</b>

(\*) Does not include public administrations.

## 14.1 NON-CURRENT PAYABLES

The breakdown of “Trade and other payables” is as follows:

€ THOUSAND	6/30/2019	6/30/2018
<b>Bank borrowings</b>	<b>49,693</b>	<b>49,793</b>
<b>Other financial liabilities</b>		
Suppliers of fixed assets	14,135	16,682
Sports entities for player transfers	2,068	1,893
Other financial liabilities	-	1,000
	<b>16,203</b>	<b>19,575</b>
<b>TOTAL NON-CURRENT PAYABLES</b>	<b>65,896</b>	<b>69,368</b>

As explained in Note 6.1, the first drawdown on the loan to fund the stadium was made in July 2019, so it was not reflected in the balance sheet as at June 30, 2019.

### • Bank borrowings

At June 30, 2019, the Club had one long-term loan with a nominal amount of €50,000 thousand of principal outstanding (2018: €50,000 thousand).

In addition, the Club had several undrawn long-term credit facilities at June 30, 2019 amounting to €285,000 thousand (2018: €150,000 thousand).

The borrowings in all cases bear floating interest at the Euribor rate plus a market spread.

The repayment schedule for the long- and short-term borrowings is as follows:

### JUNE 30, 2019

€ THOUSAND	2019/2020	2020/2021	2021/2022	2022/2023	SUBSEQUENT YEARS	TOTAL
Bank borrowings	-	50,000	-	-	-	50,000

### JUNE 30, 2018

€ THOUSAND	2018/2019	2019/2020	2020/2021	2021/2022	SUBSEQUENT YEARS	TOTAL
Bank borrowings	10,000	-	50,000	-	-	60,000

### • Other financial liabilities

The breakdown of this item by year of maturity is as follows:

### JUNE 30, 2019

€ THOUSAND	2020/2021	2021/2022	2022/2023	2023/2024	SUBSEQUENT YEARS	TOTAL
Suppliers of fixed assets	10,648	2,698	65	71	653	14,135
Sports entities for player transfers	2,068	-	-	-	-	2,068
Other financial liabilities	-	-	-	-	-	-
<b>Total</b>	<b>12,716</b>	<b>2,698</b>	<b>65</b>	<b>71</b>	<b>653</b>	<b>16,203</b>

### JUNE 30, 2018

€ THOUSAND	2019/2020	2020/2021	2021/2022	2022/2023	SUBSEQUENT YEARS	TOTAL
Suppliers of fixed assets	10,562	4,134	1,198	65	723	16,682
Sports entities for player transfers	1,893	-	-	-	-	1,893
Other financial liabilities	1,000	-	-	-	-	1,000
<b>Total</b>	<b>13,455</b>	<b>4,134</b>	<b>1,198</b>	<b>65</b>	<b>723</b>	<b>19,575</b>

The payables in the preceding table do not bear explicit interest, except for certain payables to suppliers of fixed assets, which accrue interest annually at a rate indexed to the Euribor.

The aforementioned amounts were measured at amortized cost, which includes the financial effect of discounting. Accrued finance expenses in the year ended June 30, 2019 amounted to €313 thousand (2018: €222 thousand).

There were no non-current payable balances in foreign currency at June 30, 2019 and 2018.

## 14.2 CURRENT PAYABLES

The breakdown of “Current payables” is as follows:

€ THOUSAND	6/30/2019	6/30/2018
<b>Bank borrowings</b>	<b>94</b>	<b>10,151</b>
<b>Other financial liabilities</b>		
Suppliers of fixed assets	28,292	38,658
Sports entities for player transfers	79,858	16,847
	<b>108,150</b>	<b>55,505</b>
<b>TOTAL CURRENT PAYABLES</b>	<b>108,244</b>	<b>65,656</b>

### • Bank borrowings

At June 30, 2019, the Club did not have any short-term credits or credit facilities (2018: a €10,000 loan and a €32,000 thousand undrawn credit facility). The payable shown in the balance sheet relates to unmatured interest at June 30, 2019.

### • Other financial liabilities

The breakdown of foreign currency balances is as follows:

### JUNE 30, 2019

THOUSANDS	FOREIGN CURRENCY AMOUNT	EURO AMOUNT
US dollars	35	31
Pound sterling	17	19
Australian dollars	83	56
Brazilian reais	7	2
<b>Total</b>		<b>108</b>

### JUNE 30, 2018

THOUSANDS	FOREIGN CURRENCY AMOUNT	EURO AMOUNT
US dollars	75	64
Pound sterling	12	14
Japanese yen	10	2
<b>Total</b>		<b>80</b>

## 14.3 TRADE AND OTHER PAYABLES

The breakdown of “Trade and other payables” is as follows:

€ THOUSAND	6/30/2019	6/30/2018
Trade payables	56,714	61,805
Marketing payables	-	-
Sports entities for services rendered	911	1,296
Sports personnel	143,713	200,818
Non-sports personnel	5,783	6,942
<b>Total financial liabilities</b>	<b>207,121</b>	<b>270,861</b>
Other payables to public administrations (Note 16)	25,853	23,136
Current tax liabilities	-	-
<b>Total payables to public administrations</b>	<b>25,853</b>	<b>23,136</b>
<b>TOTAL TRADE AND OTHER PAYABLES</b>	<b>232,974</b>	<b>293,997</b>

The amount of “Sports personnel” relates primarily to remuneration payable to players and coaches of the first football team in accordance with their contracts, the terms of which stipulate that these payments are made generally in July and December. Also included are performance bonuses for sports achievements which, under the terms of the contracts, are paid the following season.

The breakdown of “Sports personnel” is as follows:

€ THOUSAND	6/30/2019	6/30/2018
First football team players and coaching staff	140,966	194,312
Other football team players and coaching staff	29	37
Basketball players and coaching staff	2,718	6,469
<b>Total payables to sports personnel</b>	<b>143,713</b>	<b>200,818</b>

#### 14.4 WORKING CAPITAL

Working capital is the difference between current assets and current liabilities on the balance sheet.

Working capital at June 30, 2019 was a negative 60 million euros. It remained negative, as in previous years, but improved compared to the year before by €46 million (2018: €-106 million).

Negative working capital is the result, partly, of investment in property, plant, and equipment, intangible assets and in sports intangible assets, in both the current and previous years.

The effect of these investments is in addition to the Club's inherently negative working capital. The principal factor driving negative working capital is, in line with the intrinsic workings of the Club, the large operations-driven accounts payable (purchases and services, player signings, upfront collection of membership dues/season tickets), which are recurring; i.e. renewed annually.

Current recurring payables at June 30, 2019 amounted to €361 million (purchases and services: €83 million; signings/other personnel: €149 million; accruals of membership dues/season tickets and other: €129 million euros), up from €393 million at June 30, 2018 (purchases and services: €86 million; signings/other personnel: €208 million; accruals of membership dues/season tickets and other: €99 million). These current recurring payables are responsible for large part of the negative goodwill at the end of the reporting period.

These balances will be rolled over, and therefore will reflect similar amounts at each year-end. Membership fees are collected on June 30 of the following year. This generates a recurring negative balance, which is canceled over the entire year. However, cancellation does not represent any payment since it is covered by income the following year. Box seating and VIP area season tickets, as well as amounts from certain sponsors, were collected prior to the end of the season, whereas the recognition in revenue and, accordingly, the reduction in the creditor balance is carried out over the entire season, implying no payment whatsoever.

The remaining current payables at June 30, 2019 related to amounts owed for investments, which will be paid comfortably with the cash flows generated by the Club each month from operating activities, plus available cash and financial investments in highly liquid assets.

In sum, what is important is that the Club expects to generate significant operating profit, i.e., operating income higher than operating expenses, both this year and next. As a result, after meeting the payment commitments arising from its operations, the Club generates significant surplus cash to cover its investment commitments.

Considering the above and taking into account the forecast cash balances based on conservative assumptions for the coming seasons, and the undrawn available credit lines at June 30, 2019 of €285 million (2018: €182 million), the uncertainties that may arise in terms of potential liquidity risk and the Club's financial position due to negative working capital are mitigated.

#### 15. CURRENT AND NON-CURRENT ACCRUALS

The breakdown of these items is as follows:

€ THOUSAND	6/30/2019	6/30/2018
<b>Non-current accruals</b>		
Non-current advances	33,289	24,227
	<b>33,289</b>	<b>24,227</b>
<b>Current accruals</b>		
<b>Deferred income</b>		
Broadcasting revenue	23,501	14,825
Stadium revenue	67,637	65,967
Marketing revenue	34,239	10,098
Competition revenue	4,001	8,325
	<b>129,378</b>	<b>99,215</b>

• **Non-current advances**

This item relates to discounted amounts received in advanced and pending accrual arising on various sponsorship agreements.

Finance expenses recognized in the income statement for the year ended June 30, 2019 related to the discounting of the advance payments received and amounted to €231 thousand (2018: €365 thousand).

• **Deferred income**

a) **Broadcasting revenue**

This item includes amounts collected or invoiced by the Club under agreements on audiovisual rights entered into before June 30, 2019, which accrue in the 2019/20 season.

b) **Stadium revenue**

Stadium revenue comprises mainly membership fees and season tickets and income from stadium boxes received or invoiced before June 30, 2019, which accrue in the 2019/20 season.

c) **Marketing revenue**

The balance of this item relates to the amounts received or invoiced by the Club under business agreements entered into before June 30, 2019, which accrued in the 2019/20 season.

d) **Competition revenue**

The balance of this item relates to the amounts received or invoiced by the Club before June 30, 2019 on friendly matches and other sports revenue, which accrued in the 2019/20 season.

## 16. TAXATION

The breakdown of tax assets is as follows:

€ THOUSAND	6/30/2019	6/30/2018
Recoverable taxes	10	12
<b>Other receivables from public administrations (Note 8.2)</b>	<b>10</b>	<b>12</b>
Withholdings and payments on account	3,881	5,743
<b>Current tax assets (note 8.2)</b>	<b>3,881</b>	<b>5,743</b>
Deferred tax assets for deductible temporary differences	19,111	13,043
Unused tax credits and other tax relief	-	-
<b>Deferred tax assets (non-current assets)</b>	<b>19,111</b>	<b>13,043</b>

The breakdown of tax liabilities is as follows:

€ THOUSAND	6/30/2019	6/30/2018
VAT payable	19,507	18,160
Personal income tax payable	3,478	2,367
Corporate income tax payable (non-resident income tax)	23	23
Corporate income tax payable (IRCM)	36	95
Local income tax payable	2,049	1,824
Social security payable	760	667
<b>Other payables to public administrations (Note 14.3)</b>	<b>25,853</b>	<b>23,136</b>
<b>Current tax liabilities</b>	<b>-</b>	<b>-</b>
Liabilities arising from taxable temporary differences	19,390	16,230
<b>Deferred tax liabilities</b>	<b>19,390</b>	<b>16,230</b>

The Club is current with all its tax obligations and has no past-due amounts with the taxation authorities, or agreements with the taxation authorities for deferring any payments.

Accordingly, all amounts recognized under tax liabilities at the end of the reporting period are the result of applying ordinary tax regulations:

- VAT payable: balance payable for transactions in the month of June, with settlement on July 30.
- Personal income tax payable: balance payable for transactions in the month of June, with settlement on July 20.

- Local income tax payable: expense accrued from January to June for local taxes, mainly regarding property and business taxes, with settlement in November.
- Social Security payable: balance payable for Social Security obligations in the month of June, with settlement on July 30.
- Current tax liabilities: provision for income tax payable calculated based on profit/(loss) for the year. No amount was recorded for this item at June 30, 2019 or 2018 since in both years the Club, in accordance with regulations on payments by installment, made prepayments for amounts that were higher than it ultimately was required to pay in the tax return. This gave rise to refunds, recognized under tax assets.
- Liabilities arising from taxable temporary differences: the balance of corporate income tax to be settled by deferred payments, in accordance with tax deferral regulations (e.g. reinvestment of profits, accelerated depreciation).

## 16.1 CALCULATION OF INCOME TAX EXPENSE

In accordance with prevailing tax legislation, the Club's profits are subject to a 25% tax rate. However, certain deductions may be made to the resulting tax liability.

The reconciliation of net income and expense with taxable income (tax loss) in the provision for income tax recognized at the end of each period is as follows:

## 2018/2019

€ THOUSAND	PROFIT/(LOSS) FOR THE YEAR	INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY
Income and expense for the year		
Continuing operations	38,394	-
Income tax		
Continuing operations	15,088	-
<b>Income and expense for the year before tax</b>	<b>53,482</b>	-
<b>Permanent differences</b>	<b>13,978</b>	-
<b>Temporary differences</b>		
Originating in the current year	1,680	-
Originating in prior years	9,757	-
	<b>11,437</b>	-
<b>Preliminary taxable income</b>	<b>78,897</b>	-
<b>Reduction of taxable income arising from the recapitalization reserve</b>	<b>(3,117)</b>	-
<b>TAXABLE INCOME (TAX RESULT FOR THE YEAR)</b>	<b>75,780</b>	-

## 2017/2018

€ THOUSAND	PROFIT/(LOSS) FOR THE YEAR	INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY
Income and expense for the year		
Continuing operations	31,174	-
Income tax		
Continuing operations	11,809	-
<b>Income and expense for the year before tax</b>	<b>42,983</b>	-
<b>Permanent differences</b>	<b>10,433</b>	-
<b>Temporary differences</b>		
Originating in the current year	(12,274)	-
Originating in prior years	4,913	-
	<b>(7,361)</b>	-
<b>Preliminary taxable income</b>	<b>46,055</b>	-
<b>Reduction of taxable income arising from the recapitalization reserve</b>	<b>(2,739)</b>	-
<b>TAXABLE INCOME (TAX RESULT FOR THE YEAR)</b>	<b>43,316</b>	-

Reconciliation of income tax expense/(income) recognized and the result of multiplying total recognized income and expenses by the applicable tax rate, differentiating the amount reported in the income statement, is as follows:

## 2018/2019

€ THOUSAND	PROFIT/(LOSS) FOR THE YEAR	INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY
Income and expense for the year before tax	53,482	-
Permanent differences	13,978	-
	<b>67,460</b>	-
Effective tax rate	25%	-
<b>Theoretical tax charge</b>	<b>16,865</b>	-
<b>Deductions</b>	<b>(819)</b>	-
<b>Adjustment of prior year provision</b>	<b>(179)</b>	-
<b>Current capitalization reserve</b>	<b>(779)</b>	-
<b>EFFECTIVE INCOME TAX EXPENSE</b>	<b>15,088</b>	-

## 2017/2018

€ THOUSAND	PROFIT/(LOSS) FOR THE YEAR	INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY
Income and expense for the year before tax	42,983	-
Permanent differences	10,433	-
	<b>53,416</b>	-
Effective tax rate	25%	-
<b>Theoretical tax charge</b>	<b>13,354</b>	-
<b>Deductions</b>	<b>(868)</b>	-
<b>Adjusted of prior year provision for income tax</b>	<b>19</b>	-
<b>Capitalization reserve</b>	<b>(685)</b>	-
<b>Adjustment of prior year capitalization reserve</b>	<b>(11)</b>	-
<b>EFFECTIVE INCOME TAX EXPENSE</b>	<b>11,809</b>	-

The breakdown of income tax expense/(income) is as follows:

## 2018/2019

€ THOUSAND	PROFIT/(LOSS) FOR THE YEAR	INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY
Current tax	17,976	-
Changes in deferred taxes		
Changes in deferred tax assets for deductible temporary differences	(6,068)	-
Changes in deferred tax liabilities for deductible temporary differences	3,208	-
Grants, donations and bequests received	-	(48)
Adjustment of prior year provision for income tax	(28)	-
<b>Effective income tax expense</b>	<b>15,088</b>	<b>(48)</b>

## 2017/2018

€ THOUSAND	PROFIT/(LOSS) FOR THE YEAR	INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY
Current tax	9,961	-
Changes in deferred taxes		
Recognized tax losses	-	-
Unused tax credits and other tax relief	-	-
Changes in deferred tax assets for deductible temporary differences	(636)	-
Changes in deferred tax liabilities for deductible temporary differences	2,387	-
Grants, donations and bequests received	-	(48)
Adjustment of prior year provision for income tax	108	-
Adjustment of Capitalization Reserve	(11)	-
<b>Effective income tax expense</b>	<b>11,809</b>	<b>(48)</b>

The calculation of income tax recoverable or payable is as follows:

€ THOUSAND	6/30/2019	6/30/2018
Current tax	(17,976)	(9,961)
Withholdings and payments on account	21,857	14,593
Prior year deductions used in the year	-	1,111
<b>Current tax assets/(liabilities)</b>	<b>3,881</b>	<b>5,743</b>



## 16.2 DEFERRED TAX ASSETS AND LIABILITIES

The movements in the items composing “Deferred tax assets” and “Deferred tax liabilities” are as follows:

### 2018/2019

€ THOUSAND	CHANGES REFLECTED IN			CLOSING BALANCE
	OPENING BALANCE	INCOME STATEMENT	EQUITY	
<b>Deferred tax assets</b>				
Deferred tax assets for deductible temporary differences				
Provisions and other	6,649	8,182	-	14,831
Amortization and depreciation	6,394	(2,114)	-	4,280
	<b>13,043</b>	<b>6,068</b>	-	<b>19,111</b>
<b>Deferred tax liabilities</b>				
Liabilities for taxable temporary differences				
Deferred capital gains	2,813	(83)	-	2,730
Deferred capital gains due to deferred payment	10,597	3,357	-	13,954
Free depreciation	1,096	(66)	-	1,030
Grants (Note 6.4)	1,474	-	(48)	1,426
Other	250	-	-	250
	<b>16,230</b>	<b>3,208</b>	<b>(48)</b>	<b>19,390</b>

### 2017/2018

€ THOUSAND	CHANGES REFLECTED IN			CLOSING BALANCE
	OPENING BALANCE	INCOME STATEMENT	EQUITY	
<b>Deferred tax assets</b>				
Deferred tax assets for deductible temporary differences				
Provisions and other	4,076	2,573	-	6,649
Amortization and depreciation	8,331	(1,937)	-	6,394
	<b>12,407</b>	<b>636</b>	-	<b>13,043</b>
<b>Deferred tax liabilities</b>				
Liabilities for taxable temporary differences				
Deferred capital gains	2,895	(82)	-	2,813
Deferred capital gains due to deferred payment	8,052	2,545	-	10,597
Free depreciation	1,172	(76)	-	1,096
Grants (Note 6.4)	1,522	-	(48)	1,474
Other	250	-	-	250
	<b>13,891</b>	<b>2,387</b>	<b>(48)</b>	<b>16,230</b>

### • Deferred tax assets - Unused tax credits and other tax relief

The accounting movement in “Unused tax credits and other tax relief” is as follows:

### 2018/2019

€ THOUSAND	OPENING BALANCE	INCREASES	DECREASES	CLOSING BALANCE
Investment tax credits	-	-	-	-
Other deductions	-	819	(819)	-
<b>Total unused tax credits and other tax relief</b>	<b>-</b>	<b>819</b>	<b>(819)</b>	<b>-</b>

### 2017/2018

€ THOUSAND	OPENING BALANCE	INCREASES	DECREASES	CLOSING BALANCE
Investment tax credits	-	1,122	(1,122)	-
Other deductions	-	857	(857)	-
<b>Total unused tax credits and other tax relief</b>	<b>-</b>	<b>1,979</b>	<b>(1,979)</b>	<b>-</b>

El detalle de las deducciones por reinversión generadas por año de generación es el siguiente:

€ THOUSAND	ELIGIBLE GAINS	TAX CREDIT GENERATED	UNUSED DEDUCTION GENERATED IN PRIOR YEAR APPLIED	DEDUCTION GENERATED IN THE YEAR APPLIED	UNUSED TAX CREDIT
ARISING IN					
2018/2019	-	-	-	-	-
2017/2018	164	11	(1,111)	(11)	-

At the end of each reporting period, the Club recognizes tax credits and relief to the extent that it is probable that sufficient taxable profit will be available against which they can be utilized.

In 2002/03, applicable tax legislation on capital gains obtained from the sale of certain assets was amended, as per article 36.ter of the Corporate Income Tax (CIT) Law, establishing a deduction from tax payable on such capital gains in the year in which the credit is utilized, up to a limit of 10 years from when it is generated. This deduction was 10% for capital gains generated through financial year 2006/07, falling to 7% thereafter. As a consequence of this regulation, the Club recognized the tax asset corresponding to gains included in the tax base, provided the pertinent requirements are met, such as reinvestments within the legally stipulated time frames.

Law 27/2014, of November 27, effective for tax periods beginning on or after January 1, 2015, eliminated this deduction on new gains generated as of that date. However, it kept the deduction for gains generated in prior years and not applied to taxable income. In 2017/2018, the Club completed the application of eligible gains to taxable income.

#### • Deferred tax liabilities - deferral for reinvestment

These liabilities result from the tax treatment applicable to capital gains on certain transfers of players' federative rights, as well as on merchandising, internet, image and distribution rights transferred and on a portion of the land at the Club's former sporting complex, whose recognition in taxable income has been deferred.

The aforementioned tax treatment consisted of applying the tax credit for reinvestment of extraordinary gains provided for in article 21 of the CIT Law (Law 43/1995, of December 27) to the gains generated in financial years from 1996/97 to 2001/02 on the disposal of certain assets, thereby acquiring a commitment to reinvest the full sale proceeds at some point within the period elapsing between the year prior to the sale and the three years following it. These gains were reinvested in player federative rights, other intangible assets and items of property, plant, and equipment, as well as financial assets.

The total amount of deferred income in accordance with article 21 of the CIT Law, the recognition method and the amounts

already reinvested and pending reinvestment are set out in the following table (thousands of euros):

### JUNE 30, 2019

€ THOUSAND								
FINANCIAL YEAR	ASSETS SOLD	DEFERRED GAIN	AMOUNT TO BE REINVESTED	AMOUNT REINVESTED	GAIN INCLUDED IN TAXABLE INCOME	GAIN PENDING INCLUSION	LAST FY FOR INCLUDING GAINS	METHOD FOR INCLUDING GAIN
1996/1997	Player federative rights	8,084	11,239	11,239	8,084	-	2006/2007	Sevenths
1997/1998	Player federative rights	3,865	5,421	5,421	3,865	-	2007/2008	Sevenths
1998/1999	Player federative rights	14,135	17,159	17,159	14,135	-	2008/2009	Sevenths
1999/2000	Player federative rights	20,358	25,142	25,142	20,358	-	2009/2010	Sevenths
2000/2001	Other rights	115,995	117,197	117,197	115,995	-	2010/2011	Sevenths
2000/2001	Player federative rights	24,523	25,243	25,243	24,523	-	2010/2011	Sevenths
2001/2002	Land	203,443	204,142	204,142	203,443	-	2011/2012	Sevenths
2001/2002	Land	15,714	15,768	15,768	4,793	10,921	2011/2051	% of depreciation of reinvested assets
<b>Total</b>		<b>406,117</b>	<b>421,311</b>	<b>421,311</b>	<b>395,196</b>	<b>10,921</b>		
<b>Deferred tax (25%)</b>						<b>2,730</b>		

### JUNE 30, 2018

€ THOUSAND								
FINANCIAL YEAR	ASSETS SOLD	DEFERRED GAIN	AMOUNT TO BE REINVESTED	AMOUNT REINVESTED	GAIN INCLUDED IN TAXABLE INCOME	GAIN PENDING INCLUSION	LAST FY FOR INCLUDING GAINS	METHOD FOR INCLUDING GAIN
1996/1997	Player federative rights	8,084	11,239	11,239	8,084	-	2006/2007	Sevenths
1997/1998	Player federative rights	3,865	5,421	5,421	3,865	-	2007/2008	Sevenths
1998/1999	Player federative rights	14,135	17,159	17,159	14,135	-	2008/2009	Sevenths
1999/2000	Player federative rights	20,358	25,142	25,142	20,358	-	2009/2010	Sevenths
2000/2001	Other rights	115,995	117,197	117,197	115,995	-	2010/2011	Sevenths
2000/2001	Player federative rights	24,523	25,243	25,243	24,523	-	2010/2011	Sevenths
2001/2002	Land	203,443	204,142	204,142	203,443	-	2011/2012	Sevenths
2001/2002	Land	15,714	15,768	15,768	4,463	11,251	2011/2051	% of depreciation of reinvested assets
<b>Total</b>		<b>406,117</b>	<b>421,311</b>	<b>421,311</b>	<b>394,866</b>	<b>11,251</b>		
<b>Deferred tax (25%)</b>						<b>2,813</b>		

These gains have been included in taxable income as a general rule in seven equal parts from year three, except where the proceeds were reinvested in fixed assets, in which case the income is included in taxable income in the tax periods in which the related assets are depreciated.

- **Deferred tax liabilities - Deferral of capital gains due to deferred payment**

In the 2009/10 financial year, and in accordance with article 19.4 of Legislative Royal Decree 4/2004 of the Consolidated Text of the Spanish Corporate Income Tax Law (TRLIS in Spanish), the Club decided to recognize, for tax purposes, the capital gains on asset transfers in transactions involving deferred payment based on the collections carried out

This gave rise to a deferred tax liability amounting to €11,231 thousand in the year ended June 30, 2019 (2018: €6,475 thousand) related to the deferred capital gains during the year, and the cancellation of €7,874 thousand from collection of deferred capital gains from the previous year (2018: €3,930 thousand).

- **Deferred tax liabilities - free depreciation**

Pursuant to Royal Decree Law 13/2010, of December 3, on measures designed to boost competitiveness, effective from January 1, 2011, the Club availed for the first time for the 2011/23 financial year the free depreciation of its investments in the new property, plant and equipment and investment properties covered under this law, and is not required to maintain employment, which was a condition in the previous regulation. Free depreciation generated a deferred tax amounting to €1,533 thousand in the 2011/12 financial year.

In the year ended June 30, 2019, a total of €66 thousand euros was canceled (2018: €76 thousand) related to the accounting depreciation of the assets to which free depreciation was applied.

### 16.3 CAPITALIZATION RESERVE

In accordance with Article 25 of Corporate Income Tax (CIT) Law 27/2014, of November 27, taxpayers that pay tax at the rate provided in sections 1 to 6 of Article 29 of the CIT will be eligible for a reduction in taxable income of 10% of the increase in capital and reserves provided the following conditions are met:

a) The increase in capital and reserves must be maintained for a period of five years from the end of the tax period to which the reduction relates, except in the event of tax losses.

b) The amount of the reduction must be appropriated to a reserve, which must appear on the face of the balance sheet as a separate heading and will be non-distributable for the aforementioned time period.

In no circumstance may the reduction in taxable income exceed 10% of taxable income for the tax period prior to the reduction and the integration referred to in section 12 of article 11 of the CIT and prior to the offset of tax losses.

To comply with its requirements, the Club set aside the related reserve within the term provided for in company law for the approval of the financial statements (see Note 2.4).

### 16.4 OTHER INFORMATION

- **Tax assessments 2010-2014**

In January 2016, tax assessments were signed under protest relating to personal income tax, non-resident income tax, value added tax and corporate income tax for 2010 to 2014. The Club was notified in May 2014 of the resolutions regarding final settlement. The assessments arose due to discrepancies regarding the tax treatment of payments made by the Club for services rendered and invoiced to the Club by agents. The Spanish tax authorities considered that these payments were made on behalf of players where a relationship was deemed to exist between the agent and player.

The Club expressed its disagreement and filed appeals with the Central Economic Administrative Tribunal (TEAC). However, in keeping with criteria of maximum prudence, the Club recognized the entire expense and paid the amount of the assessments in the year ended June 30, 2016.

In January 2017, the Club was notified of the commencement of penalty proceedings regarding the 2010-2014 assessments, even those the inspections did not uncover any indications that the Club had committed an offense. The proceedings concluded with a €6.5 million settlement agreement. The Club expressed its disagreement and filed appeals with the Central Economic Administrative Tribunal (TEAC). However, in keeping with criteria of maximum prudence, the Club paid the full amount of the assessments in the preceding year. This payment did not have any impact on 2016/2017 accounting profit, since it was charged to provisions already set aside at the end of the 2015/2016 financial year.

• **Tax assessments 2014-January 2016**

On July 22, 2016, the Club was notified of the commencement of a tax audit of corporate income tax for the tax period from July 1, 2014 to June 30, 2016 on the enforcement procedure for state aid in relation to the European Commission's decision of July 4, 2016 regarding alleged state aid granted to four Spanish football clubs, including Real Madrid Club de Fútbol, for applying legislation to this type of entity that, for tax purposes, includes a lower tax rate (see Note 13.4.4).

The tax audit began on October 25, 2016, and subsequently expanded to include the following taxes:

ITEM	PERIOD
Income tax	7/2014 to 6/2015
Value added tax	7/2014 to 6/2015
Withholding/payments on account of personal income tax	2015 and January 2016
Withholdings on account of non-resident tax	2015 and January 2016

Therefore, the aforementioned tax audits of income tax for the 7/1/2014 to 6/30/2015 period regarding the enforcement of state aid were replaced by the new tax audits.

In January 2017, the Club signed assessments under protest for the taxes and periods indicated for a total amount of approximately €1 million. As with the previous tax audits for the 2010-2014 period, this amount was due to discrepancies in the tax treatment of payments made by the Group for services rendered and invoiced to the Club by agents. After the end of the 2016/2017 financial year, the final settlement agreements in relation to these assessments were received. They did not differ significantly from the provisional assessments and had no impact on accounting profit for the 2016/2017 financial year as they were recognized with a charge to provisions already set aside at the end of the 2015/2016 financial year. The Club filed appeals with the TEAC. As at the date of authorization for issue of the accompanying financial statements, no ruling had been issued.

On April 24, 2019, the taxation authorities ruled on the procedure for recovering State Aid and issued a resolution on the final settlement of 2014/15 income tax, resulting in a refund of €193 thousand to the Club. The Club has brought an appeal before the TEAC against this settlement.

In any event, the assessments do not affect, in any significant way, the amount that the Club has estimated as the damage incurred for the different tax treatment relating to the aforementioned European Commission case.

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by the tax authorities or until the four-year inspection period has expired. Therefore, at June 30, 2018, the Club was open to inspection of income tax (personal income tax withholding and non-resident income tax) from 2016, VAT from July 2015 and corporate income tax for the 2015/2016, 2016/2017 and 2017/2018 financial years.

Regarding these years open to inspection, the Club considers that there are no material contingencies that could arise from future tax audits, even those that could arise from discrepancies regarding the tax treatment of payments to agents. This is because even though the Club completely disagreed with the criteria used by the tax authorities, to prevent new assessments or possible penalties, it has decided to settle the taxes and appeal the settlements. In any event, the Club's actions will be based, as usual, on the principle of tax legality, irrespective of the amounts required for the Club's disagreement with the settlement agreements.

## 17. REVENUE AND EXPENSES

### 17.1 OPERATING INCOME

The accompanying income statement includes the following items:

€ THOUSAND	6/30/2019	6/30/2018
Revenue	755,128	748,042
Work carried out by the company for assets	1,474	
Other operating income	473	1,704
Grants (Note 12)	192	192
Provision surpluses (Note 13.1)	-	1,000
<b>Total operating income before disposals</b>	<b>757,267</b>	<b>750,938</b>
<b>Gains/(losses) on disposal and other (Note 17.5)</b>	<b>98,548</b>	<b>53,583</b>
<b>TOTAL OPERATING INCOME</b>	<b>855,815</b>	<b>804,521</b>

#### • Revenue

The breakdown of the Club's revenue from continuing operations by business category and geographic market is as follows:

€ THOUSAND	30/06/2019	30/06/2018
La Liga revenue	51,078	52,222
King's Cup (Copa de S.M. El Rey) revenue	10,464	5,374
Spanish Supercup revenue	-	4,810
Champions League revenue	88,181	85,458
European Supercup revenue	3,549	4,000
FIFA Club World Cup revenue	4,573	4,425
Revenue from friendly matches	10,858	18,543
Basketball competitions revenue	6,595	6,841
Other revenue	30,401	13,957
<b>Total box office and competition revenue</b>	<b>205,699</b>	<b>195,630</b>
<b>Total revenue from membership fees and season tickets</b>	<b>54,277</b>	<b>49,865</b>
<b>Total stadium revenue</b>	<b>26,989</b>	<b>28,931</b>
<b>Total broadcasting revenue</b>	<b>172,991</b>	<b>178,413</b>
Revenue from store sales	24,388	26,474
Revenue from sponsorships and licenses	240,608	239,681
Advertising revenue	1,050	1,650
Other revenue	29,126	27,398
<b>Total commercialization and advertising revenue</b>	<b>295,172</b>	<b>295,203</b>
<b>TOTAL REVENUE</b>	<b>755,128</b>	<b>748,042</b>

€ THOUSAND	6/30/2019	6/30/2018
<b>By operating segment</b>		
Membership fees and stadium revenue	173,372	174,226
International and friendly matches	113,593	100,200
Broadcasting revenue	172,991	178,413
Marketing revenue	295,172	295,203
	<b>755,128</b>	<b>748,042</b>
<b>By geographical market</b>		
Spain	476,269	486,934
Other	278,859	261,108
	<b>755,128</b>	<b>748,042</b>

“Revenue” includes the amount of subsidies from the Professional Football League and the Spanish Professional Football Association for maintenance of stadium access points and the share of football pool revenue, amounting to €378 thousand (2018: €149 thousand).

#### • Agreements in force

1. In the year ended June 30, 2004, an agreement was signed with Adidas to expand and improve the sportswear sponsorship rights. A new agreement was signed with Adidas in the 2011/12 season extending the sponsorship rights to the 2019/20 season and raising the minimum amounts guaranteed, as well as royalty percentages. An advance payment was received during that season which will be discounted on a straight-line basis from the amounts receivable from the 2012/13 season to the 2019/20 season. This advance was recognized at its present value under “Non-current accruals” in liabilities and will be gradually canceled as the corresponding contract revenue is recognized.

Finally, on May 8, 2019 Real Madrid and Adidas announced the extension of their sponsorship deal for another eight years, until June 2028. The economic impact of the contract improvement will arise in future periods.

2. In the 2011/12 season, a number of contracts were signed with Global Merchandising, an Adidas subsidiary at that time, to assign, for the 2012/23 season and until June 30, 2020, the exploitation rights for products licensed by the Club and certain retail rights in exchange for a minimum guaranteed royalty.

In the second half of the year ended June 30, 2019, Global Merchandising became a subsidiary of the Fanatics group. As a result, the Club renegotiated the terms and conditions of the agreements, seeking to strengthen control over its brands and businesses, and the oversight, control and risk mechanisms for the overall management of its businesses. This agreement is effective until June 30, 2020.

Global Merchandising will manage the activities, acting in its own name and on behalf of the Club in accordance with the Club's instructions and guidelines. Under the new business management agreement, the Club recognizes the revenue, supplies and inventories arising from the activities and does not expect the agreement to have a significant impact on its net profit.

3. In the 2012/13 season, a sponsorship agreement was signed with Emirates Spain Branch for the 2013/14, 2014/15, 2015/16, 2016/17 and 2017/18 seasons entailing higher income than the previous sponsor's contract. This agreement was renewed during the 2016/2017 financial year and extended to the end of the 2021/2022 season, with an increase in guaranteed income for Real Madrid.

4. An agreement became effective last year (see Note 3.20) subject to the growth and development of sponsorship revenue for an initial period of four years, with possibility of extension by one or two year in accordance with the level of achievement of certain economic terms. The agreement covers all territories and sponsorship categories, except sports and commercial sponsorships of jerseys and Stadium and training fields naming rights.

5. In the 2015/2016 season, once the individual contracts entered into by the clubs concluded, Royal Decree Law 5/2015, of April 30, governing joint exploitation of audiovisual rights of professional football competitions (first and second Spanish football divisions, the King's Cup and the Spanish Supercup) became effective.

The legislation establishes a joint revenue-sharing scheme based on category (first or second division), performance and social acceptance, measured by membership fees and average box office revenue, and the share of the contribution to the generation of income from the marketing of TV broadcasts.

It also establishes a mandatory contribution system (expenditure in accordance with income obtained) to sustain other football categories and associations, and to promote sports in general.

## 17.2 RAW MATERIALS AND OTHER CONSUMABLES USED

The detail of consumption of raw materials and other consumables during the year is as follows:

€ THOUSAND	6/30/2019	6/30/2018
Sports materials used		
Purchases	3,132	4,530
Change in inventories	544	(1,148)
Other consumables used		
Purchases	21,394	23,678
Change in inventories	(765)	28
<b>Total supplies</b>	<b>24,305</b>	<b>27,088</b>

The breakdown of purchases by geographic area is as follows:

€ THOUSAND	6/30/2019	6/30/2018
Spain	24,287	27,924
Intra-EU	239	284
<b>Total</b>	<b>24,526</b>	<b>28,208</b>

## 17.3 PERSONNEL EXPENSES

The breakdown of "Personnel expenses" is as follows:

### 2018/2019

€ THOUSAND	SALARIES AND WAGES	IMAGE RIGHTS	TERMINATION BENEFITS/ DEPARTURES	GROUP BONUSES	SOCIAL SECURITY	OTHER EMPLOYEE BENEFITS EXPENSE	TOTAL PERSONNEL EXPENSES
First football team players and coaching staff	283,396	1,911	8,472	4,304	550	1,174	299,807
Second football team players and coaching staff	8,368	7	-	-	319	-	8,694
Lower division football team players and coaching staff	5,045	-	490	-	1,110	1,856	8,501
Non-sports personnel	37,227	-	1,901	-	4,740	1,013	44,881
<b>Total football</b>	<b>334,036</b>	<b>1,918</b>	<b>10,863</b>	<b>4,304</b>	<b>6,719</b>	<b>4,043</b>	<b>361,883</b>
Basketball players and coaching staff	24,502	1,839	-	2,470	493	1,018	30,322
Non-sports basketball personnel	1,732	-	-	130	124	30	2,016
<b>Total basketball</b>	<b>26,234</b>	<b>1,839</b>	<b>-</b>	<b>2,600</b>	<b>617</b>	<b>1,048</b>	<b>32,338</b>
<b>TOTAL PERSONNEL EXPENSES</b>	<b>360,270</b>	<b>3,757</b>	<b>10,863</b>	<b>6,904</b>	<b>7,336</b>	<b>5,091</b>	<b>394,221</b>

The breakdown of personnel expenses in the preceding table below sports staff who can be registered in the LNFP (1st and 2nd division A players and coaches) and those who cannot (other football and basketball divisions) is as follows:

€ THOUSAND	SALARIES AND WAGES	IMAGE RIGHTS	TERMINATION BENEFITS/ DEPARTURES	GROUP BONUSES	SOCIAL SECURITY	OTHER EMPLOYEE BENEFITS EXPENSE	TOTAL PERSONNEL EXPENSES
Staff who can be registered in the LNFP	283,396	1,911	8,472	4,304	550	1,174	299,807
Staff who cannot be registered in the LNFP	37,915	1,846	490	2,470	1,922	2,874	47,517
<b>Total sports personnel expenses</b>	<b>321,311</b>	<b>3,757</b>	<b>8,962</b>	<b>6,774</b>	<b>2,472</b>	<b>4,048</b>	<b>347,324</b>

## 2017/2018

€ THOUSAND	SALARIES AND WAGES	IMAGE RIGHTS	TERMINATION BENEFITS/ DEPARTURES	GROUP BONUSES	SOCIAL SECURITY	OTHER EMPLOYEE BENEFITS EXPENSE	TOTAL PERSONNEL EXPENSES
First football team players and coaching staff	280,795	2,786	-	54,858	486	1,010	339,935
Second football team players and coaching staff	6,425	54	19	-	348	-	6,846
Lower division football team players and coaching staff	5,218	22	-	-	896	1,800	7,936
Non-sports personnel	34,035	-	113	1,150	4,273	722	40,293
<b>Total football</b>	<b>326,473</b>	<b>2,862</b>	<b>132</b>	<b>56,008</b>	<b>6,003</b>	<b>3,532</b>	<b>395,010</b>
Basketball players and coaching staff	23,257	2,760	-	6,306	403	877	33,603
Non-sports basketball personnel	1,686	-	-	300	124	28	2,138
<b>Total basketball</b>	<b>24,943</b>	<b>2,760</b>	<b>-</b>	<b>6,606</b>	<b>527</b>	<b>905</b>	<b>35,741</b>
<b>TOTAL PERSONNEL EXPENSES</b>	<b>351,416</b>	<b>5,622</b>	<b>132</b>	<b>62,614</b>	<b>6,530</b>	<b>4,437</b>	<b>430,751</b>

The breakdown of personnel expenses in the preceding table below sports staff who can be registered in the LNFP (1st and 2nd division A players and coaches) and those who cannot (other football and basketball divisions) is as follows:

€ THOUSAND	SALARIES AND WAGES	IMAGE RIGHTS	TERMINATION BENEFITS/ DEPARTURES	GROUP BONUSES	SOCIAL SECURITY	OTHER EMPLOYEE BENEFITS EXPENSE	TOTAL PERSONNEL EXPENSES
Staff who can be registered in the LNFP	280,795	2,786	-	54,858	486	1,010	339,935
Staff who cannot be registered in the LNFP	34,900	2,836	19	6,306	1,647	2,677	48,385
<b>Total sports personnel expenses</b>	<b>315,695</b>	<b>5,622</b>	<b>19</b>	<b>61,164</b>	<b>2,133</b>	<b>3,687</b>	<b>388,320</b>

The following table presents the total sports personnel expenses based on the budget preparation guidelines of the clubs, as well as the LPF's public limited sports companies (Sociedades anónimas deportivas or "SADS").

## 2018/2019

€ THOUSAND	PERSONNEL EXPENSES	DEPRECIATION AND AMORTIZATION	IMPAIRMENT AND LOSSES	(INCOME)/ EXPENSE FROM TRANSFERS	TOTAL
Staff who can be registered in the LNFP	299,807	101,337	52,402	(16,798)	436,748
Staff who cannot be registered in the LNFP	47,517	2,724	357	669	51,267
<b>Total sports personnel expenses</b>	<b>347,324</b>	<b>104,061</b>	<b>52,759</b>	<b>(16,129)</b>	<b>488,015</b>

## 2017/2018

€ THOUSAND	PERSONNEL EXPENSES	DEPRECIATION AND AMORTIZATION	IMPAIRMENT AND LOSSES	(INCOME)/ EXPENSE FROM TRANSFERS	TOTAL
Staff who can be registered in the LNFP	339,935	80,258	331	(7,205)	413,319
Staff who cannot be registered in the LNFP	48,385	4,664	112	435	53,596
<b>Total sports personnel expenses</b>	<b>388,320</b>	<b>84,922</b>	<b>443</b>	<b>(6,770)</b>	<b>466,915</b>

## 17.4 OTHER OPERATING EXPENSES

### • Losses, impairment and changes in trade provisions

The breakdown of "Losses, impairment and changes in trade provisions" is as follows:

€ THOUSAND	6/30/2019	6/30/2018
Impairment of "trade receivables" (Note 8.2)	633	410
Losses on "trade receivables"	920	306
Reversal of impairment of "trade receivables" (Note 8.2)	(140)	(760)
Utilization of allowance for impairment of "trade receivables" (Note 8.2)	(1,012)	(28)
Reversal of impairment on "Current receivables from sports entities" (Note 8.2)	150	(277)
Reversal of losses on "Current receivables from sports entities" (Note 8.2)	(28)	(25)
<b>Total losses, impairment and changes in trade provisions</b>	<b>523</b>	<b>(374)</b>

• **Other operating expenses**

The breakdown of “Other operating expenses” is as follows:

€ THOUSAND	6/30/2019	6/30/2018
External services	140,999	136,760
Taxes	4,365	4,059
Transport	9,083	12,075
Player transfer and acquisition expenses	670	1,405
Other operating expenses	58,924	46,170
<b>Total other operating expenses</b>	<b>214,041</b>	<b>200,469</b>

“Other operating expenses” includes the mandatory contributions regulated by Royal Decree 5/2015 (see Note 17.1) and provisions for certain expenses not attributable to other items.

The breakdown of “External services” is as follows:

€ THOUSAND	6/30/2019	6/30/2018
Leases of assets (Note 6.3)	2,203	1,808
Other leases, royalties and other services	61,350	69,681
Repairs and maintenance	28,964	27,126
Professional services	35,711	26,681
Insurance premiums	4,600	3,365
Advertising, publicity and public relations	5,699	6,055
Utilities	2,472	2,044
<b>Total external services</b>	<b>140,999</b>	<b>136,760</b>

“Other leases, royalties and other services” includes, inter alia, operating fees, TV production expenses, catering, hostess and event expenses, and costs of editing and mailing publications.

Fees paid for audit and other services rendered to the Club by the auditor and other members of the audit firm are as follows:

€ THOUSAND	6/30/2019	6/30/2018
Audit	140	140
Review and assurance work	38	33
Other services	7	26
<b>Total services</b>	<b>185</b>	<b>199</b>

Fees paid in the year ended June 30, 2019 for services provided by other companies in the audit firm’s international network amounted to €132 thousand (2018: €0).

**17.5 IMPAIRMENT AND GAINS/(LOSSES) ON DISPOSAL OF NON-CURRENT ASSETS**

The breakdown of “Impairment and gains/(losses) on disposal of non-current assets and other exceptional gains/(losses)” is as follows:

€ THOUSAND	6/30/2019	6/30/2018
Impairment and losses on sports intangible assets (Note 4.1)	(46,333)	(300)
Impairment and losses on property, plant and equipment (Note 6)	(205)	(33)
Impairment and losses on investment properties (Note 7)	160	959
<b>Total impairment and losses</b>	<b>(46,378)</b>	<b>626</b>
Gains on disposal of sports intangible assets (Note 4.1)	98,548	53,381
Gains on disposal of property, plant and equipment (Note 6)	-	202
<b>Gains on disposal and other (Note 17.1)</b>	<b>98,548</b>	<b>53,583</b>
<b>TOTAL IMPAIRMENT, GAINS/(LOSSES) ON DISPOSAL OF NON-CURRENT ASSETS AND OTHER EXCEPTIONAL GAINS/(LOSSES)</b>	<b>52,170</b>	<b>54,209</b>

**17.6 FINANCE INCOME AND EXPENSES**

The breakdown of finance income and expenses is as follows:

€ THOUSAND	6/30/2019	6/30/2018
<b>Finance income</b>		
Exchange gains	256	111
Unrealized exchange gains	42	5
Other finance income	119	568
Finance income on remeasurement of financial assets (Note 8.1)	378	320
	<b>795</b>	<b>1,004</b>
<b>Finance expenses</b>		
Bank service fees	-	627
Exchange losses	98	571
Unrealized exchange losses	13	1
Loan interest costs	944	1,033
Finance expenses on remeasurement of financial assets (Note 15)	544	587
	<b>1,599</b>	<b>2,819</b>



## 17.7 FOREIGN CURRENCY TRANSACTIONS

Transactions carried out in currencies other than the euro are as follows:

### 2018/2019

€ THOUSAND					
SHORT-TERM PURCHASES OF FIXED ASSETS		SALES		SERVICES RECEIVED	
CURRENCY	NOTIONAL	CURRENCY	NOTIONAL	CURRENCY	NOTIONAL
USD	39	USD	24,927	USD	3,165
GBP	7	GBP	-	GBP	57
BRL	-	BRL	-	BRL	-
CHF	3	CHF	-	CHF	24
CNY	-	CNY	-	CNY	-
AED	-	AED	-	AED	287
AUD	-	AUD	-	AUD	209
RUB	-	RUB	-	RUB	-
	<b>49</b>		<b>24,927</b>		<b>3,742</b>

### 2017/2018

€ THOUSAND					
SHORT-TERM PURCHASES OF FIXED ASSETS		SALES		SERVICES RECEIVED	
CURRENCY	NOTIONAL	CURRENCY	NOTIONAL	CURRENCY	NOTIONAL
USD	44	USD	27,526	USD	5,318
GBP	36	GBP	28	GBP	227
BRL	-	BRL	-	BRL	2
CNY	-	CNY	-	CNY	137
AED	-	AED	-	AED	157
RUB	-	RUB	-	RUB	5
	<b>80</b>		<b>27,554</b>		<b>5,846</b>

## 18. RELATED PARTY TRANSACTIONS

Related parties with which the Club carried out transactions in the year ended June 30, 2019, and the nature of the relationship, are as follows:

	NATURE OF THE RELATIONSHIP
Board of Directors	Directors
Senior management	Directors
Real Madrid Foundation	Shared directors between the Foundation and the Club
Real Madrid Consulting (Beijing) Co Ltd	Subsidiary

### 18.1 BALANCES AND TRANSACTIONS WITH REAL MADRID CONSULTING (BEIJING) CO LTD

Balances with subsidiary Real Madrid Consulting (Beijing) Co Ltd are as follows:

€ THOUSAND	6/30/2019	6/30/2018
Payables	106	102

Transactions carried out with Real Madrid Consulting (Beijing) Co Ltd during the period, all of which were on an arm's length basis, were as follows:

€ THOUSAND	6/30/2019	6/30/2018
Other operating expenses	1,467	1,581

### 18.2 BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The members of the Board of Directors and those holding other management positions at the Club, both those serving at the date of authorization for issue of the annual financial statements and former members, did not undertake any transactions other than in connection with the ordinary course of the Club's business.

The Club's policy is to arrange third-party liability insurance of Club directors for damages caused by acts or omission in the discharge of their directorships. The amount paid in the year ended June 30, 2019 was €28 thousand (2018: €15 thousand).

## 1. Director compensation

The members of the Board of Directors did not accrue any compensation for serving as directors.

At June 30, 2019 and 2018, the Club had no obligations with former or current members of the Board of Directors in respect of pensions or life insurance, nor had it extended any guarantees on their behalf.

## 2. Identification of and total compensation paid to senior management

In the year ended June 30, 2019, there were 43 senior executives (2018: 37), of which 38 continued to hold their directorships at June 30, 2019 (2018: 37).

Total compensation paid to executives in the year ended June 30, 2019 was €22,118 thousand (2018: €18,093 thousand).

The members of the Board of Directors at June 30, 2019 were as follows:

### Chairman:

Mr. Florentino Pérez Rodríguez

### 1st Vice-Chairman:

Mr. Fernando Fernández Tapias

### 2nd Vice-Chairman:

Mr. Eduardo Fernández de Blas

### 3rd Vice-Chairman:

Mr. Pedro López Jiménez

### Secretary:

Mr. Enrique Sánchez González

### Board members:

Mr. Santiago Aguado García  
 Mr. Jerónimo Farré Muncharaz  
 Mr. Enrique Pérez Rodríguez  
 Mr. Manuel Cerezo Velázquez  
 Mr. José Sánchez Bernal  
 Mr. Gumersindo Santamaría Gil  
 Mr. Raúl Ronda Ortiz  
 Mr. José Manuel Otero Lastres  
 Mr. Nicolás Martín-Sanz García  
 Mr. José Luis Del Valle Pérez  
 Ms. Catalina Miñarro Brugarolas

## 18.3 REAL MADRID FOUNDATION

The Real Madrid Foundation's governing body is its Board of Trustees. According to the Foundation's bylaws, the Foundation's trustees include, among others, the members of the Board of Directors of Real Madrid Club de Fútbol.

The members of the Board of Trustees do not earn any compensation for their seats on this board.

There are commitments with the Foundation regarding contributions to fund the sustainability of the Foundation and the pursuit of its activities. Contributions between July 1, 2018 and June 30, 2019 amounted to €2,768 thousand (2018: €2,021 thousand).

## 19. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Real Madrid has established a series of procedures and controls that make it possible to identify, measure, and manage the risks arising from financial instrument activity.

Financial instrument activity exposes the Club to credit, market, and liquidity risk.

### 19.1 CREDIT RISK

Credit risk is the risk that a Club counterparty will not meet its contractual obligations, i.e. the possibility that financial assets will not be recovered at their carrying amount within the established time frame.

The maximum exposure to credit risk is as follows:

€ THOUSAND	6/30/2019	6/30/2018
<b>Non-current investments</b>		
Non-current receivables from sports entities (Note 8.1)	56	23,812
Other financial assets (Note 8.1)	29,424	19,956
<b>Trade and other receivables</b>		
Trade receivables (Note 8.2)	66,460	80,603
Current receivables from sports entities (Note 8.2)	89,387	63,386
Other financial assets (Note 8.2)	7,704	7,280
Receivables from public administrations (Note 8.2)	3,891	5,755
<b>Cash and cash equivalents (Note 10)</b>	155,706	190,109
	<b>352,628</b>	<b>390,901</b>

For the purposes of credit risk management, the Club differentiates between financial assets arising from operating activities and those arising from investing activities.

#### • Operating activities

The Club has a procedure in place to measure, manage and control the risks arising from each of its loans. The procedure covers risk measurement and the initial authorization, ongoing monitoring of the exposure and subsequent controls.

Initial measurement and authorization is based on a hierarchical credit limit authorization system. Subsequent control is automated through a system of regular warnings managed by the Club's IT system and supervised at the corresponding management levels.

The breakdown, by counterparty, of credit risk concentration of current and non-current "Receivables from sports entities" and "Group companies" is as follows:

#### 2018/2019

	NO. OF DEBTORS	€ THOUSAND
With a balance of more than 1,000 thousand	20	145,620
With a balance between 1,000 thousand and 500 thousand	9	6,812
With a balance between 500 thousand and 200 thousand	21	6,325
With a balance between 200 thousand and 100 thousand	27	4,091
With a balance of less than 100 thousand	213	7,850
Impairment		(14,795)
		<b>155,903</b>

#### 2017/2018

	NO. OF DEBTORS	€ THOUSAND
With a balance of more than 1,000 thousand	24	152,875
With a balance between 1,000 thousand and 500 thousand	12	9,171
With a balance between 500 thousand and 200 thousand	26	8,054
With a balance between 200 thousand and 100 thousand	25	3,321
With a balance of less than 100 thousand	232	9,732
Impairment		(15,352)
	<b>319</b>	<b>167,801</b>

The breakdown of these balances by age is as follows:

€ THOUSAND	6/30/2019	6/30/2018
<b>Not due</b>	<b>113,962</b>	<b>133,548</b>
<b>Past due, but not impaired</b>		
Less than 30 days	18,182	14,370
Between 30 and 60 days	7,320	953
Between 60 and 90 days	1,706	36
Between 90 and 120 days	19	438
Over 120 days	14,714	18,456
	<b>41,941</b>	<b>34,253</b>
<b>Doubtful receivables</b>	<b>14,795</b>	<b>15,352</b>
<b>Impairment</b>	<b>(14,795)</b>	<b>(15,352)</b>
	<b>155,903</b>	<b>167,801</b>

The Club, through its various departments, assesses and monitors these exposures on a monthly basis with a view to identifying risky situations and collection delays, taking the necessary precautions, including legal measures if warranted, to enable recovery of amounts past due as quickly as possible. In addition, in order to guarantee collection of receivables, the Club often demands suitable collateral and guarantees.

#### • Investing activities

The Club's investment policies are established by its Finance and Administration Department to make investments under the following guidelines:

- They must be arranged with financial institutions domiciled in Spain and of renowned solvency and liquidity.
- Acceptable investment products include bank deposits, repos, commercial paper issued by highly solvent financial institutions, interest-bearing accounts and other similar financial products. Specifically, investment in speculative financial products or those in which the counterparty is not clearly and explicitly identified are expressly prohibited.
- Investments should be diversified to ensure that the risk is not significantly concentrated in any institution.

- Investments in current financial assets must be liquid assets with a maturity of three months or less, with a repurchase commitment or a secondary market that guarantees their immediate liquidity if required.
- The Club's power of attorney policy dictates the parameters for the use of joint and several signatures based on amount.

## 19.2 MARKET RISK

Interest rate risk is the potential loss arising from fluctuations in the fair value or future cash flows from assets or liabilities and to changes in the discount rates used to determine the carrying amounts of assets, especially player values.

Regarding players and estimates of their value in use, the Club performs the analysis and considers the circumstances set out in Note 3.6 when assessing potential impairment losses.

As explained in Note 14, at June 30, 2019 the Club had one loan and several credit facilities with financial institutions with long-term maturities. The nominal amount of outstanding principal at June 30, 2019 was €50,000 thousand (2018: €60,000 thousand). Interest on these borrowings is at a variable rate.

## 19.3 LIQUIDITY RISK

Liquidity risk is the risk that the Club will have a shortage of funds or lack access to sufficient funds at an acceptable cost to meet its payment obligations at all times. The Club's objective is to maintain sufficient available funds. Club policies establish the minimum liquidity levels required at all times.

The undiscounted contractual maturity schedule of financial liabilities is as follows:

### 2018/2019

€ THOUSAND	LESS THAN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	> 5 YEARS	TOTAL
Bank borrowings	94	-	49,693	-	49,787
Other financial liabilities					
Suppliers of fixed assets	25,758	2,534	13,560	575	42,427
Payables to sports entities for player transfers	49,520	30,338	2,068	-	81,926
Other financial liabilities	-	-	-	-	-
Trade and other payables	214,930	18,044	-	-	232,974
	<b>290,302</b>	<b>50,916</b>	<b>65,321</b>	<b>575</b>	<b>407,114</b>

### 2017/2018

€ THOUSAND	LESS THAN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	> 5 YEARS	TOTAL
Bank borrowings	10,151	-	49,793	-	59,944
Other financial liabilities					
Suppliers of fixed assets	29,291	9,367	16,029	653	55,340
Payables to sports entities for player transfers	16,847	-	1,893	-	18,740
Other financial liabilities	-	-	1,000	-	1,000
Trade and other payables	227,626	66,371	-	-	293,997
	<b>283,915</b>	<b>75,738</b>	<b>68,715</b>	<b>653</b>	<b>429,021</b>

However, the key metric in determining liquidity risk is the net balance between receivables and payables.

The table below summarizes the maturity profile of the Club's financial assets:

### 2018/2019

€ THOUSAND	LESS THAN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	TOTAL
Trade receivables	45,417	21,043	-	66,460
Receivables from sports entities	78,616	10,771	56	89,443
Other receivables	7,704	-	-	7,704
Receivable from public administrations	9	3,881	-	3,890
	<b>131,746</b>	<b>35,695</b>	<b>56</b>	<b>167,497</b>

### 2017/2018

€ THOUSAND	LESS THAN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	TOTAL
Trade receivables	78,936	1,667	-	80,603
Receivables from sports entities	58,201	5,185	23,812	87,198
Other receivables	7,280	-	-	7,280
Receivable from public administrations	12	5,743	-	5,755
	<b>144,429</b>	<b>12,595</b>	<b>23,812</b>	<b>180,836</b>

As indicated in Note 14.4 Working capital, a significant portion of the balance of "Trade and other payables" is recurring, i.e. renewed annually due to the intrinsic nature of the Club's business operations.

Payment commitments to suppliers of fixed assets and sports entities for player transfers are amply covered by cash inflows to be received in coming years through operating income for the year, as well as by available cash and the credit lines discussed in Note 14.

#### 19.4 INFORMATION REGARDING DEFERRED PAYMENTS TO SUPPLIERS IN COMMERCIAL TRANSACTIONS

The table below provides information on the average payment period to suppliers in accordance with Resolution of January 29, 2016 of the Spanish Institute of Accounting and Accounts Auditing regarding disclosures in the notes to financial statements in

relation to the average supplier payment period in commercial transactions:

€ THOUSAND	6/30/2019	6/30/2018
<b>Days</b>		
Average supplier payment period	57	59
Ratio of transactions paid	57	59
Ratio of transactions outstanding	58	58
<b>(€ Thousand)</b>		
Total payments made	231,426	228,127
Total payments outstanding	57,625	63,101

## 20. OTHER INFORMATION

### 20.1 STRUCTURE OF PERSONNEL

Club employees by category are as follows:

#### 2018/2019

	NUMBER OF EMPLOYEES JUNE 30, 2019			AVERAGE NUMBER OF EMPLOYEES IN THE PERIOD	AVERAGE NUMBER OF EMPLOYEES WITH A DISABILITY EQUAL TO OR GREATER THAN 33%
	MEN	WOMEN	TOTAL		
Senior managers	34	4	38	38	-
Middle managers	18	11	29	25	-
Players and coaching staff	402	2	404	410	5
General staff	149	127	276	268	3
Laborers	32	4	36	38	1
Permanent seasonal	30	4	34	35	1
	<b>665</b>	<b>152</b>	<b>817</b>	<b>814</b>	<b>10</b>

#### 2017/2018

	NUMBER OF EMPLOYEES JUNE 30, 2018			AVERAGE NUMBER OF EMPLOYEES IN THE PERIOD	AVERAGE NUMBER OF EMPLOYEES WITH A DISABILITY EQUAL TO OR GREATER THAN 33%
	MEN	WOMEN	TOTAL		
Senior managers	34	3	37	35	-
Middle managers	15	7	22	21	-
Players and coaching staff	415	2	417	407	1
General staff	134	126	260	252	5
Laborers	35	4	39	40	4
Permanent seasonal	32	4	36	40	1
	<b>665</b>	<b>146</b>	<b>811</b>	<b>795</b>	<b>11</b>

## 20.2 ENVIRONMENTAL DISCLOSURES

Given the nature of its activities, the Club has no environmental liabilities, expenses, assets, provisions or contingencies that could have a significant effect on its equity, financial position and results. Consequently, the notes to the accompanying financial statements do not include specific environmental disclosures.

## 20.3 CONTROL RATIOS ON SPORTS ORGANIZATIONS

Sports Law 10/1990, of October 15, grants professional leagues exclusive jurisdiction over the guardianship, control, and economic supervision of its associates. The National Professional Football League has carried out the above functions through governing and management bodies, in general, and the Economic Control Committee, in particular, in accordance with Article 41.4 b) of this law, and the bylaws and Book X of the General Regulations of the Spanish Professional Soccer League (LFP).

In this regard, via its the governing bodies, the LFP has set out a number of supervisory and economic-financial control standards applicable to Clubs and SADs participating in professional and national competitions organized by the LFP in conjunction with the RFEF.

The main ratios established for economic control and LFP registration are discussed below. The main ratios for budget control were included in the interim financial statements for the six months ended December 31, 2018.

### 1. Indicators included in the LFP's Economic Control Regulations

#### • Breakeven point indicator

The breakeven point for profit or loss is the difference between relevant income and expenses, adjusted, where appropriate, by any qualifications quantified in the auditor's report. The total breakeven point for profit or loss is the sum of the breakeven points for profit or loss of each accounting period in the period monitored; i.e. T, T-1 and T-2, where T is the annual accounting period for which the audited financial statements were 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
<b>Total breakeven point</b>	<b>279,527</b>		
Required breakeven point	>0		
	<b>COMPLIES</b>		

The calculation of relevant income and the reconciliation of relevant income with the accompanying financial statements is provided below:

€ THOUSAND	T 6/30/2019	T-1 6/30/2018	T-2 6/30/2017
<b>Relevant income</b>			
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)	-
<b>Total relevant income</b>	<b>848,002</b>	<b>787,924</b>	<b>711,808</b>
<b>Income per financial statements</b>			
Total operating income (Note 17.1)	855,815	804,521	726,292
Total finance income (Note 17.6)	795	1,004	1,657
<b>Total income per financial statements</b>	<b>856,610</b>	<b>805,525</b>	<b>727,949</b>
<b>Difference</b>	<b>(8,608)</b>	<b>(17,601)</b>	<b>(16,141)</b>
<b>Reconciling items:</b>			
Income from youth member activities	(66)	(76)	(157)
Basketball income	(15,970)	(17,437)	(16,027)
Proceeds from disposal of property, plant and equipment/investment property	-	(202)	-
Net losses on disposals	7,428	114	43
<b>Total reconciling items</b>	<b>(8,608)</b>	<b>(17,601)</b>	<b>(16,141)</b>

The calculation of relevant expenses and the reconciliation of relevant expenses with the accompanying financial statements is provided below:

€ THOUSAND	T	T-1	T-2
	6/30/2019	6/30/2018	6/30/2017
<b>Relevant expenses</b>			
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)
<b>Total relevant expenses</b>	<b>740,439</b>	<b>692,139</b>	<b>635,629</b>
<b>Expenses per the financial statements</b>			
Supplies	24,305	27,088	26,347
Player and other personnel expenses	394,221	430,751	406,109
Other operating expenses	214,564	200,095	156,082
Depreciation and amortization	122,061	102,415	110,157
Impairment and losses	46,378	(626)	(22)
Finance expenses	1,599	2,819	3,011
<b>Total expenses per financial statements</b>	<b>803,128</b>	<b>762,542</b>	<b>701,684</b>
<b>Difference</b>	<b>(62,689)</b>	<b>(70,403)</b>	<b>(66,055)</b>
<b>Reconciling items:</b>			
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)
Basketball expenses	(41,938)	(45,833)	(37,908)
Net losses on disposals of player registrations	7,428	114	43
<b>Total reconciling items</b>	<b>(62,689)</b>	<b>(70,403)</b>	<b>(66,055)</b>

• **First football team personnel expenses indicator**

When the total annual amount of personnel expenses associated with Clubs' and SADS' first football team staff, players and coaches exceeds 70% of relevant income for the season, as defined in the LFP's Economic Control Regulations, this is considered to be an indication of a possible future economic-financial imbalance.

€ THOUSAND	6/30/2019	6/30/2018
First football team personnel expenses	301,699	342,658
Relevant income	848,002	787,924
<b>First football team personnel expenses indicator</b>	<b>36%</b>	<b>43%</b>
Required first football team personnel expenses indicator	<70%	<70%
	<b>COMPLIES</b>	<b>COMPLIES</b>

The calculation and reconciliation of relevant income is the same as the calculation of the breakeven point above:

The reconciliation of first football team personnel expenses and total personnel expenses is provided below:

€ THOUSAND	6/30/2019	6/30/2018
First football team sports personnel expenses	299,807	339,935
First football team non-sports personnel expenses	1,892	2,723
<b>Total first football team personnel expenses</b>	<b>301,699</b>	<b>342,658</b>
Youth football team personnel expenses	17,195	14,782
Basketball personnel expenses	32,338	35,741
Non-sports football personnel expenses and overheads not related to the first football team	42,989	37,570
<b>Total personnel expenses per financial statements</b>	<b>394,221</b>	<b>430,751</b>

#### • Net debt/relevant income ratio

When net debt at June 30 of each sports season exceeds 100% of the entity's relevant income for that season, this is considered to be indicative of a possible future economic-financial imbalance, as defined in Regulations.

According to regulation definitions, the amount of net debt corresponds to the sum of net debt for club transfers (i.e. net of receivables and payables for player transfers), net debt from loans (i.e. bank overdrafts and borrowings, loans from owners and related parties, advanced payments to be accrued in a period of more than year, and finance leases less cash, cash equivalents and non-current investments) plus payables to suppliers of fixed assets. Net debt does not include trade or other payables.

€ THOUSAND	6/30/2019	6/30/2018
Net debt	(38,349)	(106,974)
Relevant income	848,002	787,924
<b>Net debt/relevant income ratio</b>	<b>(4.5%)</b>	<b>(13.6%)</b>
Required net debt/relevant income ratio	<100%	<100%
	<b>COMPLIES</b>	<b>COMPLIES</b>

The breakdown of net debt is as follows:

€ THOUSAND	6/30/2019	6/30/2018
Non-current bank borrowings	49,693	49,792
Non-current payables to sports entities	2,068	1,893
Other non-current payables	14,135	17,684
Non-current advances received	33,289	24,227
Current bank borrowings	94	10,151
Current payables to sports entities	79,858	16,847
Other current payables	28,292	38,658
<b>Total payables and borrowings</b>	<b>207,429</b>	<b>159,252</b>
Cash and cash equivalents	155,706	190,109
Current receivables from transfers	78,802	52,305
Non-current receivables from transfers	56	23,812
<b>Total reconciling asset items:</b>	<b>234,564</b>	<b>266,226</b>
<b>TOTAL NET DEBT</b>	<b>(27,135)</b>	<b>(106,974)</b>

#### 2. Ratios necessary to join the LFP as an affiliate

The LFP's bylaws state that the following ratios must be met in order to join as an affiliate. The amounts required for the Club's registration for season T relate to:

Balance sheet figures: data at December T-1

Revenue: data at June T-2

##### • Ratio 1

€ THOUSAND	SEASON OF REGISTRATION (T)	
	2019/2020	2018/2019
Non-current liabilities	142,065	153,496
Current liabilities	371,347	409,164
Less: Deferred tax liabilities	(20,625)	(16,744)
Less: Cash and cash equivalents	(61,435)	(133,076)
Less: Receivables from sports entities	(105,524)	(84,762)
Total adjusted liabilities T-1	325,828	328,078
Revenue T-2	748,042	671,864
<b>Ratio 1</b>	<b>0.44</b>	<b>0.49</b>
Required ratio 1	<3.45	<3.75
	<b>COMPLIES</b>	<b>COMPLIES</b>

##### • Ratio 2

€ THOUSAND	SEASON OF REGISTRATION (T)	
	2019/2020	2018/2019
Current liabilities	371,347	409,164
Less: Cash and cash equivalents	(61,435)	(133,076)
Less: Payables to sports entities	(105,524)	(84,762)
Total adjusted current liabilities T-1	204,388	191,326
Revenue T-2	748,042	671,864
<b>Ratio 2</b>	<b>0.27</b>	<b>0.28</b>
Total Ratio 2 required	<1.70	<2.00
	<b>COMPLIES</b>	<b>COMPLIES</b>

#### 21. EVENTS AFTER THE REPORTING PERIOD

The most significant events that occurred between the end of the reporting period and the date of authorization for issue of these financial statements were as follows:

- Acquisition of player transfer rights for approximately €274,000 thousand.
- Sales, assignments or share in third-party transactions involving player transfer rights for approximately €112,000 thousand.



## 22. INCOME STATEMENT BY ANALYTICAL SEGMENT

€ THOUSAND	FOOTBALL	BASKETBALL	TOTAL
Membership fees, ticket sales and other stadium revenue	169,551	5,497	175,048
Revenue from international and friendly matches	112,300	1,293	113,593
Broadcasting revenue	170,697	2,295	172,992
Marketing revenue	288,749	6,885	295,634
<b>Total operating income (before disposal of non-current assets)</b>	<b>741,297</b>	<b>15,970</b>	<b>757,267</b>
Supplies	(23,870)	(435)	(24,305)
Sports and non-sports personnel expenses	(361,885)	(32,336)	(394,221)
Operating expenses	(205,631)	(8,410)	(214,041)
Provision for liabilities and charges	(523)	-	(523)
<b>Operating profit/(loss) before depreciation and amortization, and disposal of non-current assets</b>	<b>149,388</b>	<b>(25,211)</b>	<b>124,177</b>
Gains/(losses) on disposal of non-current assets	98,789	(241)	98,548
Impairment/derecognition of non-current assets	(46,378)	-	(46,378)
<b>Operating profit/(loss) before depreciation and amortization (EBITDA)</b>	<b>201,799</b>	<b>(25,452)</b>	<b>176,347</b>
<b>Depreciation and amortization</b>	<b>(121,041)</b>	<b>(1,020)</b>	<b>(122,061)</b>
<b>Operating profit/(loss)</b>	<b>80,758</b>	<b>(26,472)</b>	<b>54,286</b>
<b>Net finance income/(expense)</b>			<b>(804)</b>
Finance income			795
Finance expenses arising on implied cost of deferred payment on player acquisitions			(543)
Finance expenses arising on interest on loans, guarantee expenses and other financial expenses			(1,056)
<b>Ordinary profit/(loss)</b>			<b>53,482</b>
<b>Profit before tax</b>			<b>53,482</b>

## 23. BUDGET OUT-TURN FOR 2018/2019 SEASON

€ THOUSAND	BUDGET	OUT-TURN	VARIANCE
Membership fees, ticket sales and other stadium revenue	172,316	175,049	2,733
Revenue from international and friendly matches	116,259	113,593	(2,666)
Broadcasting revenue	158,234	172,991	14,757
Marketing revenue	305,240	295,634	(9,606)
<b>Total operating income (before disposal of non-current assets)</b>	<b>752,049</b>	<b>757,267</b>	<b>5,218</b>
Supplies	(27,567)	(24,305)	3,262
Sports and non-sports personnel expenses	(421,897)	(394,221)	27,676
Operating expenses	(189,672)	(214,041)	(24,369)
Provision for uncollectible receivables, and for liabilities and charges	(4,000)	(523)	3,477
<b>Total operating expenses before depreciation and amortization</b>	<b>(643,136)</b>	<b>(633,090)</b>	<b>10,046</b>
<b>Operating profit/(loss) before depreciation and amortization, and disposal of non-current assets</b>	<b>108,913</b>	<b>124,177</b>	<b>15,264</b>
Gains/(losses) on disposals of non-current assets	102,210	98,548	(3,662)
Impairment/derecognition of non-current assets	(45,000)	(46,378)	(1,378)
<b>Gains/(losses) on disposals of non-current assets</b>	<b>57,210</b>	<b>52,170</b>	<b>(5,040)</b>
<b>Operating profit/(loss) before depreciation and amortization (EBITDA)</b>	<b>166,123</b>	<b>176,347</b>	<b>10,224</b>
<b>Depreciation and amortization</b>	<b>(121,879)</b>	<b>(122,061)</b>	<b>(182)</b>
<b>Operating profit/(loss)</b>	<b>44,244</b>	<b>54,286</b>	<b>10,042</b>
Finance income	698	795	97
Finance expenses arising on implied cost of deferred payment on player acquisitions	(676)	(543)	133
Finance expenses arising on interest on loans, guarantee expenses and other financial expenses	(1,077)	(1,056)	21
<b>Net finance income/(expense)</b>	<b>(1,055)</b>	<b>(804)</b>	<b>251</b>
<b>Ordinary profit/(loss)</b>	<b>43,189</b>	<b>53,482</b>	<b>10,293</b>
<b>Profit/(loss) before tax</b>	<b>43,189</b>	<b>53,482</b>	<b>10,293</b>

### Variance

Positive: higher revenue, lower expense.  
Negative: lower revenue, higher expense.

Operating income amounted to €757,267 thousand, €5,218 thousand over budget. Considering direct revenue (box office + UEFA revenue) from the Champions League performance, had the budget been met (quarter finals) revenue for the year ended June 30, 2019 would have been €772,700 thousand, €20,600 thousand over budget.

Personnel expenses decreased by €27,676 thousand, mostly due to lower-than-expected performance bonuses for sports achievements. Higher expenses for coaching replacements and acquisitions in the winter transfer window were offset by other savings.

In operating expenses, the expenditure for supplies and provisions was over budget by €17,630 thousand, due to the performance of the business and higher income for equal sports rankings.

Operating profit before depreciation and amortization and disposal of non-current assets amounted to €124,177 thousand, €15,264 thousand higher than budgeted.

Gains on player transfers totaled €98,548 thousand, €3,662 thousand less than budgeted because of one unexpected disposal in the winter transfer window.

A provision of €46,333 thousand was set aside for a valuation adjustment to estimated realizable value of certain sports intangible assets.

This amount is in line with the budgeted provision for property, plant and equipment, which was unused. As at the year-end, the demolition work on the shopping center had begun. The related provisions were recognized in previous years.

Operating profit before depreciation and amortization (EBITDA) amounted to €176,347 thousand, €10,224 thousand above budget.

Depreciation and amortization, and finance costs were in line with the budget.

In all, the 2018/2019 budget out-turn included profit before tax of €53,482 thousand, €10,293 thousand higher than budgeted for the reasons explained previously.



## **AUTHORIZATION FOR ISSUE OF THE FINANCIAL STATEMENTS AND MANAGEMENT REPORT FOR THE YEAR ENDED JUNE 30, 2019**

In a meeting held on July 8, 2019, the members of the Board of Directors of Real Madrid Club de Fútbol authorized for issue the financial statements and management report for the financial year ended June 30, 2019, which consist of the documents preceding this certification.

### **CHAIRMAN**

Florentino Pérez Rodríguez

### **VICE-CHAIRMAN**

Fernando Fernández Tapias

Eduardo Fernández de Blas

Pedro López Jiménez

### **SECRETARY**

Enrique Sánchez González

### **BOARD MEMBERS**

Santiago Aguado García

Jerónimo Farré Muncharaz

Enrique Pérez Rodríguez

Manuel Cerezo Velázquez

José Sánchez Bernal

Gumersindo Santamaría Gil

Raúl Ronda Ortiz

José Manuel Otero Lastres

Nicolás Martín-Sanz García

José Luis Del Valle Pérez

Catalina Miñarro Brugarolas

# AUDIT REPORT



## INDEPENDENT AUDITOR'S REPORT

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

To the General Assembly of Delegated Members of  
REAL MADRID CLUB DE FÚTBOL

### Opinion

We have audited the financial statements of REAL MADRID CLUB DE FÚTBOL (the "Club"), which comprise the balance sheet at June 30, 2019, the income statement, the statement of changes in equity, the statement of cash flows and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of REAL MADRID CLUB DE FÚTBOL at June 30, 2019, and the results of its operations and cash flows for the year then ended, in accordance with the applicable financial reporting framework (identified in Note 2) and, in particular, the accounting principles and policies contained therein.

### Basis for opinion

We carried out our audit in accordance with Spanish standards on auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section.

We are independent from the Club in conformity of ethical requirements, including independence, which are applicable to an audit of financial statements in Spain according to what is required by Spanish standards on auditing. In these regards, we have neither provided services different to audit of financial statements nor any situation or circumstance has concurred that, according to the aforementioned standards, had affected the necessary independence in a way it had been jeopardized.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, represent the most significant risk of material misstatement in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### *Classification and valuation of intangible fixed assets and non-current assets held for sale*

**Description** In its balance sheet as of June 30, 2019, the Club recognized sports intangible assets, net of amortization and impairment, of 311 million euros related to the acquisition of player transfer rights and the related costs, which are amortized in a straight-line basis. The relevant information regarding such intangible fixed assets is described in Notes 3.1 and 4 to the financial statements.

Additionally, the Club recognized sports intangible assets related to the acquisition of player transfer rights and the related costs, net of amortization and impairment, in the heading "Non-current assets held for sale", of 79 million euros, linked to football players of the first team, for which the Club has an active sales plan and such plan is highly likely to occur in the short term. The relevant information regarding these non-current assets held for sale is described in Notes 3.5 and 4 to the financial statements.

The review of the aforementioned headings is a key audit matter as it involves significant judgment on the part of the Club's management when analyzing, according to the circumstances of each asset, its proper classification as intangible fixed assets or as a non-current asset held for sale and any evidence of impairment at the end of the year, as described in Notes 2.3, 3.1, 3.5 and 3.6 to the financial statements.

**Our response** As part of our audit work, we have reviewed the procedures for the appropriate classification of the transfer rights of players as intangible fixed assets or non-current assets held for sale, verifying capitalization criteria, amortization, identification of potential impairments and their recognition, as well as we have evaluated the reasonableness of the hypotheses and sources of information used to obtain such conclusions. Additionally, we have reviewed the disclosures included in the financial statements as required by the financial information framework applicable to the Club.

#### Accrual of current and non-current liabilities

**Description** On a recurring basis, the Club receives considerable amounts in the year in broadcasting revenue, membership fees and season tickets, marketing and sponsorship contracts, and friendly matches, considered prepaid income as they are accrued in subsequent reporting periods (the following year in most cases), as described in Notes 3.18 and 15 to the financial statements. The Club recognizes the amounts related to this prepaid income under “Non-current accruals” and “Current accruals,” as appropriate, on the liability side of the balance sheet at June 30, 2019.

The appropriate accounting recognition of these accruals was a key matter for our audit given the variety of items and terms in the underlying agreements, requiring a detailed and case-by-case analysis of each. As part of our audit engagement, we reviewed the procedures followed by the Club and analyzed the main agreements in order to determine whether the approach was applied on a consistent basis and to determine the reasonableness of the calculations made.

**Our response** As part of our audit work we have reviewed the procedures and analyzed the main contracts in order to determine the consistency of the methodology applied and the reasonableness of the calculations made. Additionally, we have reviewed the disclosures included in the financial statements required by the financial information framework applicable to the Club.

#### Other information: Management report

The other information involves exclusively the management report for the year ended June 30, 2019. The management report is the responsibility of the members of Board of Directors of REAL MADRID CLUB DE FÚTBOL and is not an integral part of the financial statements.

Our opinion on the financial statements does not cover the management report. In connection with the management report, our responsibility, as required by auditing standards, is to evaluate and report on whether the management report is consistent with the financial statements based on the knowledge obtained from the Club in the course of our audit of the financial statements, and not include other information obtained as evidence during the audit. It is also our responsibility to evaluate and report on whether the content and presentation of the management report comply with applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, in accordance with the preceding paragraph, the information contained in the management report is consistent with the financial statements for the year ended June 30, 2019, and its content and presentation comply with applicable regulations.

#### Responsibilities of members of Board of Directors for the financial statements

Members of Board of Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework (see Note 2), and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, members of Board of Directors are responsible for assessing the Club’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Club or to cease operations, or has no realistic alternative but to do so.

#### Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Spanish standards on auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Spanish standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Club’s internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by members of Board of Directors.
- ▶ Conclude on the appropriateness of members of Board of Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Club’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Club to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the significant matters communicated to the members of the Board of Directors of the Club, we determine those of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

# BUDGET 2019-2020





# REAL MADRID CLUB DE FÚTBOL

## 2019/2020 BUDGET



€ THOUSAND	2018/2019	BUDGET 2019/2020
Membership fees, ticket sales and other stadium revenue	175,049	161,335
Revenue from international and friendly matches	113,593	109,685
Broadcasting revenue	172,991	179,828
Marketing revenue	295,634	371,283
<b>Total operating income (before disposal of non-current assets)</b>	<b>757,267</b>	<b>822,131</b>
Supplies	(24,305)	(29,268)
Sports and non-sports personnel expenses	(394,221)	(456,469)
Operating expenses	(214,041)	(255,365)
Provision for uncollectible receivables, and for liabilities and charges	(523)	0
<b>Total operating expenses before depreciation and amortization</b>	<b>(633,090)</b>	<b>(741,102)</b>
<b>Operating profit/(loss) before depreciation and amortization, and disposal of non-current assets</b>	<b>124,177</b>	<b>81,028</b>
Gains/(losses) on disposals of non-current assets	98,548	94,029
Impairment/derecognition of non-current assets	(46,378)	42,473
<b>Gains/(losses) on disposals of non-current assets</b>	<b>52,170</b>	<b>136,502</b>
<b>Profit/(loss) from operating activities before amortization and depreciation (EBITDA)</b>	<b>176,347</b>	<b>217,530</b>
Depreciation and amortization	(122,061)	(176,477)
<b>Operating profit/(loss)</b>	<b>54,286</b>	<b>41,052</b>
Finance income	795	2,815
Finance expenses arising on implied cost of deferred payment on player acquisitions	(543)	(1,555)
Finance expenses arising on interest on loans, guarantee expenses and other financial expenses	(1,056)	(947)
<b>Net finance income/(expense)</b>	<b>(804)</b>	<b>313</b>
<b>Ordinary profit/(loss)</b>	<b>53,482</b>	<b>41,366</b>
<b>Profit/(loss) before tax</b>	<b>53,482</b>	<b>41,366</b>

Operating income (before disposal of non-current assets) is budgeted at €822.1 million, up €64.9 million from the €757.3 million the year before. This increase is mainly due to a higher sponsorship and merchandising income. In the budget, has been assumed to reach the quarterfinals in Champions League. It has also been assumed in the budget, the profit for the Club because of the favorable judgment from the European Union General Court, which has refused the existence of state aid in the valuation of the land in Las Tablas.

Personnel expenses are budgeted in accordance with contracts and the composition of the sport teams, up €62.2 million from the year before.

Supplies, operating expenses and provisions are expected to move in line with the incomes evolution and developments in the Club's activities, resulting in an increase of €45.8 million from the year before.

Profit from transfers of first division and youth football team players is budgeted at €94.0 million (€98.5 million the year before). Furthermore, an accounting result of €42.5 million has been considered in order to balance, according to the effective evolution of the intangible sport asset, the impairment provision accounted during the previous year.

With all of this, operating profit before depreciation and amortization is budgeted at €217.5 million, €41.2 higher than the year before.

The budgeted depreciation and amortization charge is €54.4 million higher from the year before due to changes in sports staff.

Net finance income is budgeted at €0.3 million compared to a net expense of €-0.8 million the year before. There will not be impact in the profit and losses account from the finance of the stadium remodeling until the works have concluded.

As a result, the budget shows a profit of €41.4 million before taxes.



## REAL MADRID CLUB DE FÚTBOL BUDGET BY SPORTS SEGMENTS FOR THE 2019/2020 SEASON

€ THOUSAND	FOOTBALL	BASKETBALL	TOTAL
Membership fees, ticket sales and other stadium revenue	156,098	5,237	161,335
Revenue from international and friendly matches	108,867	818	109,685
Broadcasting revenue	177,561	2,267	179,828
Marketing revenue	363,716	7,567	371,283
<b>Total operating income (before disposal of non-current assets)</b>	<b>806,242</b>	<b>15,888</b>	<b>822,131</b>
Supplies	(28,706)	(562)	(29,268)
Sports and non-sports personnel expenses	(422,252)	(34,217)	(456,469)
Operating expenses	(247,296)	(8,069)	(255,365)
Provision for uncollectible receivables, and for liabilities and charges	0	0	0
<b>Total operating expenses before depreciation and amortization</b>	<b>(698,254)</b>	<b>(42,848)</b>	<b>(741,102)</b>
<b>Operating profit/(loss) before depreciation and amortization, and disposal of non-current assets</b>	<b>107,988</b>	<b>(26,960)</b>	<b>81,028</b>
Gains/(losses) on disposals of non-current assets	94,054	(25)	94,029
Impairment/derecognition of non-current assets	42,473	0	42,473
<b>Gains/(losses) on disposals of non-current assets</b>	<b>136,527</b>	<b>(25)</b>	<b>136,502</b>
<b>Profit/(loss) from operating activities before amortization and depreciation (EBITDA)</b>	<b>244,515</b>	<b>(26,985)</b>	<b>217,530</b>
Depreciation and amortization	(175,550)	(928)	(176,477)
<b>Operating profit/(loss)</b>	<b>68,965</b>	<b>(27,913)</b>	<b>41,052</b>
Finance income			2,815
Finance expenses arising on implied cost of deferred payment on player acquisitions			(1,555)
Finance expenses arising on interest on loans, guarantee expenses and other financial expenses			(947)
<b>Net finance income/(expense)</b>			<b>313</b>
<b>Ordinary profit/(loss)</b>	<b>68,965</b>	<b>(27,913)</b>	<b>41,366</b>
<b>Profit/(loss) before tax</b>	<b>68,965</b>	<b>(27,913)</b>	<b>41,366</b>





**Realmadrid**

Printed in October 2019, in Madrid

Published by: Real Madrid C.F.