Real Madrid C. F. Group Management Report

2011 · 2012

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Group Management Report

Real Madrid C. F.

For the ended June 30, 2012.

The management report for Real Madrid Club de Fútbol and Subsidiary, including an analysis of its earnings performance in 2011/2012, is presented below.

OPERATING INCOME
(PRIOR TO DISPOSALS OF NON-CURRENT ASSETS)

2011/2012 operating income totaled €514 million, a 7% increase over the previous year, and breaks the barrier of €500 M in income, never before reached by a sporting entity anywhere in the world.

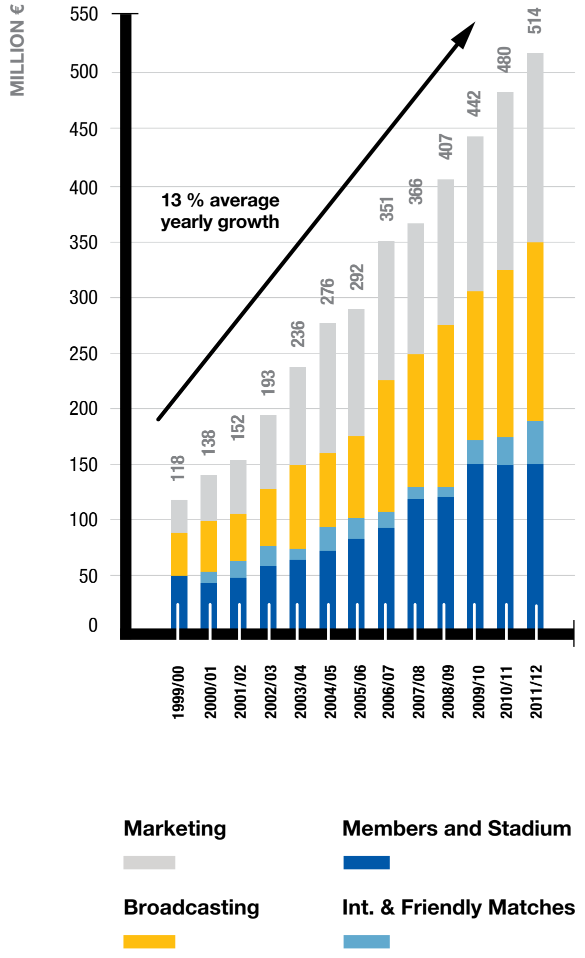
This income comes from the Club's business lines: the stadium, television, and marketing. The income from player transfers is not included; this is reflected in the income statement under "Gains (losses) on disposals and other gains and losses."

The business lines which contributed most to income growth in 2011/2012 were marketing, friendly matches, and international competitions.

Member contributions, from both quotas as well as season passes, represented 9.5% of total income.

Over the 1999-2012 period, income averaged annual growth of 13%.

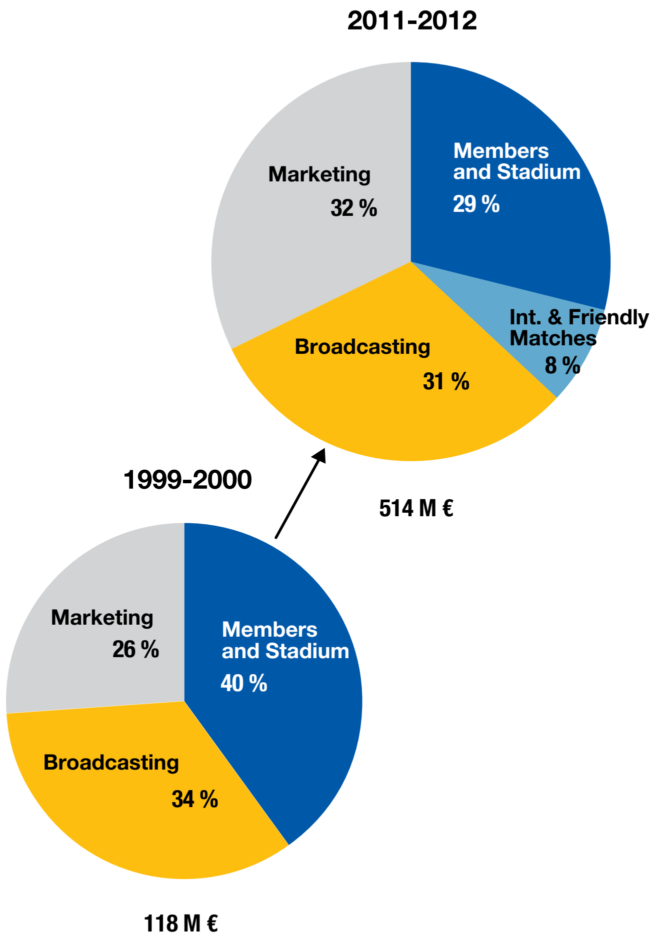
Future projections are based on strengthening the club's image by investing in and commercializing great players, and developing business lines while expanding internationally; these are the Club's main competitive advantages which position it as one of the world's top football clubs.



BREAKDOWN OF OPERATING INCOME
(BEFORE NET GAINS FROM DISPOSALS)

The Club has attained a balanced income structure, with its three main revenue drivers (stadium, broadcasting, and marketing) each contributing around one-third of the total.

The diversification of recurring revenue sources confers financial stability to the Club, cushioning the impact of potential fluctuations in revenue, resulting from its sport activity or the financial situation.



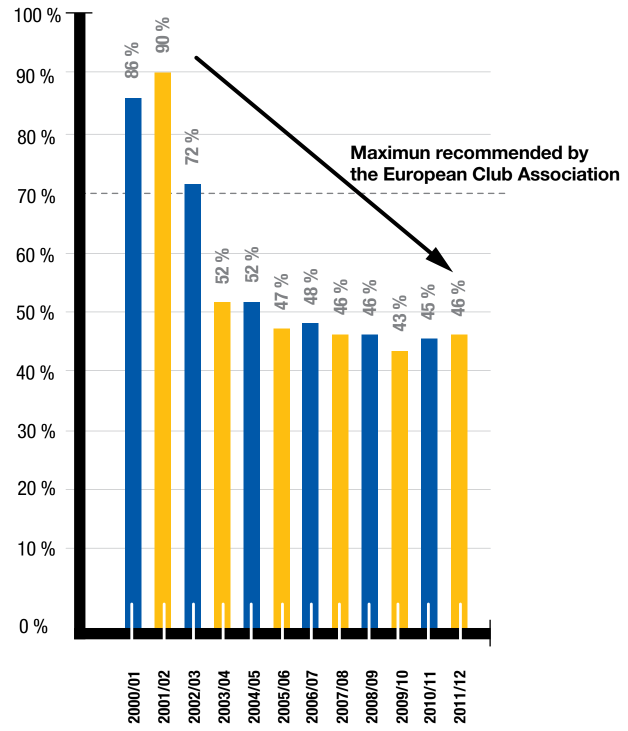
WAGES TO TURNOVER RATIO

This chart depicts the trend in the ratio of the Club's total personnel expenses and operating income (prior to disposals of non-current assets).

This is an internationally-used parameter to measure a football club's operating efficiency, necessary to determine its future viability. The lower the ratio, the more efficiently the Club is performing.

Income growth was accompanied by a concerted effort to contain costs and improve efficiency, reflected in a stable ratio of 46% in 2012.

Real Madrid's ratio is well under the 50% standard considered the excellence threshold, and substantially below 70%, which is the maximum level recommended by the European Club Association (ECA).

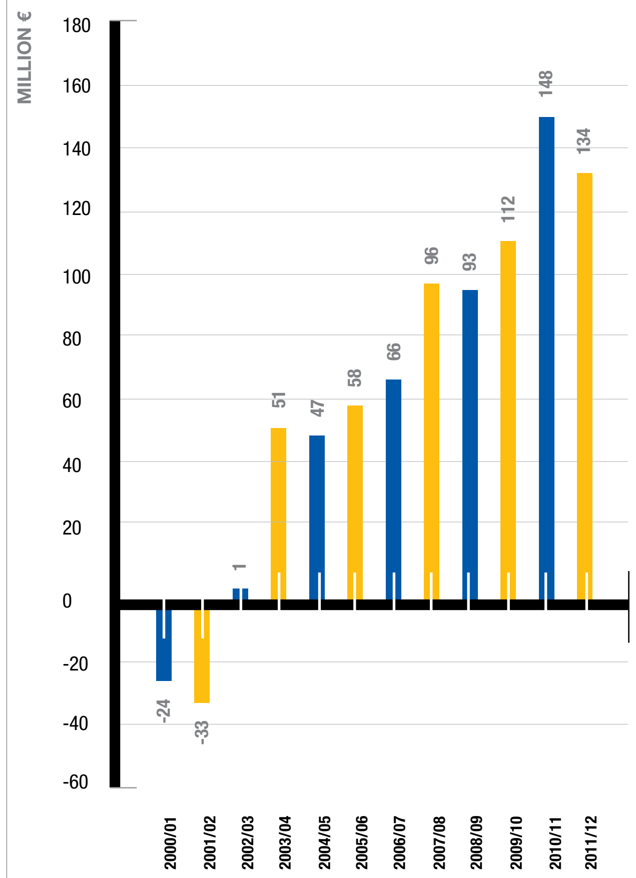


OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION AND GAINS (LOSSES) ON DISPOSALS (EBITDA BEFORE "GAINS (LOSSES) ON DISPOSALS")

The Operating Profit, or EBITDA (before net gains on disposals) is the Club's operating surplus after deducting personnel and other operating expenses from recurring revenue. This is the Club's source of recurring revenue which enables it to invest in the players and facilities set out in its business plan, as well as to meet its financial commitments.

As evident in the reconciliation of this year's income statement to the budget, EBITDA (before net gains on disposals) was €134 million, a drop from the previous year, due to the absorption of cost increments from winning sporting titles and changes to tax law, and likewise to higher provision for liabilities and charges as a result of developments in the business sector. The reported EBIDA figure (€134 million, before net gains on disposals) represents a margin of 26% on the €514 million of operating income, i.e., for every €100 of income, the Club generates a surplus of €26 after meeting its expenses.

Looking back in time, EBITDA (before net gains on disposals) has trended consistently higher, highlighting the priority focus of the Club's financial management on raising profitability by combining topline growth with cost control.



INCOME STATEMENT

In 2011-12 operating income at €514 million was up 7% year-on-year and operating profit before amortization, depreciation, and net gains on disposals was at €134 million, down by €14 million compared with last year due to the absorption of cost increments from winning sporting titles and changes to tax law, and likewise to higher provision for liabilities and charges as a result of developments in the business sector.

EBITDA climbed to €154 million, over €3 million up on last year after including the results from player transfers and other gains from assets, which were over €17 million up on last year.

After deducting amortization/depreciation and finance expenses, this operating surplus represents a pre-tax profit of €32 million, a €15 million decrease over the prior year. This decrease may partly be explained by the increase in depreciation costs on investments and partly by the financial expenses of the prior year which included a very significant non-recurring increase from recovery of settlements to the Club by the tax authorities.

The robust profit obtained in such a challenging economic climate is a clear indication of the Club's profitability and economic potential.

Million €	2010/2011	2011/2012
OPERATING INCOME	480	514
Annual growth	9 %	7 %
OPERATING SURPLUS before net gains on disposals (EBITDA before net gains on disposals)	148	134
% Income	31 %	26 %
EBITDA	151	154
PROFIT BEFORE TAXES	47	32

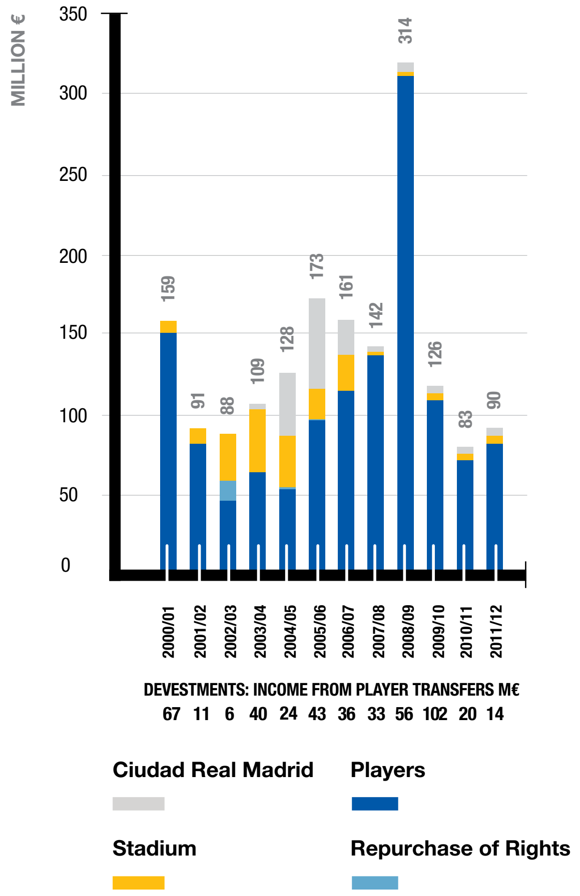
INVESTMENTS

During the 2011/20012period, the Club invested €90 million: 16 million euros was spent on improving facilities, while 74 million euros were spent on acquiring new players.

The enormous investment made in prior years enabled the Club to continue this year, as last year, with a cost containment strategy resulting in it continuing to strengthen its team whilst simultaneously limiting its net investment in players (acquisitions-transfers) to €60 million. These achievements were also possible thanks to revenue from the sale of players in the year amounting to €14 million.

An analysis of the performance of investments between 2000 and 2012 reveals that, apart from investing in players, the Club has also earmarked significant amounts for building and upgrading its facilities:

- €202 million were spent on the stadium to modernize the facilities and improve their quality and user-friendliness for spectators, as well as to equip the media and services facilities to further enhance the stadium's marketing potential, generating a very significant annual return.
- €144 million were invested in the building of the Real Madrid City training complex (Ciudad Real Madrid), currently considered the largest sports complex ever built by a football club. Extending 120 hectares, it is 10 times the size of the former sports complex. Due to its ideal location in one of the fastest developing areas of Madrid with excellent public transportation, the Real Madrid City complex is a strategic enclave for a first rate sports and entertainment center.

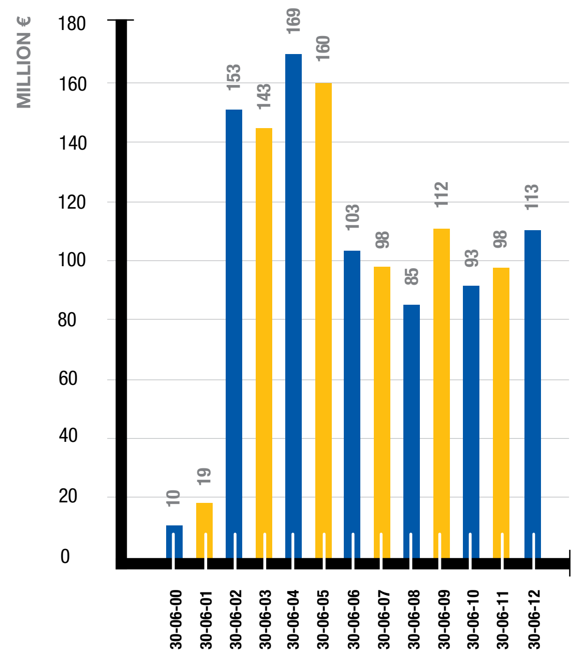


CASH AND CASH EQUIVALENTS

The Club ended the year with a cash balance of €113 million, up 15% over last year.

In addition,the Club has a €41 million balance in short-term investments.

Along with projected 2012/2013 cash flow, this figure will enable the Club to meet its payment commitments comfortably.

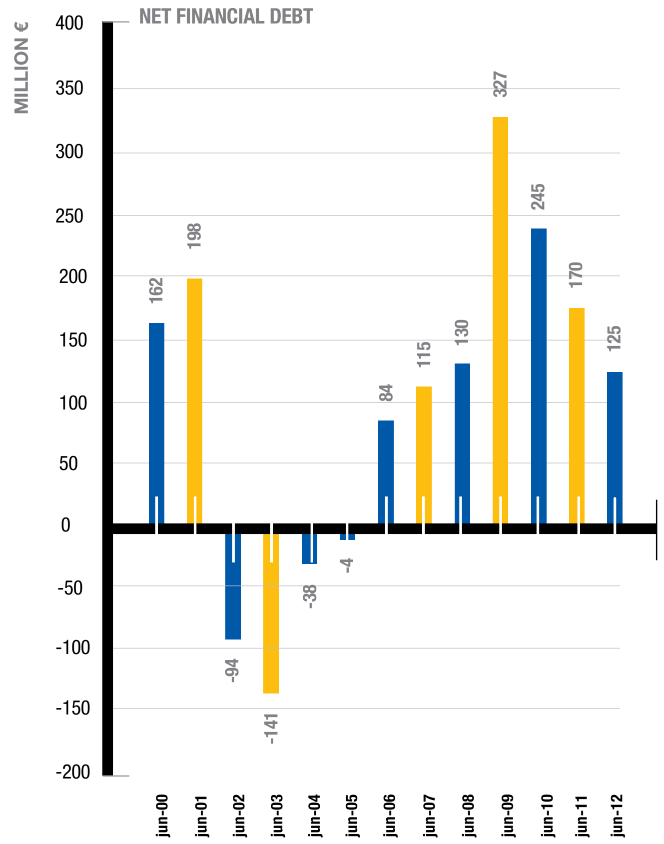


In addition, the Club has a €41 million balance in short-term investments.

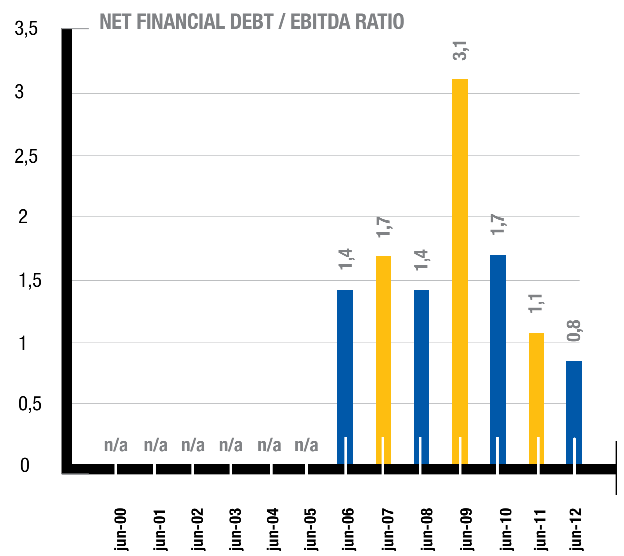
NET FINANCIAL DEBT

During the year, the Club's net financial debt decreased €45 million (26%), totaling €125 million at June 30, 2012.

Relating this debt to the Club's financial wherewithal, as measured by ordinary cash flow (EBITDA:€154 million), yields a debt/EBITDA ratio a commonly-used solvency indicator at June 30, 2012, of 0.8.a. The reduction of debt, leveraged by the growth of the EBITDA, is reflected in the notable improvement of this ratio, which decreased from 1.1% at the beginning of the year to 0.8% by year end, constituting an excellent credit ranking in the eyes of financial institutions.



Net financial debt: Bank debt + accounts receivable from(payable to asset acquisition/transfers - cas and cas equivalents.
A negative sign represents negative liquidity position.



EBITDA: Operating profit before depreciation and amortization Due to the application of the new Spanish GAAP, impairment losses and gains (losses) on disposal of non-current are inlcuided as of 2008/09.

BALANCE SHEET

ASSETS	Thousand €		EQUITY AND LIABILITIES	Thousand €	
	30/06/2011	30/06/2012		30/06/2011	30/06/2012
Intangible sporting assets	315.928	283.696	Social fund and reserves	213.954	245.477
Intangible non-sporting assets	6.297	5.312	Profit for the year attributed to the parent company	31.523	24.166
Property, plant and equipment	282.691	290.516	EQUITY	245.477	269.643
Investment property	6.888	19.084	Minority interests	201	247
Financial investments	21.374	13.696	Grants, donations and bequests received	5.429	5.285
Deferred tax assets	4.995	5.529	EQUITY CAPITAL	251.107	275.175
Other financial assets	573	809			
NON-CURRENT ASSETS	638.746	618.642			
			Provisions	8.326	12.223
			Bank borrowings	138.926	100.747
			Player transfer payables	48.849	33.598
			Long term creditors from investments in Stadium and Ciudad Real Madrid	28.537	22.312
			Long term creditors from repurchase of rights	2.277	0
			Deferred tax liabilities	19.505	10.996
			Accruals	0	40.917
			NON CURRENT LIABILITIES	246.420	220.793
			Provisions	755	720
			Bank borrowings	6.836	42.562
Inventories	1.558	1.100	Player transfer payables	76.797	56.756
Player transfer receivables	28.082	21.399	Short term creditors from investments in Stadium and Ciudad Real Madrid	12.446	14.738
Trade receivables	69.823	66.136	Short term creditors from repurchase of rights	2.278	2.277
Current Tax assets	427	415	Trade and other payables	81.874	88.116
Short term financial investments	0	40.585	Current tax liabilities	17.604	309
Cash and cash equivalents	97.769	113.237	Accrued wages and salaries	71.218	92.873
Accruals	4.623	3.290	Accruals	73.692	70.485
CURRENT ASSETS	202.282	246.162	CURRENT LIABILITIES	343.501	368.836
TOTAL ASSETS	841.028	864.804	TOTAL EQUITY AND LIABILITIES	841.028	864.804

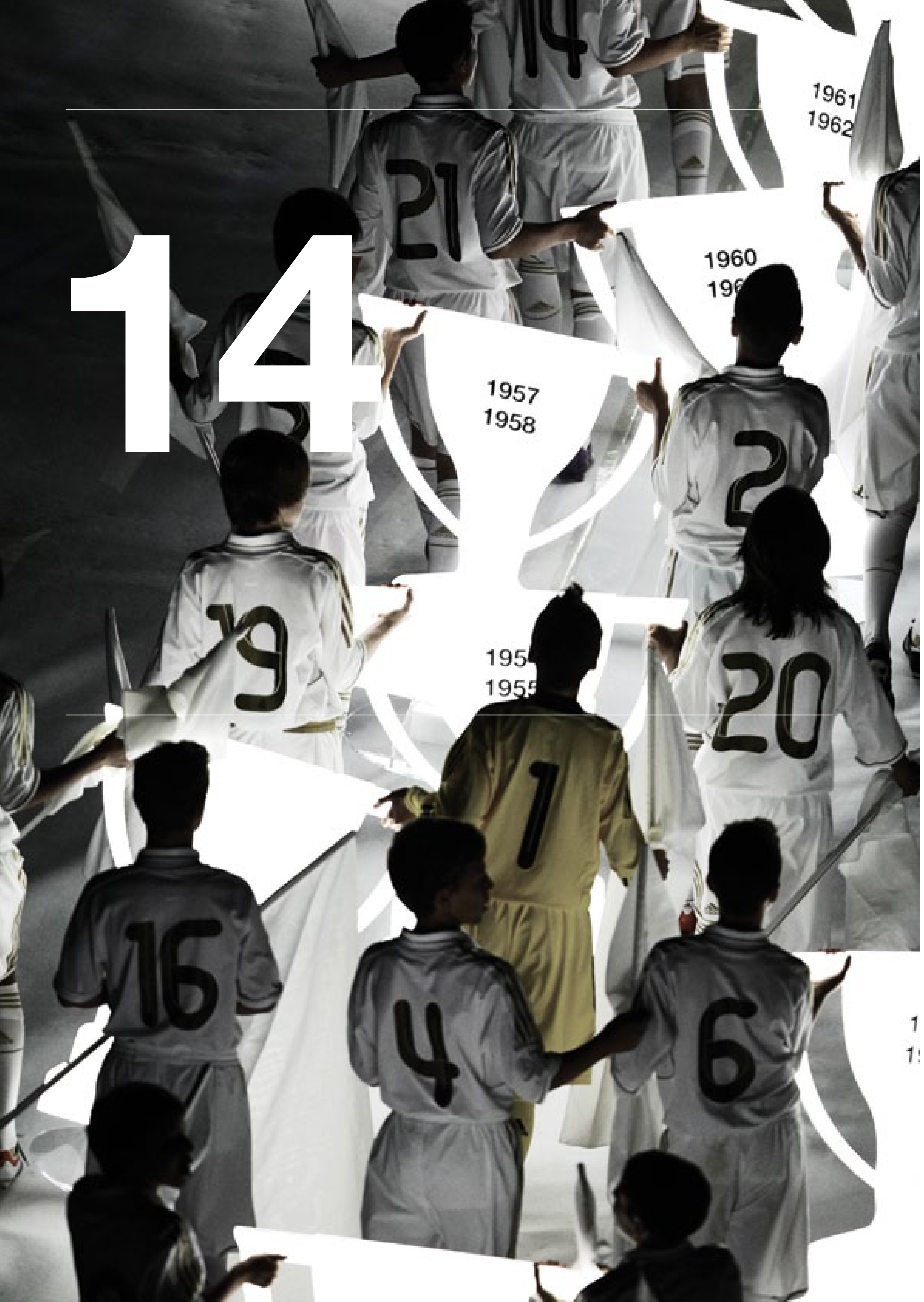
At June 30, 2012, assets/liabilities amounted to €865 million, a €24 million increase on last year.

Non-current assets reflect a decline of €20 million, due primarily to the drop in the value of sporting assets (players), since the amount of depreciation charged for these assets exceeded the investment made. Current assets, however, grew by €44 million, due to an increase both in cash and receivables derived from the growth in income.

Liabilities includes a significant decrease in credit balances resulting from outstanding payments on investments, with a total reduced current and non-current balance of 42 million euros; this is the result of a moderation of investment activities during the year as well as payment of a large portion of pending commitments. Total current and non-current borrowings fell €2 million.

Negative working capital (current assets less current liabilities) amounted to a negative €123 million. This negative value has decreased over the preceding years (negative €141 million at June 30, 2011 and negative €182 million at June 30, 2010). The main factor behind negative working capital is intrinsic to the workings of a football club: significant operations-driven accounts payable (purchases and services received, player transfer payments, upfront collection of membership dues/season passes); in other words, the nature of the business means that they are renewed on a yearly basis. At June 30, 2012, the balance of these recurring accounts payable is 251 million euros (€88 million for purchase/services, €93 million in player signings/other personnel, and €70 million in membership and season passes, others), which is yet another factor determining the amount of negative working capital at year end. These balances will be rolled over, and therefore will reflect similar amounts at year end 2010. At June 30, 2012, current balances payable in 2012/2013 correspond to payables related to investments and bank debt which will be paid using cash available in June as well as surplus cash generated on a monthly basis through the Club's transactions, since current operating income is much higher than current expenses.

At year end, equity stood at 275 million euros, which is 24 million euros higher than the preceding year.



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Consolidated Income Statement

Real Madrid C. F.

Consolidated income statement for the year ended June 30, 2012.

The consolidated financial statements of Real Madrid Club de Fútbol and Subsidiary are presented below:

CONSOLIDATED BALANCE SHEET AT JUNE 20, 2012
(THOUSANDS OF EUROS)

ASSETS	Notes	June 30, 2012	June 30, 2011	EQUITY AND LIABILITIES	Notes	June 30, 2012	June 30, 2011
NON-CURRENT ASSETS		618.642	638.746	EQUITY		275.175	251.107
Intangible sporting assets	4	283.696	315.928	Capital and reserves	11	269.643	245.477
				Social fund		236.467	205.036
Intangible non-sporting assets	5	5.312	6.297	Revaluation reserve (RD 7-96)		8.548	8.548
				Reserves in fully consolidated companies		462	370
Property, plant and equipment	6	290.516	282.691	Profit for the year attributed to the parent company		24.166	31.523
Investment property	7	19.084	6.888	Grants, donations and bequests received	12	5.285	5.429
Financial investments	8.1	14.505	21.947	Minority interests		247	201
Deferred tax assets	16	5.529	4.995	NON-CURRENT LIABILITIES		220.793	246.420
				Provisions	13.1	12.223	8.326
				Financial liabilities	14.1	156.657	218.589
				Bank borrowings		100.747	138.926
				Other financial liabilities		55.910	79.663
				Deferred tax liabilities	16	10.996	19.505
				Accruals	15	40.917	-
CURRENT ASSETS		246.162	202.282	CURRENT LIABILITIES		368.836	343.501
				Provisions	13.2	720	755
Inventories	9	1.100	1.558				
				Financial liabilities	14.2	116.333	98.357
Trade and other receivables	8.2, 16	87.950	98.332	Bank borrowings		42.562	6.836
				Other financial liabilities		73.771	91.521
Current financial investments	10	40.585	-				
Accruals		3.290	4.623	Trade and other payables	14.3	181.298	170.697
Cash and cash equivalents	10	113.237	97.769	Accruals	15	70.485	73.692
TOTAL ASSETS		864.804	841.028	TOTAL EQUITY AND LIABILITIES		864.804	841.028

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2012 (THOUSANDS OF EUROS)

	Notes	2011/2012	2010/2011
CONTINUING OPERATIONS			
Revenue			
Membership dues, ticketing and other stadium revenue		150.190	146.663
Revenue from friendly matches and international competitions		40.049	27.545
Broadcasting		159.192	155.968
Marketing		162.632	144.966
	17.1	512.063	475.142
Goods for consumption			
Consumption of raw materials and other consumables	17.2	(22.596)	(18.263)
Other operating revenues	17.1	372	4.174
Player and staff personnel expenses	17.3	(233.946)	(216.099)
Other operating expenses			
Losses on, impairment of and change in trade provisions	8.2	(2.274)	(2.957)
Other operating expenses	17.4	(121.386)	(95.108)
		(123.660)	(98.065)
Amortización del inmovilizado	4,5,6,7	(110.002)	(104.519)
Grants related to non-financial assets and other grants	12	192	192
Overprovisions	13.1	1.344	648
Impairment losses and gains (losses) on disposal of non-current assets			
Impairment charges and losses	17.5	(3.323)	(224)
Gains (losses) on disposals and other gains and losses	17.5	23.470	3.550
		20.147	3.326
OPERATING PROFIT		43.914	46.536
Finance income			
From marketable securities and other financial instruments	17.6	4.554	13.248
Finance cost	17.6	(16.206)	(12.939)
NET FINANCE COST		(11.652)	309
PROFIT BEFORE TAX		32.262	46.845
Income tax	16.1	(8.050)	(15.282)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		24.212	31.563
PROFIT FOR THE PERIOD		24.212	31.563
Attributable to the parent company		24.166	31.523
Attributable to minority interests		46	40

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30,2012 (THOUSANDS OF EUROS)

a. Consolidated statement of recognized income and expenses for the year ended June 30, 2012 and for the year ended June 30,2011.

	Notes	2011/2012	2010/2012
Profit for the period		24.212	31.563
Income and expense recognized directly in equity		-	-
Amounts transferred to income statement			
Grants, donations and bequests received	12	(192)	(192)
Tax effect	12	48	48
Total amounts transferred to income statement		(144)	(144)
Total recognized income and expense		24.068	31.419

b. Consolidated statement of changes in equity for the year ended June 30, 2012 and for the year ended June 30,2011

	Social fund	Revaluation reserve (RD 7/96)	Reserves in consolidated companies	Profit for the year attributed to parent company	Total capital and reserves	Grants, donations and bequests received	Minority interests	Total equity
Balance at June 30, 2010	181.195	8.548	280	23.931	213.954	5.573	161	219.688
Total income and expenses recognized for the year ended 6/30/2011	-	-	-	31.523	31.523	(144)	40	31.419
Appropriation of results at June 30, 2010	23.841	-	90	(23.931)	-	-	-	-
Balance at June 30, 2011	205.036	8.548	370	31.523	245.477	5.429	201	251.107
Total income and expenses recognized for the year ended 6/30/2012	-	-	-	24.166	24.166	(144)	46	24.068
Appropriation of results at June 30, 2011	31.431	-	92	(31.523)	-	-	-	-
Balance at June 30, 2012	236.467	8.548	462	24.166	269.643	5.285	247	275.175

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30,2012 (THOUSANDS OF EUROS)

	Notes	2011/12	2010/11
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**32.262**	**46.845**
Adjustments to profit		**108.052**	**99.569**
Depreciation and amortization (+)		110.002	104.519
Impairment losses (+)		3.323	224
Changes in provisions (+)	13, 8.2	6.171	(1.183)
Grants released to income (-)	12	(192)	(192)
Gains (losses) from derecognition and disposal of non-current assets		(23.470)	(3.550)
Finance income (-)	17.6	(4.554)	(13.248)
Finance cost (+)	17.6	16.206	12.939
Other income and expenses (+/-)		566	60
Change in working capital		**22.074**	**(2.877)**
Inventories		483	914
Trade and other receivables (+/-)		4.249	(13.833)
Other current assets (+/-)		(38.668)	(1.544)
Trade and other payables (+/-)		21.764	10.682
Other current liabilities (+/-)		(3.242)	4.584
Other non-current assets and liabilities (+/-)		37.488	(3.630)
Other cash flows from operating activities		**(36.404)**	**(6.458)**
Interest paid (-)		(11.353)	(9.630)
Interest received (+)		3.257	12.149
Income tax receipts (payments)		(28.308)	(8.977)
CASH FLOWS FROM OPERATING ACTIVITIES		**125.984**	**137.129**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments on investments (-)		**(133.026)**	**(149.422)**
Intangible sporting assets		(112.204)	(126.011)
Other intangible assets		498	(417)
Property, plant and equipment		(21.320)	(22.757)
Investment property		-	(237)
Proceeds from disposals (+)		**25.860**	**37.346**
Intangible sporting assets		25.860	37.346
CASH FLOW USED IN INVESTING ACTIVITIES		**(107.166)**	**(112.076)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from and payments of financial liability instruments		**(3.350)**	**(20.015)**
Repayment and amortization of debts with credit entities		(3.350)	(20.015)
CASH FLOWS FROM FINANCING ACTIVITIES		**(3.350)**	**(20.015)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**15.468**	**5.038**
Cash and cash equivalents - opening balance	10	97.769	92.731
Cash and cash equivalents - ending balance	10	113.237	97.769
		15.468	**5.038**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012 (THOUSANDS OF EUROS)

1. CORPORATE INFORMATION

Real Madrid, Club de Fútbol, hereinafter 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, the playing of all manner of sports.

Its sporting activities focus currently on the playing and promotion of football and basketball, sports in which it has teams competing at various levels.

The Club is the parent of a Group that comprises Real Madrid Gestión de Derechos, S.L., a subsidiary in which it owns 70% (€4,200).

Real Madrid Gestión de Derechos, S.L. was formed in Madrid on June 10, 2004, and commenced operations on July 1, 2004. The shareholder structure of this Madrid-domiciled company is as follows: Real Madrid Club de Fútbol (70%), Accionariado y Gestión, S.L. (12.5%), Sogecable, S.A. (10%) and Media Cam Producciones Audiovisuales, S.L. (7.5%). It is engaged in the administration of certain assets and rights owned by its shareholders in the joint operation and management of a portion of the merchandising rights, Club and player image rights, and internet and distribution rights.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Spain's new generally accepted accounting principles (GAAP), approved by Royal Decree 1514/2007 of November 16, and the standards for preparing consolidated financial statements approved by Royal Decree 1159/2010, dated September 17, while upholding the specifics regulated in Spanish GAAP as adapted for sporting corporations and entities in so far as they do not violate the new accounting standards. Given that this is the first year that the new consolidation standards are applicable, these consolidated financial statements are considered first-time financial statements in terms of uniformity and comparability. The accompanying consolidated financial statements cover the year ended June 30, 2012.

The figures shown in these consolidated financial statements are presented in thousands of euros unless otherwise indicated.

2.1. True and fair view

The accompanying consolidated financial statements have been prepared from the auxiliary accounting records of the Club and its subsidiary in accordance with Spanish GAAP and other prevailing accounting legislation, in order to give a true and fair view of the Group's equity, financial position and performance. The consolidated cash flow statement has been prepared to present its readers with a fair basis to assess the ability of the Group to generate cash and cash equivalents and the needs of the Group to utilize those cash flows.

The accompanying consolidated financial statements and management report have been authorized for issue by the Club's Board of Directors.

2.2. Consolidation principles

The subsidiary is fully consolidated as the Club exercises effective control over it by virtue of having power over the majority of the voting rights in its governing and decision-making bodies.

The date of first-time consolidation was deemed to be July 1, 2004, the date on which the parent company assumed effective control and management of the subsidiary. The effect on assets and income in the accompanying consolidated financial statements of fully consolidating this subsidiary was €6,387 and €33,600 thousand, respectively (€2,413 and €29,683 thousand respectively in 2011).

In the preparation of the accompanying consolidated financial statements all material balances and transactions between the consolidated companies and the resulting gains and losses arising on these transactions were eliminated. The most significant accounting principles and methods used by the subsidiary were standardized to reflect those applied by the Club.

The share of minority interests in the subsidiary's equity and profit for the year is shown in "Minority interests" within equity on the consolidated balance sheet and in "Profit for the year - Attributed to minority interests," in the consolidated income statement, respectively.

2.3. Comparison of information

In compliance with Spanish mercantile law, for comparative purposes the Group presents for each of the headings in the balance sheet, the income statement, the statement of changes in equity, and the cash flow statement, in addition to the figures for the financial year ended June 30, 2012, those of the prior period. The notes to the financial statements also include quantitative information from the previous year, except when an accounting standard specifically establishes this as unnecessary.

These consolidated financial statements were prepared by the Board of Directors applying the modifications included in Spanish GAAP through Royal Decree 1159/2010 of September 17.

The consolidated financial statements for the year ended June 30, 2011 applied the Resolution of December 29, 2010, passed by the Institute of Spanish Accounting and Auditors of Accounts ("Instituto de Contabilidad y Auditoría de Cuentas" - ICAC, in Spanish), which stipulates the information to be included in the Notes to the consolidated financial statements concerning late payment to suppliers in commercial transactions. During said period the Group only supplied information relating to the amount pending payment to suppliers, in accordance with transitional provision two of this Resolution. June 30, 2012 is the first period in which the consolidated financial statements present the following additional information. Hence, it cannot be used for purposes of comparison with the previous period (Note 19.4).

- Total amount of payments made to suppliers during the year, differentiating those that exceeded the stipulated legal payment period.
- Weighted average period of time exceeded for payments.
- Balance payable to suppliers at year end which exceeds the stipulated legal payment period.

2.4. Critical issues concerning the assessment of uncertainty

The Club's Board of Directors has prepared the consolidated financial statements using estimates based on historical experience and other factors considered reasonable in light of prevailing circumstances. The carrying amount of assets and liabilities which is not readily apparent from other sources was established on the basis of these estimates. Although the Group continually reviews these estimates, there is a series of risks and uncertainties relating to the ultimate outcome of certain assumptions and considerations described in these notes which could ultimately result in the need in the future to amend the carrying amounts of its assets and liabilities or modify other disclosures contained in these notes.

The key assumptions regarding the future, in addition to other relevant information regarding the estimation of uncertainty at the reporting date (June 30, 2012), which entail a considerable risk that the carrying amounts of assets and liabilities may require significant adjustments in the following financial year, are as follows:

- **Impairment of non-current assets**
  When measuring non-current assets estimates must be made to determine their fair value (Notes 3.6) to assess possible impairment. To determine fair value, the Group's directors estimate, as of the date of authorizing the consolidated financial statements, whenever feasible, the expected and probable future cash flows to be generated by the assets, applying an appropriate discount rate to then calculate their present value.

- **Deferred tax assets**
  Deferred tax assets are recognized for all unused tax losses and unused tax credits carried forward for which it is probable that future taxable profit will be available against which the unused credits and losses can be utilized. To determine the amount of deferred tax assets that can be recognized, the Group's directors estimate the amounts and dates on which future taxable profits will be obtained and the reversion period of taxable temporary differences.

- **Provisions**
  The Group has made judgments and estimates as to the likelihood that risks will materialize that could require that a provision be recognized, as well as the corresponding amounts. Accordingly, a provision is recognized only when the risk is considered probable, estimating the cost that would be generated by the obligating event. On other occasions, the cost is determined after the reporting date and prior to authorization of the consolidated financial statements, once management has obtained additional information and documentation needed to confirm the assessment or estimate of the risk evident at the close.

- **Calculation of fair value, value in use, and present values**
  Fair value, value in use, and present values are calculated based on assumptions related to the value of future cash flows and related discount rates. The estimates and assumptions based on historic experience and other factors are considered reasonable under the circumstances.

- **Operating lease commitments – Group as lessee**
  The Group has entered into leases to carry out its business. The Group has determined, based on an evaluation of the terms and conditions of some of the arrangements, that the lessor retains all the risks and rewards inherent to ownership of the assets and so accounts for the contracts as operating leases. Operating lease payments are recognized as an expense in the consolidated income statement on a straight-line basis over the lease term.

2.5 Appropriation of results

The Club dedicates all the results for the year to increasing the social fund.

3. RECOGNITION AND MEASUREMENT CRITERIA

The main recognition and measurement accounting policies applied in the preparation of the consolidated financial statements for the year ended June 30, 2012 are the following:

3.1. Intangible sporting assets

This heading includes primarily player transfer rights and the cost incurred to acquire such rights. These rights are measured at acquisition cost and are amortized from the moment they are acquired on a straight-line basis over the term of each player's contract. The asset is first recognized at the date the acquisition contract enters into force.

After initial recognition, they are carried at cost, net of accumulated amortization and any impairment loss.

The cost of the intermediation services rendered by the players' agents for their work in the acquisition of the player is recognized as a greater acquisition cost and is amortized on a straight line basis over the life of the player's contract.

At year end, these intangible assets are assessed for indications of impairment. If there is objective and clear evidence that the Group's intangible assets are impaired before the date the consolidated financial statements are authorized, the pertinent impairment loss is recognized.

Unexercised purchase options on players at year end are measured at acquisition cost given the difficulties inherent in estimating the options' fair value as there are no active markets or comparable transactions for these assets.

Players are derecognized at the date of disposal, transfer, cancellation of the contract, or expiry of the contractual rights over players. Even though contact may have been initiated with other clubs, agents, or the players themselves, for the purpose of negotiating their leaving the Club, and given the difficulties and uncertainties that arise before signing agreements, the related profit or cost is not recognized until either the sales 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 inherent to ownership of contractual rights over the player. At the date of preparation of the consolidated financial statements, none of the above circumstances necessary for derecognition of any of the Club's players had arisen.

3.2. Intangible non-sporting assets

Intangible assets are initially recognized at acquisition cost. The cost of intangible assets acquired in a business combination is fair value as of the date of acquisition. Following initial recognition, they are measured at cost, net of accumulated amortization and any impairment loss.

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

The Group assesses the intangible asset's useful life to be either finite or indefinite.

Finite-life intangible assets are amortized on a straight-line basis as a function of their remaining estimated useful lives and residual value. Amortization methods and periods are reviewed at year or period end and adjusted prospectively where applicable. Intangible assets are tested for impairment at least at year or period end and are written down to their recoverable amounts when there is evidence of impairment.

At June 30, 2012 and 2011, the Group had not recognized any indefinite-life intangible assets in the consolidated balance sheet.

- **Service concession arrangements**
  This heading includes the costs incurred to obtain the concession for certain of the Club's activities. These arrangements are amortized on a straight-line basis over a period of 7 years. These assets are fully amortized.

- **Patents, licenses, trademarks, et al.**
  This heading reflects the amounts paid to register the Club's trademark. This balance is being amortized on a straight-line basis over a 10-year period.

- **Software**
  Software is amortized on a straight-line basis over three years. The related maintenance costs are expensed as incurred.

- **Other intangible non-sporting assets**
  The heading recognizes:

a. Merchandising rights
This balance includes a series of rights acquired by the Club on June 26, 1998 for €80,836 thousand including merchandising rights, rights to use the sporting fixtures and adjacent bars and restaurants, audiovisual broadcasting rights for European competitions, and static and dynamic in-game advertising and sponsorship rights in connection with the football and basketball teams. These rights are amortized on a straight-line basis over periods ranging from four to 21 years. This heading also includes other management and operating rights repurchased by the Club in financial year 2002/2003 over several boxes located in the Santiago Bernabeu stadium. These rights were acquired from Palcos Blancos, S.L. for €9,423 thousand and had been fully amortized at June 30, 2012 and 2011.

b. Operating rights over stadium boxes acquired in connection with business combinations
This balance includes the rights acquired in financial year 2002/2003 as a result of the business combination completed 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 located in the Santiago Bernabeu stadium that were acquired by the Club that year for €955 and €4,029 thousand, respectively. These rights had been fully amortized at June 30, 2012 and 2011.

3.3 Property, plant and equipment

Items of property, plant, and equipment are initially measured at either acquisition or production cost, and include all costs and expenses directly related to the assets acquired until they are ready for use. In financial year 1996/1997, as permitted under Royal Decree Law 7/1996, of June 7, the Club restated the carrying amount of its property, plant, and equipment, writing it up by €8,548 thousand. The effect on provisions for depreciation in the years ended June 30, 2012 and 2011 amounted to €172 thousand.

Following initial recognition, these assets are measured at cost less accumulated depreciation and any recognized impairment loss.

Expenses for repairs which do not prolong the useful life of the assets, as well as maintenance expenses, are taken to the consolidated income statement in the year incurred. Expenses incurred for expansion or improvements which increase the productivity or prolong the useful life of these assets are capitalized as an increase in the carrying amount of the item.

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

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

Sport stadiums and venues	50
Other buildings	35
Other fixtures, tools and furniture	10 – 38
Other assets	5 – 10

The Group reviews these assets' residual value, useful lives and depreciation methods at year or period end and adjusts them prospectively where applicable.

An item of property, plant, and equipment is derecognized upon disposal or when no longer expected to generate economic benefits. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the consolidated income statement in the year or period in which the asset is derecognized.

3.4 Investment property

This heading records the assets held for generating rental income or capital gains as well as those assets that are not associated with operating activities and are not included in the Group's ordinary business activities. The Santiago Bernabeu stadium fixtures leased to third parties are classified as investment property.

Investment property is measured using the same criteria described for property, plant, and equipment.

Investment property is depreciated on a straight-line basis over estimated useful lines ranging from 8 to 35 years.

3.5 Non-current assets held for sale

This Group classifies assets whose carrying amount is expected to be realized through a sale transaction, rather than through continuing use, as "Non-current assets held for sale" when the following criteria are met:

- They are immediately available for sale in their present condition, subject to the normal terms of sale.
- The necessary steps have been taken to locate a buyer.
- The sale is expected within 12 months of classifying the asset as held for sale.

Non-current assets held for sale are accounted for at the lower of their carrying amount or fair value, less costs to sell. This criterion is not applied to deferred tax assets, assets arising from employee benefits or financial assets which do not correspond to investments in group companies, jointly controlled companies or associates recognized as non-current assets held for sale; they are instead accounted for according to their own specific measurement criteria. These assets are not depreciated and, where necessary, the corresponding impairment loss is recognized to ensure that the carrying amount does not exceed reasonable value less costs to sell.

Any related liabilities that are liable to be cancelled in conjunction with the asset disposal are classified as "Liabilities associated with non-current assets held for sale."

3.6 Impairment of non-financial assets

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

Impairment losses and any subsequent reversals are recognized in the consolidated income statement. Impairment loss is reversed only if the originating circumstances have ceased to exist. The reversal is limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset.

For the purposes of detecting indications of impairment, the Group performs the following analysis:

a. Intangible sporting assets / PP&E earmarked for sporting use
Intangible sporting assets: Group management considers that the complexity of the negotiations that take place at the time of arranging a player transfer (acquiring an intangible sporting asset) in order to set its market value, combined with the lack of an active and transparent market, the issues entailed in identifying comparable transactions and the significant oscillations in their market value from one day to the next as a function of player performance and/or injuries, the differing economic circumstances of the selling and buyer clubs, and player/agent attitudes, etc., is such that it is not possible to objectively reasonably determine the fair value of these players prior to their effective transfer. Nevertheless, the Group performs detailed analysis (on an

individual and collective basis) of the value of its players' potential based on a combination of specific sports and financial parameters to identify any indications that its intangible sporting assets may be impaired. When there are clear indications or evidence of impairment, the Club's management estimates the corresponding recoverable amounts based on the best information available to it at the date of authorizing the consolidated financial statements, duly recognizing the pertinent impairment losses. Property, plant, and equipment earmarked for sporting use (sports stadiums and venues): it is similarly challenging to determine the fair value of these assets due to the lack of an active and transparent market in which to pinpoint comparable transactions. Accordingly, the criteria used by the Group to determine whether there are any indications that these assets may be impaired is analysis of whether income from these assets is sufficient to cover the related depreciation charges and other operating expenses.

b. Intangible non-sporting assets, other PP&E and investment property

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

3.7 Leases

Leases are classified as finance leases when, based on the economic terms of the arrangement, substantially all the risks and rewards incidental to ownership of the leased item are transferred to the lessee. All other lease arrangements are classified as operating leases.

- **Group as lessee**

  Operating lease payments are recognized as expenses in the consolidated income statement as accrued.

- **Group as a lessor**

  Rental income from operating leases is recognized in the consolidated income statement as accrued.

3.8 Financial assets

- **Recognition and measurement**

  Financial assets are classified as follows: (a) loans and receivables and (b) available-for-sale financial assets.

  The Group determines how to classify its financial assets upon initial recognition and re-evaluates this designation at each financial year or period end.

a. Loans and receivables

The Group recognizes in this category trade and non-trade receivables, which include financial assets with fixed or determinable payments not quoted on active markets and for which it expects to recover the full initial investment, except, where applicable, in cases of credit impairment.

Upon initial recognition in the consolidated balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs.

Subsequent to initial recognition, these financial assets are measured at amortized cost. Nevertheless, trade receivables which mature within less than one year which do not carry a contractual interest rate, as wells as advances and employee loans, the amount of which is expected in the short term, are measured initially and subsequently at their nominal amounts, when the effect of not discounting the cash flows is not material.

Security deposits set up in connection with operating leases are measured at the amount given, which does not differ significantly from fair value.

Amounts received or pending collection albeit enforceable in connection with multi-year contracts for the transfer of certain usage rights or with the rendering of services that are deferred in time are recognized in the consolidated balance sheet under "Current liabilities - Accruals" or "Non-current liabilities – Accruals" and are for the most part taken to the consolidated income statement on a straight-line basis over the life of the corresponding contracts.

These balances are classified as current (less than 12 months) or non-current (more than 12 months) depending on the year in which they are scheduled to mature or be settled.

b. Available-for-sale financial assets

Available-for-sale financial assets include equity instruments not included in another financial asset category.

Upon initial recognition in the consolidated balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs.

After initial recognition, these assets are stated at fair value including any transaction costs relating to their sale. Changes in fair value are recognized directly in equity until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously deferred in equity is taken to the income statement. Equity instruments whose fair value cannot be reliably determined are measured at cost, less any cumulative impairment.

- **Derecognition**

  Financial assets are derecognized when the contractual rights to the related cash flows have expired or when the assets are transferred, provided that the risks and rewards incidental to ownership are substantially transferred.

  If the Group has neither substantially transferred nor retained the risks and rewards incidental to ownership of the financial asset, it is derecognized if control has been given up. If the Group retains control over the asset, it continues to recognize it to the extent to which it is exposed to changes in the value of the transferred asset, i.e. its continuing involvement, recognizing as well the associated liability.

  The difference between the consideration received, net of attributable transaction costs, including any new financial asset obtained less any liability assumed, and the carrying amount of the financial asset transferred plus any cumulative gain or loss recognized directly in equity, determines the gain or loss generated upon derecognition, and is included in the consolidated income statement in the year in which it is generated.

3.9 Impairment of financial assets

The carrying amount of financial assets is adjusted against the consolidated income statement when there is objective evidence of actual impairment.

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

- **Debt instruments**

There is objective evidence that debt instruments (receivables and loans) are impaired when an event has occurred subsequent to initial recognition that has a negative impact on the related cash flow projections.

The Group 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 past due balances, breaches, refinancings and other data which evidences the possible irrecoverability of total agreed-upon cash flows or potential collection delays.

For financial assets measured at amortized cost, 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 prevailing at the time of initial recognition.

Any reversal of an impairment loss is recognized in the consolidated income statement. Reversals are limited to the carrying amount of the financial asset that would have been recognized on the reversal date had no impairment loss been recognized.

- **Equity instruments**

There is objective evidence that equity instruments are impaired when one or more events have occurred after initial recognition that indicate that the cost of the investment in equity instruments may not be recovered due to a prolonged or significant decline in fair value.

The impairment loss is calculated as the difference between the carrying amount and recoverable amount, which is the higher of fair value less costs to sell and the present value of projected cash flows from the investment. Unless better evidence is available, impairment of this type of asset is estimated based on the subsidiary's equity adjusted for any unrealized capital gains existing on the measurement date. Impairments losses are recognized in the consolidated income statement by directly reducing the carrying amount of the equity instrument.

Any reversal of an impairment loss is recognized in the consolidated income statement. Reversals are limited to the carrying amount of the investment that would have been recognized on the reversal date had no impairment loss been recognized.

3.10 Financial liabilities

- **Recognition and measurement**

The Group determines how to classify its financial liabilities upon initial recognition and re-evaluates this designation at each financial year or period end.

Fore measurement purposes, financial liabilities are classified as follows:

a. Financial liabilities measured at amortized cost

This category includes financial liabilities generated by the purchase of goods and services arising from trade transactions, and non-trade payables that are not derivative instruments.

Upon initial recognition in the consolidated balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration received, adjusted for directly attributable transaction costs.

Following initial recognition, these financial liabilities are measured at amortized cost. Accrued interest is recognized in the consolidated income statement using the effective interest rate method.

Nevertheless, trade payables which are due within less than one year that do not carry a contractual interest rate, settlement of which is expected in the short term, are carried at the nominal value when the effect of not discounting the cash flows is not material.

b. Financial liabilities held for trading

This category includes derivative instruments that have not been designated as hedging instruments.

These instruments are initially recognized at their fair value at the acquisition date. Subsequent changes in fair value are recognized in the consolidated income statement annually.

- **Derecognition**

The Group derecognizes a financial liability when the related obligation is extinguished.

3.11 Inventories

Inventories are carried at acquisition cost. Acquisition cost includes the amount invoiced after deducting any trade discounts, rebates or similar items, plus all other costs incurred until the goods are ready for sale.

Given that Group's inventories do not need more than one year to ready for sale, finance costs are not capitalized in the acquisition or production cost.

The Group measures inventory at weighted average cost.

When the net realizable value of inventories is less than acquisition cost, the corresponding impairment provision is recognized in the consolidated income statement.

3.12 Cash and cash equivalents

This heading includes cash, current accounts, short-term deposits and purchases of assets under resale agreements which meet the following criteria:

- They are readily convertible to cash.
- They mature within less than three months from the acquisition date.
- The risk of change in value is insignificant.
- They fall under of the Group's standard cash management strategy.

In terms of the consolidated cash flow statement, occasional bank overdrafts used as part of the Group's cash management strategy are recognized as a decrease in cash and cash equivalents.

3.13 Grants

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

Grants are classified as non-repayable once the grant prerequisites have been met. They are recognized directly in equity, net of the corresponding tax effect.

Repayable grants are recognized as Group liabilities until they meet the terms for forgiveness. No income is recognized until they are deemed non-repayable.

Grants received to finance specific expenses are recognized in the consolidated income statement in the year in which the expenses which they are intended to compensate are incurred. Grants received to acquire property, plant, and equipment are released to income in proportion to the related depreciation charges.

3.14 Provisions

Provisions are recognized in the consolidated balance sheet when the Group has a present obligation (derived from a contract through its explicit or implicit terms, legislation or other operation of law) as a result of past events that are known before the reporting date and it is probable that a quantifiable outflow of resources will be required to settle the obligation.

In those other situations in which no present obligation exists yet or in which there is clear uncertainty with respect to the outcome of particular issues (claims, appeals, etc.), the Group and its legal or tax advisors assess the prospects of a future event that could result in gains or losses for the Group. Should a high probability be assessed for a particular event, the resulting contingent asset or liability is estimated.

Provisions are measured at the present value of the best possible estimate of the amount needed to cancel the obligation or transfer it to a third party, recognizing the increase in the carrying amount of the provision due to the passage of time as borrowing cost. Provisions due to be settled within twelve months are not discounted where the financial impact of not discounting is not material. Provisions are reviewed at each consolidated balance sheet close and are adjusted to reflect the current best estimate of the expenditure required to settle the obligation at the date of authorizing the consolidated financial statements.

3.15 Provisions for long-term employee benefits

This heading reflects the Group's commitments to its employees in relation to length of service bonuses as well as other commitments assumed under collective bargaining agreements.

Neither the Club employees to which its collective labor agreement is applicable nor 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 any applicable tax credits, taking into account changes during the year to recognized deferred tax assets and liabilities. The corresponding tax expense is recognized in the consolidated income statement, except when it relates to transactions recognized directly in equity, in which case the corresponding tax expense is likewise recognized in equity.

Deferred taxes are recognized using the liability method on all temporary differences at the consolidated balance sheet 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 recognized in “Deferred tax assets” or “Deferred tax liabilities” on the consolidated balance sheet, as applicable.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities based on the tax rates prevailing at the consolidated balance sheet date, restated for any tax adjustments from previous years.

Deferred tax liabilities are recognized for all temporary differences, except where disallowed under prevailing tax legislation.

The Group recognizes deferred tax assets for all deductible temporary differences, for the carryforward of unused tax credits and unused tax losses, to the extent that it is probable that future taxable profit will be available against which these assets may be utilized, except where disallowed under prevailing tax legislation.

At each financial year end, the Group assesses the deferred tax assets recognized and those that have not previously been recognized. Based on this analysis, the Group derecognizes any asset recognized previously if it is no longer probable that it will be recovered, and it recognizes any deferred tax asset that had not been recognized previously, provided that it is probable that future taxable profit will be available against which the asset may be utilized.

Deferred tax assets and liabilities are measured at the tax rate expected to apply to the period in which they reverse, as required by enacted tax laws and in the manner in which it reasonably expects to recover the asset’s carrying amount or settle the liability.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and non-current liabilities, respectively.

3.17 Classification of assets and liabilities as current or non-current

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

3.18 Revenue and expense recognition

In accordance with the accruals principle, revenue and expenses are recognized when the goods or services represented by them take place, regardless of when actual payment or collection occurs.

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

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

3.19 Foreign currency transactions

The Group’s functional and presentation currency is the euro.

Transactions in currencies other than the euro are initially translated at the spot 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 consolidated balance sheet date.

The exchange gains and losses arising from this translation process, and those arising on settlement of these monetary balance sheet items are recognized in the consolidated income statement when realized.

3.20 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 expensed in the year to which they relate, unless they correspond to purchases of qualifying Group assets to be used over an extended period, in which case they are capitalized in the corresponding property, plant, and equipment heading and are depreciated using the same criteria described in note 3.3 above.

At June 30, 2012 and 2011, the Group had not recognized any such environmental expenditure nor had it capitalized any environmental assets

3.21 Related-party transactions

Transactions with related parties are measured in accordance with the measurement rules described above.

The Group regards the subsidiary’s minority shareholders, the members of the Club’s Board, its key managers and the Real Madrid Foundation as its related parties.

4. INTANGIBLE SPORTING ASSETS

The breakdown and the movement in this heading is as follows:

2011/2012

	Thousands of euros				
Player transfer rights	Opening balance	Additions and allowances	Derecognitions	Transfers	Closing balance
Cost	531.181	74.511	(17.814)	-	587.878
Accumulated amortization	(215.029)	(96.616)	7.940	-	(303.705)
Impairment allowances	(224)	(477)	224	-	(477)
Carrying amount:	**315.928**	**(22.582)**	**(9.650)**	**-**	**283.696**

2010/2011

	Thousands of euros				
Player transfer rights	Opening balance	Additions and allowances	Derecognitions	Transfers	Closing balance
Cost	521.670	71.229	(61.718)	-	531.181
Accumulated amortization	(165.304)	(92.194)	42.469	-	(215.029)
Impairment allowances	(3.290)	(224)	3.290	-	(224)
Carrying amount:	**353.076**	**(21.189)**	**(15.959)**	**-**	**315.928**

4.1 Description of the main changes during the period

The additions recognized in the periods 2011/2012 and 2010/2011 relate to investments in new players for the professional football and basketball squads; these balances include the transfer fees and other acquisition costs incurred in connection with the related transactions.

As indicated in Note 3.6 above, the Club recognize the opportune impairment charges as a function of the clear indications and evidence of impairment identity in respect of its intangible sporting assets at the date of authorizing the annual consolidated financial statements.

2011/2012

During the financial year ended June 30, 2012, the Club obtained net income of €13,636 thousand from the transfer of rights over several players to other clubs. The net profit from all disposals after deducting the net carrying amount totaled €3,986 thousand (Note 17.5).

2010/2011

During the financial year ended June 30, 2011, the Club obtained net income of €19,721 thousand from the transfer of rights over several players to other clubs. The net profit from all disposals after deducting the net carrying amount totaled €3,762 thousand (Note 17.5).

4.2 Other disclosures

At June 30, 2012, the Club had €16,034 thousand of fully amortized player acquisition rights (June 30, 2011: €200 thousand).

At June 30, 2012 and 2011 all purchase options on players were worthless, though the Group did hold certain rights to repurchase transferred players. No decisions relating to these rights had been taken at the date of preparation of the consolidated financial statements.

At June 30, 2012, there were no firm commitments to invest in players' federative rights. At June 30, 2011 player acquisition contracts for a total of €33,950 thousand had been signed for the 2011/2012 season.

It is Real Madrid Club policy to arrange whatever insurance policies are necessary to cover any eventuality related to the members of its professional football and basketball squads.

5. INTANGIBLE NON-SPORTING ASSETS

The breakdown and the movement in this heading is as follows:

2011/2012

	Thousands of euros				
	Opening balance	Additions and allowances	Derecognitions	Transfers	Closing balance
Cost:					
Service concession arrangements	2.103	-	-	-	2.103
Patents, licenses, trademarks, et al.	811	158	(4)	-	965
Software	4.611	149	(47)	273	4.986
Other intangible assets	95.437	-	-	-	95.437
Advances	444	32	-	(273)	203
Total cost	103.406	339	(51)	-	103.694
Accumulated amortization:					
Service concession arrangements	(2.103)	-	-	-	(2.103)
Patents, licenses, trademarks, et al.	(655)	(54)	3	-	(706)
Software	(3.836)	(456)	47	-	(4.245)
Other intangible assets	(90.470)	(813)	-	-	(91.283)
Total amortization	(97.064)	(1.323)	50	-	(98.337)
Impairment allowances:					
Software	(45)	-	-	-	(45)
CARRYING AMOUNT	**6.297**	**(984)**	**(1)**	**-**	**5.312**

2010/2011

	Thousands of euros				
	Opening balance	Additions and allowances	Derecognitions	Transfers	Closing balance
Cost:					
Service concession arrangements	2.103	-	-	-	2.103
Patents, licenses, trademarks, et al.	811	-	-	-	811
Software	4.067	83	-	461	4.611
Other intangible assets	95.437	-	-	-	95.437
Advances	714	191	-	(461)	444
Total cost	103.132	274	-	-	103.406
Accumulated amortization:					
Service concession arrangements	(2.103)	-	-	-	(2.103)
Patents, licenses, trademarks, et al.	(594)	(61)	-	-	(655)
Software	(3.338)	(498)	-	-	(3.836)
Other intangible assets	(89.601)	(869)	-	-	(90.470)
Total amortization	(95.636)	(1.428)	-	-	(97.064)
Impairment allowances:					
Software	(45)	-	-	-	(45)
CARRYING AMOUNT	7.451	(1.154)	-	-	6.297

Note 3.2 describing the measurement rules followed for "Intangible non-sporting assets" details the most significant operating rights held by the Club at June 30,2012.

5.1 Other disclosures

The table below depicts a summary of the cost of items of intangible non-sporting assets that were fully amortized at:

	Thousands of euros	
	June 30,2012	June 30,2011
Service concession arrangements	2.103	2.103
Patents, licenses, trademarks, et al.	353	205
Software	3.703	3.384
Other intangible assets	80.965	80.965
TOTAL	87.124	86.657

6. PROPERTY, PLANT AND EQUIPMENT

The breakdown and the movement in this heading is as follows:

2011/2012

	Thousands of euros				
	Opening balance	Additions and allowances	Derecognitions	Transfers	Closing balance
Cost:					
Sport stadiums and venues	282.874	7.012	(2.815)	6.353	293.424
Land and buildings	22.923	-	(304)	-	22.619
Plant and other PP&E items	51.207	620	(258)	2.435	54.004
PP&E under construction and prepayments	14.436	14.618	-	(8.788)	20.266
Total cost	371.440	22.250	(3.377)	-	390.313
Accumulated depreciation:					
Sport stadiums and venues	(51.452)	(6.243)	639	-	(57.056)
Buildings	(2.851)	(651)	231	-	(3.271)
Plant and other PP&E items	(33.456)	(4.686)	186	-	(37.956)
Total accumulated depreciation	(87.759)	(11.580)	1.056	-	(98.283)
Impairment allowances					
Buildings and other PP&E items	(990)	(524)	-	-	(1.514)
CARRYING AMOUNT	282.691	10.146	(2.321)	-	290.516

2010/2011

	Thousands of euros				
	Opening balance	Additions and allowances	Derecognitions	Transfers	Closing balance
Cost:					
Sport stadiums and venues	276.814	42	(230)	6.248	282.874
Land and buildings	22.549	1	-	373	22.923
Plant and other PP&E items	48.749	713	-	1.745	51.207
PP&E under construction and prepayments	12.010	10.792	-	(8.366)	14.436
Total cost	360.122	11.548	(230)	-	371.440
Accumulated depreciation:					
Sport stadiums and venues	(45.735)	(5.735)	18	-	(51.452)
Buildings	(2.315)	(536)	-	-	(2.851)
Plant and other PP&E items	(29.297)	(4.159)	-	-	(33.456)
Total accumulated depreciation	(77.347)	(10.430)	18	-	(87.759)
Impairment allowances					
Buildings and other PP&E items	(990)	-	-	-	(990)
CARRYING AMOUNT	281.785	1.118	(212)	-	282.691

6.1 Description of the main changes during the period

2011/2012

The additions during the period mainly correspond to various actions taken in connection with the Santiago Bernabeu stadium and the transfer of the plot of land surrounded by the calle Rafael Salgado, Paseo de la Castellana, and calle Concha Espina under the "Santiago Bernabeu" API 05.12 as a result of the agreement signed with the Madrid City Council (Note 17.5).

2010/2011
Additions in the period relate principally to investments made in the Santiago Bernabéu Stadium.

6.2 Development rights (unidades de aprovechamiento urbanístico)

The Club has acquired transferable development units or rights on the existing plots falling under the scope the current applicable town planning proposal. These units were inscribed in the respective property registers as an annotation in the original property inscription.

These development rights are to all intents and purposes equivalent to the land contributed to the reparceling process, as these units are ultimately what generate the right to obtain a plot adjudication as a result of the redistributive planning proposal. In fact, both the purchase deeds and the registry inscriptions establish that these units will be applied to the resulting plot earmarked for private sporting usage in the amount of 16,401.6 units and approximately 1,200,000 m2 of land under the reparceling proposal.

Real Madrid Club de Fútbol presented these development rights to the Compensation Committee of "Parque de Valdebebas;" on November 25, 2009 definite approval was received from the Madrid City Council (subject to administrative appeals) for the reparceling project, by virtue of which Real Madrid has won the replacement plot. Real Madrid was duly registered as the owner of said plot at Madrid Property Registries 11 and 33.

Following the definitive approval of the reparceling project, the Madrid Tax 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 corresponding 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.

6.3 Operating leases

- **Group as lessee**

At June 30, 2012 and 2011, the Club has arranged operating leases on certain items of property, plant, and equipment, primarily, properties, technical fixtures and computer hardware. These leases have terms ranging from 1 to 5 years, depending on the nature of the asset leased. In most instances, the leases are updated as a function of annual CPI. The Club is in no way encumbered by virtue of these leases.

The expenses related to these leases for the year ended June 30, 2012 amounted to €2,515 thousand (Note 17.4) (June 30, 2011: €2,966 thousand).
The future minimum operating lease payments were the following:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Within one year	963	2.714
Between one and five years	744	4.559
More than 5 years	-	129
TOTAL	1.707	7.402

6.4 Other disclosures

At June 30, 2012, fully depreciated property, plant, and equipment, mainly technical fixtures amounted to €14,173 thousand (June 30, 2011: €12,400 thousand).

At June 30, 2012, the Group had commitments to its suppliers for ongoing investments in connection with the Ciudad Deportiva (a new training and sports complex) and the Santiago Bernabéu Stadium, amounting to €6,6 million (June 30, 2011: €3,4 million).

It is Group policy to take out any insurance policies necessary to cover potential risks relating to its property, plant, and equipment.

Prior to this year, the Club began construction of Ciudad Deportiva de Valdebebas, based on a provisional construction permit granted for the development coded 4.00.01 "Ciudad Aeroportuaria Parque de Valdebebas" under the general town development plan (PGOU for its initials in Spanish).

Prior to this year, the Club received a grant amounting to €9,607 thousand to finance the acquisition of fixed assets. The breakdown of these assets is as follows:

2011/2012

	Thousands of euros		
	Cost	Accumulated depreciation	Carrying amount
Buildings	9.607	(2.561)	7.046

2010/2011

	Thousands of euros		
	Cost	Accumulated depreciation	Carrying amount
Buildings	9.607	(2.369)	7.238

On June 30, 2012, this grant is recognized in equity and deferred tax liabilities for the respective amounts of €5,285 thousand (Note 12) and €1,762 thousand (Note 16.2) (June 30, 2011: €5,429 thousand and €1,810 thousand respectively).

7. INVESTMENT PROPERTY

The breakdown and the movement in this heading is as follows:

2011/2012

	Thousands of euros			
	Opening balance	Additions and allowances	Derecognitions	Closing balance
Cost				
Land	488	13.167	(488)	13.167
Buildings	14.075	-	-	14.075
Facilities	52	-	-	52
Building in progress	1.885	-	(1.345)	540
Total cost	16.500	13.167	(1.833)	27.834
Accumulated depreciation				
Buildings	(8.039)	(477)	-	(8.516)
Facilities	(23)	(6)	-	(29)
Total accumulated depreciation	(8.062)	(483)	-	(8.545)
Impairment allowances				
Building in progress	(1.550)	-	1.345	(205)
CARRYING AMOUNT:	6.888	12.684	(488)	19.084

2010/2011

	Thousands of euros			
	Opening balance	Additions and allowances	Derecognitions	Closing balance
Cost				
Land	488	-		488
Buildings	13.853	222		14.075
Facilities	37	15		52
Building in progress	1.885	-		1.885
Total cost	16.263	237		16.500
Accumulated depreciation				
Buildings	(7.577)	(462)		(8.039)
Facilities	(18)	(5)		(23)
Total accumulated depreciation	(7.595)	(467)		(8.062)
Impairment allowances				
Building in progress	(1.550)	-		(1.550)
CARRYING AMOUNT:	7.118	(230)		6.888

Both the additions and disposals for the period shown under "Land" are a result of the agreement signed with the Madrid City Council (Note 17.5). Thus, the additions correspond to the transfer 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 Valdelabas" obtained through the segregation of the TER. 02 189-A plot, while the disposals correspond to the "Las Tablas" plot (Note 17.5).

The "Buildings" subheading includes the following fixtures and facilities attaching to the Santiago Bernabeu stadium:

- Investments totaling €13,539 thousand in connection with the "La Esquina del Bernabeu" shopping center. This property comprises a series of premises and a car park. It is leased out to a third party under a 20-year operating concession agreement executed in 1992. extended for another 3 years during this period. This agreement generated revenue totaling approximately €424 thousand at June 30, 2012 (June 30, 2011: €1,030 thousand).

- Investments amounting to €314 thousand in restaurants, including capital expenditure by the Club to equip these facilities for hospitality and catering usage. There are four premises located within the Club's installations that are operated by a third party which pays the Club a royalty. The direct royalty revenue generated by this activity in the year ended June 30, 2012 totaled €1,351 thousand (June 30, 2011: €1,136 thousand).

The derecognitions under "Building in progress" are a consequence of the agreement signed with the Madrid City Council and correspond to the derecognition of costs incurred in previous periods for the construction of an underground car park and the corresponding impairment loss (Note 17.5).

Future minimum operating lease receipts were the following:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Within one year	1.214	1.765
Between one and five years	4.717	4.857
More than 5 years	2.288	3.200
TOTAL	8.219	9.822

8. FINANCIAL ASSETS

The breakdown of "Financial assets" is as follows:

2011/2012

	Thousands of euros		
	Equity instruments	Loans and other financial assets	Total
NON-CURRENT FINANCIAL ASSETS			
Non-current financial assets			
Loans and receivables:			
Investments	-	14.127	14.127
Available-for-sale financial assets:			
Investments	378	-	378
	378	14.127	14.505
CURRENT FINANCIAL ASSETS			
Current financial assets			
Loans and receivables			
Trade and other receivables (*)	-	86.210	86.210
Current financial investments (Note 10)	-	40.585	40.585
Cash and cash equivalents (Note 10)	-	113.237	113.237
	-	240.032	240.032
TOTAL FINANCIAL ASSETS	378	254.159	254.537

(*) Does not include include public administrations

2010/2011

	Thousands of euros		
	Equity instruments	Loans and other financial assets	Total
NON-CURRENT FINANCIAL ASSETS			
Non-current financial assets			
Loans and receivables:			
Investments	-	21.613	21.613
Available-for-sale financial assets:			
Investments	334	-	334
	334	21.613	21.947
CURRENT FINANCIAL ASSETS			
Current financial assets			
Loans and receivables			
Trade and other receivables (*)	-	80.671	80.671
Cash and cash equivalents (Note 10)	-	97.769	97.769
	-	178.440	178.440
TOTAL FINANCIAL ASSETS	334	200.053	200.387

(*) Does not include public administrations

8.1 Non-current investments

The breakdown and the movement in this heading is as follows:

2011/2012

	Thousands of euros				
	Opening balance	Additions	Derecognitions	Transfers to current	Closing balance
Equity instruments	334	44	-	-	378
Non-current receivables from sporting entities	21.373	8.419	(263)	(15.833)	13.696
Other financial assets	240	191	-	-	431
TOTAL	21.947	8.654	(263)	(15.833)	14.505

2010/2011

	Thousands of euros				
	Opening balance	Additions	Derecognitions	Transfers to current	Closing balance
Equity instruments	334	-	-	-	334
Non-current receivables from sporting entities	31.022	10.551	(2.750)	(17.450)	21.373
Other financial assets	342	-	-	(102)	240
TOTAL	31.698	10.551	(2.750)	(17.552)	21.947

- "Equity instruments" recognizes the Club's shareholdings in several unlisted entities that organize competitions in which its professional basketball team participates and over which the Club exercises neither control nor significant influence. The Club has recognized these investments at cost rather than at fair value as there is not enough information to reliably determine this parameter.

- "Non-current receivables from sporting entities" recognizes the balances pending collection from a number of sports entities, primarily relating to the sale of rights over professional players. These balances do not accrue explicit interest. The payment schedule is as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
2012	-	5.830
2013	9.662	7.543
2014	3.469	8.000
2015	560	-
2016 and subsequent years	5	-
TOTAL	13.696	21.373

The aforementioned amounts are recognized using the amortized cost method. Accrued finance income during the year ended June 30, 2012 amounted to €713 thousand (June 30, 2011: €1,099 thousand). (Note 17.6)

The change in this balance during the year corresponds to the sale of players by the Club and the transfer to current receivables of those balances falling due within twelve months of the consolidated balance sheet date.

- "Other financial assets" includes guarantees set up in connection with certain operating leases (Note 6.3).

8.2 Trade and other receivables

The breakdown of "Trade and other receivables" is as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Trade receivables		
Stadium receivables	6.953	2.305
Broadcasting receivables	9.977	4.358
Marketing receivables	31.782	33.403
	48.712	40.066
Current accounts receivable from sporting entities	36.539	39.654
Other receivables	-	7
Receivable from employees	959	944
Total	86.210	80.671
Current income tax and other assets (Note 16)	415	427
Other receivables from public administrations (Note 16)	1.325	17.234
Total receivables from public administrations	1.740	17.661
TOTAL TRADE AND OTHER RECEIVABLES	87.950	98.332

- **Trade receivables**

The "Trade receivables" balance is shown net of impairment loss provisions, which recorded the following movements during the year:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Initial impairment allowances	21.890	26.335
Additions in the year	3.310	1.674
Applications in the year	15	(5.472)
Impairment reversal in the year	(292)	(710)
Transfers in the year	(1.018)	63
FINAL IMPAIRMENT LOSS ALLOWANCES	23.905	21.890

2011/2012
The provision for the period is mainly due to the impairment loss relating to accounts receivable from Rak Marjan, as described in "Main commitments in effect" (Note 13.3.8).

2010/2011
The €5,472 thousand impairment loss provision applied in the period relates primarily to the collection of 30% of the debt for which creditor protection was filed by the former sponsor BenQ Mobile GmBH & Co, as explained in Note 13.3, and which was provided for in the 2006/07 season.

The reversal of €710 thousand corresponds to the derecognition of receivable balances covered by impairment loss allowances due having been collected by the Group during the year.

The breakdown of balances in foreign currencies at June 30, 2012 included in "Trade receivables" is as follows:

	Thousands	
	Foreign currency balance	Euro Amount
US dollars (USD)	2.261	1.819
Pounds sterling	18	22
TOTAL		1.841

The breakdown of balances in foreign currencies at June 30, 2011 included in "Trade receivables" is as follows:

	Thousands	
	Foreign currency balance	Euro Amount
US dollars (USD)	1.491	1.032
Pounds sterling	18	20
TOTAL		1.052

- **Current accounts receivable from sporting entities**

The "Current accounts receivable from sporting entities" is shown net of impairment loss provisions, which recorded the following movements during the year:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Initial impairment allowances	5.918	3.934
Additions in the year	13	2.387
Applications in the year	(400)	-
Impairment reversal in the year	(738)	(403)
Transfers in the year	(296)	
FINAL IMPAIRMENT ALLOWANCES	4.497	5.918

At June 30, 2012, this account includes a balance of €330 thousand with the Professional Football League (June 30, 2011: €351 thousand), which has been confirmed by the entity in question.

This account did not contain any foreign currency denominated balances at June 30, 2012 and 2011.

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

	Thousands of euros	
	June 30, 2012	June 30, 2011
Impairment recognized in the year to "Trade receivables"	3.310	1.674
Impairment reversal in the year to "Trade receivables"	(292)	(710)
Impairment recognized in the year to "Current accounts receivable from sporting entities"	13	2.387
Impairment reversal in the year to "Current accounts receivable from sporting entities"	(738)	(403)
Losses in the year on "Current receivables from sporting entities"	6	-
Net change in the year to "Inventories" (Note 9)	(25)	9
TOTAL	2.274	2.957

9. INVENTORIES

The €1,100 thousand carrying amount in "Inventories" at June 30,2012 (June 30, 2011: €1,558 thousand). The impairment loss of €25 thousand included at June 30, 2011 was reversed in the present period.

The movement in the impairment loss allowance was the following:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Initial impairment of inventories	25	16
Additions in the year	-	9
Impairment reversal in the year	(25)	-
FINAL IMPAIRMENT OF INVENTORIES	-	25

10. CURRENT FINANCIAL INVESTMENTS, CASH AND CASH EQUIVALENTS

The breakdown is as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Current financial investments	40.585	-
Cash equivalents	28.109	35.100
Cash	5	13
Current accounts	85.123	62.656
Cash and cash equivalents	113.237	97.769
TOTAL	**153.822**	**97.769**

"Current financial investments" includes investments in time deposits maturing in less than a year at market interest rates.

"Cash equivalents" includes investments in euro deposits and various deposits placed at different financial entities carrying interest linked to Euribor at maturity.

There are restrictions on the availability of balances in current accounts amounting to €26.1 million at June 30, 2012 (June 30, 2011: €17,2 million). These amounts are earmarked for amortization of the loans.

11. EQUITY - CAPITAL AND RESERVES

The breakdown and movements in the items composing "Capital and reserves" during the year then ended are shown in the consolidated statement of changes in equity.

The "Social fund" consists mainly of the initial endowment plus subsequent contributions in connection with distributions of retained earnings. In addition, the effects of transition to new Spanish GAAP were recognized under this heading, as required by the new standards which state that these effects must be recognized in unrestricted reserve accounts.

The revaluation reserve recognized by the Club in financial year 1996/1997 may be used to offset tax losses, to increase the social fund or transferred to unrestricted reserves once the restated assets have been fully depreciated or derecognized.

12. EQUITY - GRANTS, DONATIONS, AND BEQUESTS RECEIVED

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

2011/2012

	Thousands of euros					
	Opening balance	Additions	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Closing balance
Grants, donations and bequests received - non-repayable grants	5.429	-	-	(192)	48	5.285
TOTAL	5.429	-	-	(192)	48	5.285

2010/2011

	Thousands of euros					
	Opening balance	Additions	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Closing balance
Grants, donations and bequests received - non-repayable grants	5.573	-	-	(192)	48	5.429
TOTAL	5.573	-	-	(192)	48	5.429

These grants relate mainly to capital grants awarded by 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 attaching to the grants for forgiveness.

13. PROVISIONS AND CONTINGENCIES

13.1 Non-current provisions

The breakdown and the movement in this heading is as follows:

2011/2012

	Thousands of euros				
	Opening balance	Additions	Derecognitions	Transfers	Closing balance
Provisions for employee benefits	535	-	-	(535)	-
Other provisions	7.791	8.318	(2.179)	(1.707)	12.223
TOTAL NON-CURRENT PROVISIONS	**8.326**	**8.318**	**(2.179)**	**(2.242)**	**12.223**

During the period the Group applied €835 thousand (June 30, 2011: €1,699 thousand) in provisions set aside in prior years.

In addition, the Group released provisions totaling €1,344 thousand (June 30, 2011: €648 thousand) since the circumstances for which they were set aside no longer exist. The corresponding income was taken to "Overprovisions" on the consolidated income statement.

2010/2011

	Thousands of euros				
	Opening balance	Additions	Derecognitions	Transfers	Closing balance
Provisions for employee benefits	2.960	-	(2.425)	-	535
Other provisions	9.506	1.345	(2.347)	(713)	7.791
TOTAL NON-CURRENT PROVISIONS	**12.466**	**1.345**	**(4.772)**	**(713)**	**8.326**

- **Provisions for employee benefits**
  In prior years the Club undertook to compensate certain employees for length of service. It also assumed certain employee commitments by virtue of changes in the collective labor agreement applicable in prior years. In the 2010/11 season, the provision for actuarial liabilities was derecognized since the commitment from prior seasons no longer exists.

- **Other provisions**
  During the 2010/2011 financial year, the Group applied provisions set aside in prior years amounting to €1,699 thousand (June 30, 2010: €4,719 thousand), maintaining those related to future payments that have been assessed as probable at June 30, 2011.
  In addition, the Group released provisions totaling €648 miles thousand (June 30, 2010: €3,692 thousand) since the circumstances for which they were set aside no longer exist. The corresponding income has been taken to "Overprovisions" on the consolidated income statement.

13.2 Current provisions
The breakdown and the movement in this heading is as follows:

2011/2012

	Thousands of euros				
	Opening balance	Additions	Derecognitions	Transfers	Closing balance
Provisions for current liabilities and charges	755	709	(744)	-	720
TOTAL CURRENT PROVISIONS	755	709	(744)	-	720

2010/2011

	Thousands of euros				
	Opening balance	Additions	Derecognitions	Transfers	Closing balance
Provisions for current liabilities and charges	738	54	(750)	713	755
TOTAL CURRENT PROVISIONS	738	54	(750)	713	755

The Group applied €744 thousand (June 30, 2011: €750 thousand) in provisions recognized in prior years for their original purpose.

13.3 Commitments, guarantees and sureties
- **Guarantees and sureties extended**
  The Group granted guarantees and sureties to third parties for several items, the most significant of which relate to the acquisition of intangible assets (sporting and non-sporting). The breakdown of these guarantees is as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Indefinite	2.399	2.218
2011/2012	-	11.970
2012/2013	13.638	8.650
2013/2014	-	2.750
TOTAL	16.037	25.588

In addition, in order to guarantee payment obligations to different financial entities and other creditors, the Club has pledged the contract transferring its audiovisual rights, its membership fees covering the period from June 2010 to June 2015, as well as the revenue obtained from remote sales channels for national football competition matches for the period from July 2009 to June 2012.

- **Main commitments in effect**
  Some of the following agreements include information on different issues without disclosing any economic amounts, since the information is of a confidential commercial nature and its disclosure could damage the Group.

1. On November 20, 2006, Real Madrid Club de Fútbol signed a contract with Mediaproducción, S.L. by virtue of which certain audiovisual rights of its first team and of Real Madrid Castilla were ceded for the period covering the 2009/10 season to the 2013/14 season. The signing of this contract, updated in 2010/2011, together with those already in force to date, guarantees that the Club's revenues from broadcasting rights will exceed €1,100 billion euros between 2006/2007 and the following six seasons. The revenues from these rights are accrued annually on the basis of the sports broadcasts aired each season. The annual receipts are secured by first demand bank guarantees issued by a sound financial entity domiciled in Spain. This company, once out of the bankruptcy proceedings in which it was immersed, punctually met all of the installments corresponding to the 2011/12 season, and provided the required bank guarantees in connection with the first payment of the coming season.
In addition, in the first half of the 2010/11 season, an agreement was signed with the Group company Mediapro, ceding the advertising management rights as well as the commercial operation rights of Reamadrid TV channel in for the 2010/11 and 2011/12 seasons, as well as audiovisual broadcasting for the 2010/11 to 2013/14 seasons.
The Real Madrid Club de Fútbol also signed a contract with Mediaproducción, S.L., ceding the audiovisual rights of its first team and Real Madrid Castilla for the 2014/15 season.

2. An agreement signed with Adidas in the year ended June 30, 2004 for the expansion and improvement of sportswear sponsorship rights comes to an end in the current season. A new agreement was signed with Adidas in the current 2011/2012 season, extending the sponsorship rights to the 2019/2020 season and improving on the minimum amounts guaranteed as well as royalty percentages. An advance payment was received during the period which will be discounted on a straight-line basis from the amounts receivable from the 2012/2013 season to the 2019/2020 season. This advance was recognized at its updated value under "Non-current liabilities - Accruals" and will be gradually canceled as the corresponding revenue from the contract is recognized.
In addition, the current 2011/2012 season saw the signing of contracts with Adidas which cede the operating rights for products licensed by the Club together with certain retail rights in exchange for a minimum guaranteed royalty. These contracts will take effect from the 2012/2013 season.

3. 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 season, and consequently the debt was fully provisioned for at the time. In the 2008/09 season, 35% of the debt filed for creditor protection was collected, and the provision recognized by the Club was partially reversed in the corresponding amount.

During 2010/2011, a report was received from the bankruptcy trustee notifying the Group that the status of proceedings were such that a new payment on account would be made, the principal of which would be a maximum additional 30%. This percentage was confirmed and collected in the 2011/2012 season.

4. In prior years the Club signed a sponsorship agreement with Bwin, Internacional Ltd. A new contract, amending and improving the initial agreement, was signed with this company in April 2009 and ratified in August 2009. This new agreement establishes greater revenue from sponsorship rights for the 2010/11, 2011/12, and 2012/13 seasons than in the previous agreement. The annual receipts are secured by first demand bank guarantees issued by a sound financial entity domiciled in Spain.

5. The Club has recognized bonus payment obligations with several players, clubs, and player agents that calculated on the basis of certain sporting objectives achieved during the season. The expense accrued in connection with these obligations during the year ended June 30, 2012 was €8,298 thousand (June 30, 2011: €4,613 thousand).

Conversely, the Club collects bonuses from certain clubs and in relation to image rights and sponsorship agreements upon achievement of specific sporting objectives. During the year ended June 30, 2012, the corresponding revenue collected by the Club amounted to €5,038 thousand (June 30, 2011: €2,470 thousand).

In addition, although at June 30, 2012, no payment obligations have accrued, there are potential liabilities derived from agreements with sporting entities in the event certain 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 €19,600 thousand (June 30; 2011: €28,500 thousand). If this payment is made, the amount would be more than compensated by increased revenue from sporting competitions especially the Champions League.

Likewise, there are potential assets related to sponsorship agreements that are contingent upon fulfillment of established sporting objectives in future seasons. In the unlikely event that all the objectives were to be met, the maximum amount to be collected over the term of the aforementioned agreements up until their expiration would amount to €30,762 thousand (June 30; 2011: €10,060 thousand).

6. In May 2009, Court of Instruction number 32 of Madrid initiated preliminary proceedings which involved the submission of evidence of expert opinion regarding accounting analysis of certain aspects of the financial statements for the year ended June 30, 2008. The Club provided all the information requested by the legal expert witness appointed by the court.

On February 29, 2012, and in connection with the preliminary proceedings for abridged proceeding 372/2009, the Madrid Court of Instruction number 32 initiated the abridged proceeding, setting a deadline for the plaintiffs to prepare their corresponding written claims. No economic consequences have arisen for Real Madrid to date. The legal advisors do not foresee any significant adverse economic effects for the Club.

7. The Club has an agreement with the majority of clubs belonging to the Professional Football League (PFL) by virtue of which clubs demoted to lower leagues due to loss of revenue from league and cup audiovisual rights will be compensated, starting from the current season. The fundamental terms and principles for compensation are governed by regulations which establish the parameters for calculation and the terms for assigning such compensation, which must be proposed by the governing body and approved by the clubs signatory to the agreement. The Club made the first payments corresponding to this agreement during the current season.

8. On February 17, 2012 the Club, Real Madrid Gestión de Derechos S.L., and Rak Marjan Island Footbal (a company incorporated in Luxembourg) signed an agreement to develop a resort on an artificial island of the Ras Al-Khaimah Emirate, ceding the Club name and logo user rights for a period of 22 years (up to 2034) in exchange for a substantial amount of revenue for the Club and subsidiary. The aforementioned company assumes all the risk related to financing and constructing the resort. The agreement establishes different levels of fixed and variable income based on the two phases into which the project has been divided. The Group will consider this agreement a licensing agreement given that it involves ceding the commercial operating rights to its name and logo. In accordance with the contract, during the promotion phase of the project an amount granted will accrue during the year; in keeping with the principle of prudence, an impairment loss was recognized for the amount in question given that Rak Marjan requires more time to raise the necessary funds for the project. The Group continues to hold conversations with said company though the uncertainty with respect to collecting the first accrued amount will not be resolved for a few months.

14. FINANCIAL LIABILITIES

The breakdown of financial liabilities is as follows:

2011/2012

	Thousands of euros		
	Bank borrowings	Other financial liabilities	Total
NON-CURRENT FINANCIAL LIABILITIES			
Non-current financial liabilities			
Financial liabilities measured at amortized cost:			
Borrowings	100.747	55.910	156.657
	100.747	55.910	156.657
CURRENT FINANCIAL LIABILITIES			
Current financial liabilities			
Financial liabilities measured at amortized cost:			
Borrowings	42.562	73.771	116.333
Trade and other payables (*)	-	168.221	168.221
	42.562	241.992	284.554
TOTAL FINANCIAL LIABILITIES	**143.309**	**297.902**	**441.211**

(*) Does not include public administrations

2010/2011

	Thousands of euros		
	Bank borrowings	Other financial liabilities	Total
NON-CURRENT FINANCIAL LIABILITIES			
Non-current financial liabilities			
Financial liabilities measured at amortized cost:			
Borrowings	138.926	79.663	218.589
	138.926	79.663	218.589
CURRENT FINANCIAL LIABILITIES			
Current financial liabilities			
Financial liabilities measured at amortized cost:			
Borrowings	6.836	91.521	98.357
Trade and other payables (*)	-	138.568	138.568
	6.836	230.089	236.925
TOTAL FINANCIAL LIABILITIES	**145.762**	**309.752**	**455.514**

(*) Does not include public administrations

14.1 Non-current financial liabilities

The breakdown of "Non-current liabilities – Financial liabilities" is as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Bank borrowings	100.747	138.926
Other financial liabilities		
Amounts owed to suppliers of fixed assets	38.306	42.760
Player transfer accounts payable	17.604	34.626
Broadcasting accounts payable	-	2.277
	55.910	79.663
TOTAL	156.657	218.589

- **Bank borrowings**

  At June 30, 2012, the Group has three loans from 3 financial entities with an aggregate outstanding principal of €138,485 thousand (June 30, 2011: €141,485 thousand), carrying interest at Euribor plus a market spread. The loans are repayable over this and next four financial years. One of these loans, one was restructured in 2010/2011, extending maturity an additional three years beyond the initially arranged repayment date.

  Given the long-term nature of this financing arrangement, the Group has arranged hedges to mitigate a potential increase in Euribor over and above a specific limit. Changes in the fair value of these instruments are recognized in the income statement. Except for the aforementioned amendment, the remaining terms and conditions, as well as the applicable interest rates, have remained practically unaltered.

  The repayment schedule for these borrowings is as follows:

June 30, 2012

	2012/2013	2013/2014	2014/2015	2015/2016	Total
Bank borrowings	37.968	34.667	25.500	40.000	138.135

June 30, 2011

	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	Total
Bank borrowings	3.350	37.968	34.667	25.500	40.000	141.485

- **Other financial liabilities**

  The amount of debt recognized in this heading decreased substantially with respect to year end 2011, since the Club invested less in sporting intangible assets in the 2011/2012 season and a portion of the debt has been paid down.

  The breakdown of "Other financial liabilities" by maturity (in thousand of euros) is as follows:

June 30, 2012

	2013/2014	2014/2015	2015/2016	2016/2017	Posteriores	Total
Amounts owed to suppliers of fixed assets	12.623	12.285	10.273	3.084	41	38.306
Player transfer accounts payable	17.604	-	-	-	-	17.604
TOTAL	30.227	12.285	10.273	3.084	41	55.910

June 30, 2011

	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	Posteriores	Total
Amounts owed to suppliers of fixed assets	11.863	10.321	10.161	7.367	3.006	42	42.760
Player transfer accounts payable	27.128	7.479	19	-	-	-	34.626
Broadcasting accounts payable	2.277	-	-	-	-	-	2.277
TOTAL	41.268	17.800	10.180	7.367	3.006	42	79.663

The above amounts do not bear explicit interest with the exception of certain amounts owed to suppliers of fixed assets which accrue interest annually at a rate linked to Euribor.

The aforementioned amounts have been recognized at amortized cost. They accrued finance cost of €3,560 thousand during the year ended June 30, 2012 (€3,865 thousand during the year ended June 30, 2011).

This account did not include any foreign currency denominated balances at June 30, 2012 and 2011.

14.2 Current financial liabilities

The breakdown of "Current liabilities - Financial liabilities" is as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Bank borrowings	42.562	6.836
Other financial liabilities		
Payable to suppliers of fixed assets	28.441	26.091
Player transfer accounts payable	45.330	65.430
	73.771	91.521
TOTAL CURRENT BORROWINGS	116.333	98.357

The increase in current "Bank borrowings" is due to the partial transfer of non-current debt recognized at June 30, 2011 to current debt.

In addition, the decrease in "Current accounts payable to sporting entities" is due to the fact that the Club has invested less in sporting intangible assets.

At June 30, 2012, the Group had €26,000 thousand (June 30, 2011: €26,000 thousand) of unmatured, undrawn credit lines, carrying interest at Euribor-linked rates.

The breakdown of foreign currency denominated balances included in "Current liabilities - Financial liabilities" at June 30 is as follows:

June 30, 2012

	Thousands	
	Foreign currency balance	Euro Amount
US dollars (USD)	401	318
Pound sterling	15	18
SEK	5	1
TOTAL		337

June 30, 2011

	Thousands	
	Foreign currency balance	Euro Amount
US dollars (USD)	532	368
Pound sterling	60	66
SEK	5	1
TOTAL		435

14.3 Trade and other payables

The breakdown of "Trade and other payables" is as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Trade payables	70.513	62.529
Accounts payable to sporting entities for services rendered	4.835	4.820
Employee benefits payable	92.873	71.219
Total financial liabilities	168.221	138.568
Other payables to public administrations (Note 16)	309	17.604
Current income tax liabilities (Note 16)	12.768	14.525
Total payable to public administrations	13.077	32.129
TOTAL	181.298	170.697

The amount recognized under "Employee benefits payable" mainly corresponds to the contractually established remuneration payable to the players of the first team. Its increase in the current season is mainly due to the bonuses related to sporting achievements.

14.4 Working capital

The shortfall in working capital is the deficit between current assets and current liabilities on the balance sheet.

Working capital at June 30, 2012 amounted to €-123 million. Though the figure is negative, as in previous years, it is significantly less than at the same date in the previous period (June 30, 2012: €-141 million).

Negative working capital is attributable primarily to the high levels of investment over the last few years in property, plant, and equipment, and especially in intangible sporting assets.

The effect of these investments is in addition to the principal factor driving negative working capital: the intrinsic workings of a football club with significant and annually recurring operations-driven accounts payable (purchases and services, player signings, upfront collection of membership dues/season passes).

At June 30, 2012, short-term recurring payable balances amounted to €251 million (purchases and services: €88 million; signings/other personnel: €93 million; upfront membership dues/season passes: €70 million), whereas at June 30, 2011, this item amounted to €226 million (purchases and services: €81 million; signings/other personnel: €71 million; upfront membership dues/season passes: €74 million). These short-term recurring payables contribute significantly to the existence of negative goodwill at year end.

These balances will be rolled over, and therefore will reflect similar amounts at each year end. In the case of signing players, the payment is made in two six-monthly installments: in January and July. Membership fees are collected on June 30 of the following year. This generates a recurring negative balance, which will be canceled over the entire year; however, cancellation will not represent any payment since it will be covered by income from the following year. Although box seating and VIP area season tickets, as well as amounts from certain sponsors, were collected prior to the close of the season, they are allocated to income over the course of the entire next season, and thus the creditor balance also diminishes over the same period.

The remaining current trade payables at June 30, 2012 relate to amounts owed for investments and bank borrowings, which will be paid using available cash generated on a monthly basis through the Club's transactions.

All things considered, and this is tantamount, this year and next the Club expects to generate very significant operating profits, i.e., current operating income is higher than operating expenses. As a result, after meeting its payment commitments, the Club generates significant surplus cash to cover its investment commitments. In addition, the Group has embarked upon a containment strategy, measured on an average annual basis over four-year cycles, whereby operating expenses are being reduced and investments tapered through material self-financing. This is achieved by virtue of transfers in the case of players, and by completion of the major investments in the case of its sporting installations.

Considering the above and taking into account the forecast cash balances based on conservative hypotheses for the coming seasons, and the availability of undrawn credit lines at June 30, 2012 of €26 million (June 30, 2011: €26 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 headings at is as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Non-current liabilities - Accruals		
Advances received for services rendered	40.917	-
	40.917	-
Current liabilities - Accruals		
Broadcasting revenue	114	124
Stadium revenue	60.940	57.531
Marketing revenue	6.281	9.331
Competition revenue	3.150	6.706
	70.485	73.692

- **Advances received for services rendered**

This heading corresponds to advance payments for sport sponsorships arising from the increased scope of the agreement discussed in Note 13.3.2, and includes finance charges related to updated valuations amounting to €917 thousand.

- **Deferred income**
- Broadcasting revenue

  The balance of this heading corresponds to the amounts collected or invoiced by the Club under business agreements on audiovisual rights for the 2012/2013 season.

- Stadium revenue
  This balance comprises primarily the amounts collected by the Club in respect of membership fees and stadium season tickets for the 2012/2013 season, and to a lesser extent invoices issued or amounts collected for the use of stadium boxes.

- Marketing revenue
  This balance corresponds to the amounts collected or invoiced by the Group under business agreements covering the 2012/2013 season.

- Competition revenue
  This balance corresponds to advance payments, primarily as guarantees, for friendly matches arranged for the 2012/2013 season.

16. TAX MATTERS

The breakdown of tax assets is as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
VAT receivable from the tax authorities	938	827
Tax refunds receivable from the tax authorities	387	16.407
Other receivables from public administrations (Note 8.2)	1.325	17.234
Refunds on withholdings and payments on account	415	427
Current income tax assets (Note 8.2)	415	427
Deferred tax assets for deductible temporary differences	5.529	4.995
Deferred tax assets	5.529	4.995

The breakdown of tax liabilities is as follows:

	Thousands of euros	
	30/06/2012	30/06/2011
Taxes payable to the tax authorities	12.251	14.023
Social security taxes payable	517	502
Other payables to public administrations (Note 14.3)	12.768	14.525
Current tax liabilities (Note 14.3)	309	17.604
Deferred tax liabilities for deductible temporary differences	10.996	19.505
Deferred tax liabilities	10.996	19.505

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 prescribed.

On July 5, 2010 the Group received notification from the Tax Authorities with regard to the verification and inspection of the following taxes and periods in connection with the Real Madrid Club de Fútbol:

	Periods
Income tax withholdings and payments on account corresponding to employees and independent professionals	07/2006 a 12/2008
Value added tax	07/2006 a 12/2008
Withholdings on account Taxes for non-residents	07/2006 a 12/2008
Corporate income tax	07/2005 a 06/2008

On June 16, 2011, tax assessments were signed in agreement for the following:

	Amount	Fines	Interest
Payment on account of amounts withheld from employees and independent professionals	0	0	0
Value added tax	148	0	31
Taxes withheld on account from non-residents	421	0	96
Corporate income tax	0	0	0

Moreover, regarding the tax assessments signed in agreement related to corporate income tax, the authorities offset unused tax loss carryforwards from previous years, thereby reducing them by €13,665 thousand. Additional adjustments were made which reduced deductions by €418 thousand. Consequently, income tax expense for the year rose €4,269 thousand, which was recognized under "Payables to the Treasury" (Note 16.1).

During 2011-2012, corporation tax payments were brought up to date and adjusted subsequent to the tax assessment, resulting in a €138 thousand decrease as a result of corrected deductions. An additional assessment amounting to €1,008 thousand (including interest) corresponding to taxes withheld on account from non-residents was signed in agreement.

In February 2009 the Tax Authorities began verifying and inspecting subsidiary Real Madrid Gestión de Derechos S.L.'s VAT returns for 2005 and 2006, as well as its corporate income tax returns for financial years 2005/2006 and 2006/2007. These inspections were finalized satisfactorily in December 2009 without any payments to the Tax Authorities.

The Club's Board of Directors considers that the tax inspections underway, or any potential additional inspections, will not give rise to significant tax contingencies as a result of varying interpretations of the tax legislation applicable to the Group's operations.

16.1 Income tax

Determined in keeping with prevailing tax legislation, the Club's taxable profits are subject to a 25% tax rate while those of the Group's subsidiary are levied at 30%, yielding an effective tax rate of 25.03%. Nevertheless, the resulting taxable income may be reduced by certain deductions.

The reconciliation of income and expenses with taxable income for income tax calculation purposes is as follows:

2011/2012

	Thousands of euros	
	Income statement	Income and expense recognized directly in equity
Income and expenses for the financial year		
Continuing operations	24.212	-
Income tax expense		
Continuing operations	8.050	-
Income and expenses for the financial year before tax	32.262	-
Permanent differences	2.919	-
Temporary differences		
Arising in 2010/2011	122	-
Arising in prior years	38.799	-
	38.921	-
Taxable income	74.102	-

2010/2011

	Thousands of euros	
	Income statement	Income and expense recognized directly in equity
Income and expenses for the financial year		
Continuing operations	31.563	-
Income tax expense		
Continuing operations	15.282	-
Income and expenses for the financial year before tax	46.845	-
Permanent differences	3.470	-
Temporary differences		
Arising in 2010/2011	(4.743)	-
Arising in prior years	53.833	-
	49.090	-
Taxable income	99.405	-

The reconciliation between tax expense and the product of total recognized income and expense multiplied by the effective tax rate, derived by differentiating the sources of accounting profit in the consolidated income statement, is as follows:

2011/2012

	Thousands of euros	
	Income statement	Income and expense recognized directly in equity
Income and expenses for the financial year before tax	32.262	-
Permanent differences	2.919	-
	35.181	-
Effective tax rate	25,03 %	-
Theoretical tax expense	8.806	-
Tax credits	(1.391)	-
Adjustment to provisions relating to corporation tax 10/11	635	-
Effective tax expense	8.050	-

2010/2011

	Thousands of euros	
	Income statement	Income and expense recognized directly in equity
Income and expenses for the financial year before tax	46.845	-
Permanent differences	3.470	-
	50.315	-
Effective tax rate	25,02 %	-
Theoretical tax expense	12.589	-
Tax credits	(1.576)	-
Adjustment related to tax assessments (Note 16)	4.269	-
Effective tax expense	15.282	-

The breakdown of income tax expense is as follows:

2011/2012

	Thousands of euros	
	Income statement	Income and expense recognized directly in equity
Current income tax	17.145	-
Changes in deferred taxes		
Capitalized tax loss carryforwards	-	-
Unused tax credits	-	-
Changes in deferred tax assets for deductible temporary differences	(534)	-
Changes in deferred tax liabilities for deductible temporary differences	(8.461)	-
Grants, donations and bequests received	-	(48)
Others	(100)	-
Current income tax	8.050	(48)

2010/2011

	Thousands of euros	
	Income statement	Income and expense recognized directly in equity
Current income tax	27.642	-
Changes in deferred taxes		
Capitalized tax loss carryforwards	-	-
Unused tax credits	-	-
Changes in deferred tax assets for deductible temporary differences	865	-
Changes in deferred tax liabilities for deductible temporary differences	(13.039)	-
Grants, donations and bequests received	-	(48)
Others	(186)	-
Current income tax	15.282	(48)

Each of the Group companies files an individual tax return; therefore, at the consolidated level, current tax assets and tax liabilities may coexist. Income tax payable was calculated as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Current income tax	(17.145)	(27.642)
Withholdings and payments on account	17.183	10.408
Deducciones generadas y aplicadas en el ejercicio	68	57
Current income tax and other tax assets	415	427
Deferred tax liabilities	(309)	(17.604)

16.2 Deferred tax assets and liabilities

The breakdown at year end and movements in the various headings comprising deferred tax assets and deferred tax liabilities are as follows:

2011/2012

	Thousands of euros			
		Changes recognized in		
	Opening balance	Income statement	Equity	Closing balance
DEFERRED TAX ASSETS				
Unused tax credits	-	-	-	-
Deferred tax assets for deductible temporary differences				
Provisions	4.652	534	-	5.186
Tax effects of transition to new Spanish GAAP	343	-	-	343
Unused tax loss carryforwards	-	-	-	-
	4.995	534	-	5.529
DEFERRED TAX LIABILITIES				
Deferred tax liabilities for deductible temporary differences				
Deferred gains	10.655	(7.348)	-	3.307
Deferred capital gains due to deferred payment	6.777	(2.633)	-	4.144
Accelerated depreciation	-	1.533	-	1.533
Grants (Note 6.4)	1.810	-	(48)	1.762
Others	263	(13)	-	250
	19.505	(8.461)	(48)	10.996

2010/2011

	Thousands of euros			
		Changes recognized in		
	Opening balance	Income statement	Equity	Closing balance
DEFERRED TAX ASSETS				
Unused tax credits	-	-	-	-
Deferred tax assets for deductible temporary differences				
Provisions	5.517	(865)	-	4.652
Tax effects of transition to new Spanish GAAP	343	-	-	343
Unused tax loss carryforwards	-	-	-	-
	5.860	(865)	-	4.995
DEFERRED TAX LIABILITIES				
Deferred tax liabilities for deductible temporary differences				
Deferred reinvestments	23.023	(12.368)	-	10.655
Deferred capital gains due to deferred payment	7.711	(934)	-	6.777
Grants (Note 6.4)	1.858	-	(48)	1.810
Others	-	263	-	263
	32.592	(13.039)	(48)	19.505

- **Deferred tax assets - Unused tax credits**
  The movements in "Unused tax credits and rebates" are as follows:

2011/2012

	Thousands of euros			
	Beginning Balance	Increases	Decreases	Closing balance
Investment tax credits	-	990	(990)	-
Other deductions	-	401	(401)	-
TOTAL NON-CURRENT PROVISIONS	-	1.391	(1.391)	-

2010/2011

	Thousands of euros			
	Beginning Balance	Increases	Decreases	Closing balance
Investment tax credits	-	1.184	(1.184)	-
Other deductions	-	392	(392)	-
TOTAL NON-CURRENT PROVISIONS	-	1.576	(1.576)	-

The Group recognizes tax credits and rebates in so far as it is probable there will be sufficient future profits to apply them.

In 2002/2003 applicable tax legislation was modified with respect to capital gains obtained from the sale of certain assets, as per article 36.ter of the Corporate Income Tax 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 2006/2007, falling to 7% thereafter. Accordingly, the Club recognizes the tax credit corresponding to capital gains which have been reinvested at the end of each fiscal year.

“Other deductions” mainly includes deductions for donations. The breakdown of deductions generated by year is as follows:

Period	Capital gains	Investment tax credits					Unused tax credit
		Deduction generated	Deduction applied 08/09	Deduction applied 09/10	Deduction applied 10/11	Deduction applied 11/12	
2002/2003	132.954	13.295	13.295	-	-	-	-
2003/2004	28.134	2.813	2.813	-	-	-	-
2004/2005	23.008	2.301	1.623	678	-	-	-
2005/2006	15.501	1.550	-	1.550	-	-	-
2006/2007	17.436	1.744	-	1.744	-	-	-
2007/2008	21.252	1.487	-	1.487	-	-	-
2008/2009	34.889	2.442	-	2.442		-	-
2009/2010	9.036	633	-	633	-	-	-
2010/2011	16.916	1.184	-	-	1.184	-	-
2011/2012	14.141	990	-	-	-	990	-
TOTAL	313.267	28.439	17.731	8.534	1.184	990	-

	Other deductions				
	Deduction generated		Deduction applied		Total unused tax credit
	2010/2011	2011/2012	2010/2011	2011/2012	
Donations	391	401	391	401	-
Training expenses	1	-	1	-	-
TOTAL	392	401	392	401	-

- **Deferred tax liabilities - deferred reinvestments**
  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 has consisted of applying the tax credit for reinvestment of extraordinary gains provided for in article 21 of the Corporate Income Tax Law (Law 43/1995, of December 27) to the gains generated between financial year 1996/1997 and 2001/2002 on the disposal of certain assets, thereby committing 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 have been reinvested in player federative rights, other intangible assets and items of property, plant, and equipment, as well as financial investments.

  The total amount of gains deferred in accordance with article 21 of the Corporate Income Tax Law, the recognition schedule method and the amounts already reinvested and pending reinvestment are set out in the following table (thousands of euros):

2011/2012

Financial year	Assets sold	Deferred gain	Amount to be re-invested	Amount reinvested at 06/30/12	Gain included in the tax credit	Gain pending inclusion	Last FY for including gains	Schedule/method for including gains
1996/1997	Payerfederative rights	8.084	11.239	11.239	8.084	-	2006/2007	7 parts
1997/1998	Payer federative rights	3.865	5.421	5.421	3.865	-	2007/2008	7 parts
1998/1999	Payer federative rights	14.135	17.159	17.159	14.135	-	2008/2009	7 parts
1999/2000	Payer federative rights	20.358	25.142	25.142	20.358	-	2009/2010	7 parts
2000/2001	Other rights	115.995	117.197	117.197	115.995	-	2010/2011	7 parts
2000/2001	Payer federative rights	24.523	25.243	25.243	24.523	-	2010/2011	7 parts
2001/2002	Land	203.443	204.142	204.142	203.443	-	2011/2012	7 parts
2001/2002	Land	15.714	15.768	15.768	2.485	13.229	2011/2051	7 parts As function of depreciation of assets bought from proceeds
TOTAL		406.117	421.311	421.311	392.888	13.229		
Deferred tax (25%)						3.307		

2010/2011

Financial year	Assets sold	Deferred gain	Amount to be re-invested	Amount reinvested at 06/30/12	Gain included in the tax credit	Gain pending inclusion	Last FY for including gains	Schedule/method for including gains
1996/1997	Payerfederative rights	8.084	11.239	11.239	8.084	-	2006/2007	7 parts
1997/1998	Payer federative rights	3.865	5.421	5.421	3.865	-	2007/2008	7 parts
1998/1999	Payer federative rights	14.135	17.159	17.159	14.135	-	2008/2009	7 parts
1999/2000	Payer federative rights	20.358	25.142	25.142	20.358	-	2009/2010	7 parts
2000/2001	Other rights	115.995	117.197	117.197	115.995	-	2010/2011	7 parts
2000/2001	Payer federative rights	24.523	25.243	25.243	24.523	-	2010/2011	7 parts
2001/2002	Land	203.443	204.142	204.142	174.382	29.061	2011/2012	7 parts
2001/2002	Land	15.714	15.768	15.768	2.155	13.559	2011/2051	7 parts As function of depreciation of assets bought from proceeds
TOTAL		406.117	421.311	421.311	363.497	42.620		
Deferred tax (25%)						10.655		

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 as function of the depreciation schedules of the corresponding assets.

In its 2001/2002 corporate tax return, the Club initially availed itself of the option to defer a portion, namely €219,157 thousand, of the total capital gain generated, and accordingly, committed to reinvesting a proportional amount (€219,910 thousand), determined on the basis of plans for capital expenditure up to the reinvestment deadline established in article 21 the Corporate Income Tax Law. In 2003/2004, the Club noted that the investments were higher than those projected and requested authorization from the tax authorities to amend the amount of the capital gains deferred (to €255,721 thousand), bringing the proportional amount to be reinvested to €256,599 thousand. Since the Club did not receive authorization from the tax authorities to amend the amount of capital gains deferred by the Club in relation to financial year 2001/2002, the Club decided in 2007/2008 to derecognize the corresponding adjustment to the tax credit and not to apply it in its tax return that year. Notwithstanding the foregoing, the Club has appealed the tax authorities decision to deny this authorization and is confident that a decision will ultimately be handed down in the interests of the Club.

- **Deferred tax liabilities- Deferred capital gains due to deferred payment**
  In the 2009/2010 financial year, and in accordance with article 19.4 of Legislative Royal Decree 4/2004 of the Revised Text of the Spanish Corporation Tax Law (TRLIS in Spanish), the Club decided to charge capital gains from asset transfers in transactions involving deferred payment based on the collections carried out. This generated deferred tax liabilities amounting to €829 thousand during the 2011/12 period (2010/11: €1,805 thousand) related to the deferred capital gains during the year, and the cancellation of €3,462 thousand from collection of deferred capital gains from the previous season.
  Likewise, the deduction for reinvestment of profits is applied to the extent that revenue is included in the tax base, and provided the pertinent requisites are met, such as the reinvestment being made within the legally stipulated timeframes. The deduction for reinvestment generated in the present period amounts to €990 thousand, (2010/11: 1,184 thousand) as shown on the table in the previous section.

- **Deferred tax liabilities - accelerated depreciation**
  By virtue of the stipulations in Royal Decree Law 13/2020 dated December 3 on measures designed to boost competitiveness (effective starting January 1, 2011), the Club was able to apply accelerated depreciation to its investments in new assets and real estate, and is not required to maintain employment, which was a condition in the previous regulation. Due to this accelerated depreciation, deferred tax assets amounting to €1,533 thousand were generated during the year ended June 30, 2012.

16.3 Other tax disclosures

- **Prior year tax assessments**
  The tax inspection authorities have handed down assessments that have been signed under protest by Real Madrid Club de Fútbol. The related tax concepts and years are detailed below:

	Assessment				
Tax	1990-1993	1996/1999	Total	Payments made	Pending
Personal income tax withholdings	7.984	16.270	24.254	24.254	-
VAT	4.541	31.021	35.562	35.562	-
Non-residents income tax (real property obligation)	-	1.639	1.639	1.639	-
TOTAL	12.525	48.930	61.455	61.455	-

Settlement of the tax assessments covering 1990–1993 was provisioned during the year ended June 30, 2003, including all late payment interest accrued. These assessments were settled in full, including interest, in the financial year 2003/2004. In December 2009, the Supreme Court partially accepted the appeal filed by Real Madrid Club de Fútbol; notification was received of the definitive resolution to refund €3.9 million euros of VAT to the Club (this figure includes interest), as well as income tax withholdings amounting to €4.8 million returned (plus interest).

Settlement of the tax assessments covering 1996-1999 was provisioned during the year ended June 30, 2008, including all late payment interest accrued as well as the portion charged to expenses due to the fact that an appeal is not possible. These assessments were settled in full, including interest, in the financial year 2003/2004. In January 2011, the Real Madrid Club's appeal was partially upheld by the Supreme Court; during the 2011/2012 season the Club received a refund of €9.9 million of VAT (including interest), as well as income tax withholdings amounting to €2.9 million returned (plus interest).

Fines levied for the tax assessments for personal income tax from 1996-1999 initially amounted to €2 million, and were then reduced as a result of difference sentences handed down to €216 thousand; this was appealed by the Public Prosecutor, and dismissed by the Supreme Court in December 2010.

- **Prior year business combinations**
  Real Madrid Multimedia, S.L was dissolved in financial year 2004/2005 and all assets and liabilities were transferred to Real Madrid Club de Fútbol in conformity with the special tax regime established in Chapter VII of the Corporate Income Tax Law (Law 43/95 of December 27). The pertinent disclosures relating to this transaction were made in the notes to the 2004/2005 consolidated financial statements.

17. INCOME AND EXPENSES

17.1 Operating income

The accompanying consolidated income statement includes the following items of income:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Revenue	512.063	475.142
Other operating revenues	372	4.174
Grants related to non-financial assets and other grants (Note 12)	192	192
Overprovisions (Note 13.1)	1.344	648
Total operating income before net gains on disposals	513.971	480.156
Gains (losses) on disposals and other gains and losses (Note 17.5)	23.470	3.550
TOTAL OPERATING INCOME	537.441	483.706

- **Revenue**
  The breakdown of Group revenue from continuing operations by business and geographic segments is as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
By business segment		
Membership dues, ticketing and stadium revenue	150.190	146.663
Revenue from friendly matches and international competitions	40.049	27.545
Broadcasting revenue	159.192	155.968
Marketing revenue	162.632	144.966
	512.063	475.142
By geographical market segment		
Spain	415.889	400.748
Other	96.174	74.394
	512.063	475.142

17.2 Consumption of raw materials and other consumables
The breakdown is as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Consumption of raw materials and other consumables		
Purchases in Spain	21.836	17.063
EU purchases	278	286
Changes in raw materials and other consumables	482	914
TOTAL	22.596	18.263

17.3 Player and staff personnel expenses
The breakdown of personnel benefits expense, which includes primarily wages and salaries, bonuses, image rights and social security benefit payments, is as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Wages, salaries, et al		
Football	200.871	182.586
Basketball	17.746	19.001
Staff	8.896	8.297
	227.513	209.884
Employee welfare expenses		
Social security	4.954	4.763
Other employee welfare expenses	1.479	1.452
	6.433	6.215
TOTAL	233.946	216.099

The increase in "Wages, salaries, et al" is mainly due to performance-related bonuses paid for having won the the League title, as well as some modifications in the gross salaries of several players fundamentally arising from changes in tax regulations.

17.4 Other operating expenses
"Other operating expenses" break down as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Asset leases (Note 6.3)	2.515	2.966
Other leases and royalties	34.206	30.122
Repairs and maintenance	14.707	13.294
Professional services	14.458	11.947
Insurance premiums	3.673	3.921
Publicity, advertising and public relations	1.461	1.397
Utilities	1.772	1.573
Levies other than income tax	3.786	1.306
Other services	44.808	28.582
TOTAL	121.386	95.108

The majority of the increased expenses recognized under "Other leases and royalties" and "Professional services" arose from the growth of commercial income.

The breakdown of "Other services" in the operating expense table above is as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Real Madrid TV and radio expense	200	446
Catering, hospitality staff and events	10.636	10.047
Editing, handling and dispatch of publications	3.568	3.282
Other services	30.404	14.807
TOTAL	44.808	28.582

Increases in "Other services" are mainly the result of expenses arising from the new agreement with clubs belonging to the Professional Football League (PFL), as discussed under "Main commitments in effect" (Note 13.3.7) and provisions established to cover risks and contingencies related to the current economic environment.

Fees paid for audit and other services rendered to the Club by its auditor and related parties break down as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Audit	170	170
Review and verification work	43	49
Other	24	18
TOTAL	237	237

17.5 Impairment losses and gains (losses) on disposal of non-current assets
"Impairment losses and gains (losses) on disposal of non-current assets and other exceptional gains and losses" includes the following:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Impairment of intangible sporting assets (Note 4)	(477)	(224)
Impairment and losses on intangible non-sporting assets (Note 5)	(1)	-
Impairment and losses on property, plant, and equipment (Note 6)	(2.845)	-
Total impairment losses and losses	(3.323)	(224)
Gains on disposals of intangible sporting assets (Note 4)	3.986	3.762
Losses on disposal of property, plant and equipment (Note 6)	-	(212)
Gains on disposals and derecognition of investment properties (Note 7)	19.484	-
Gains (losses) on disposals and other gains and losses	23.470	3.550
TOTAL IMPAIRMENT AND GAINS (LOSSES) ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT AND OTHER EXCEPTIONAL GAINS AND LOSSES	20.147	3.326

"Gains on disposals and derecognition of investment properties" reflects the agreement signed with the Madrid City Council on July 29, 2011, and ratified by public deed on December 21, 2011. The agreement regularizes the earlier agreements entered into between the two parties on May 29, 1998 and December 20, 2001.

This agreement includes compensation paid to the Madrid City Council due to the legal impossibility of transferring the entirety of the "Las Tablas" plot as stipulated in the agreement signed on May 29, 1998, as well as compensation paid to Real Madrid for the failure to fulfill the agreement dated December 20, 2001 in connection with underground parking on the Paseo de la Castellana's lateral section.

The City Council compensated the Club by granting a plot of land surrounded by the calle Rafael Salgado, Paseo de la Castellana, and calle Concha Espina, located at lot API 05.12 "Santiago Bernabéu," lot 1, Zones 1 and 3, 4 and 5, Zone 2 of API 11.12 "Mercedes Arteaga, Jacinto Verdaguer," and tertiary plot TER. 02 189-A1 of UNP 4.01 "Ciudad Aeroportuaria parque de Valdebebas" obtained through segregation of plot TER.02 189-A.

The total amount of property, plant, and equipment included in the scope of the agreement was valued by the Technical Services Department of the Sub-Director General of Urban Adequacy under the the General Directorate for Town Planning Management of the Government, Development and Housing Area. The above assets were also valued at the closing of the 2011/2012 year by an external independent appraiser, whose estimate was higher than their carrying amount.

On March 21, 2012, Madrid Court of Administrative Appeals 14 upheld an application for precautionary measures filed regarding the agreement between the Club and the Madrid City Council on July 21, 2011, effectively suspending its execution. Both parties appealed the measures, and on July 12, 2012, the Administrative Appeals section of the Madrid Supreme Court handed down a sentence revoking the measures enacted by the Judge from the Madrid Court of Administrative Appeals 14, considering it to be unlawful.

Regarding the main legal proceeding, on April 25, 2012 a claim was filed before the Court against the agreement signed on July 29, 2011, aimed at annulling it and restoring equity to its situation prior to the agreement, thereby canceling any files on register and necessitating a new appraisal of the obligations arising from the agreements signed in 1991 and 1998.

Although they consider that there are solid arguments that this claim will be overturned, the Club's legal advisors are nonetheless preparing a counterclaim.

17.6 Finance income and cost

The breakdown of finance income and cost is as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Finance income		
Interest on term and other deposits	1.680	157
Exchange gains	283	142
Other finance income	1.878	11.850
Interest income from financial assets measured at amortized (Note 8.1)	713	1.099
	4.554	13.248
Finance cost		
Bank fees	383	344
Other finance cost	11.346	8.730
Interest expense on financial liabilities measured at amortized cost (Note 14.1 - 15)	4.477	3.865
	16.206	12.939

17.7 Foreign currency transactions

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

2011/2012

Thousands of euros					
Purchases property, plant, and equipment		Sales		Services reveived	
Currency	Euro amount	Currency	Euro amount	Currency	Euro amount
USD	-	USD	5.116	USD	298
Pound sterling	-	Pound sterling	43	Pound sterling	18
Yen	-	Yen	-	Yen	-
CHF	-	CHF	-	CHF	-
				Yuan	4
TOTAL	-		5.159		320

2010/2011

Thousands of euros					
Purchases property, plant, and equipment		Sales		Services reveived	
Currency	Euro amount	Currency	Euro amount	Currency	Euro amount
USD	-	USD	5.692	USD	374
Pound sterling	180	Pound sterling	92	Pound sterling	14
Yen	-	Yen	66	Yen	-
CHF	-	CHF	-	CHF	-
				Yuan	-
TOTAL	180		5.850		388

17.8 Breakdown of consolidated profit by Group company

Each entity's contribution to consolidated Group profit is as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Real Madrid Club de Fútbol	24.054	31.431
Real Madrid Gestión de Derechos, S.L.	158	132
TOTAL	24.212	31.563

30% of the subsidiary's profit is attributable to minority interests (see the consolidated statement of changes in equity).

18. RELATED PARTY DISCLOSURES

During the year ended June 30, 2012 and 2011, the Group carried out transactions with the related parties listed in the table below, which additionally indicates the nature of the relationship:

	Nature of the relationship
Minority shareholders of Real Madrid Gestión de Derechos, S.L.	Minority interests
Board of Directors	Management
Senior executives	Management
Real Madrid Foundation	Management common to the Foundation and the Club

18.1 Balances and transactions with minority shareholders of Real Madrid Gestión de Derechos, S.L.
The balances receivable from and payable to minority interests were the following:

2011/2012

	Thousands of euros	
	Trade accounts receivable	Trade accounts payable
Accionariado y Gestión, S.L.	335	3.133
Prisa Televisión, S.A.U	418	2.446
Media Cam Producciones Audiovisuales, S.L.	1.104	2.309
TOTAL	1.857	7.888

2010/2011

	Thousands of euros	
	Trade accounts receivable	Trade accounts payable
Accionariado y Gestión, S.L.	519	3.538
Prisa Televisión, S.A.U	415	3.002
Media Cam Producciones Audiovisuales, S.L.	138	2.603
TOTAL	1.072	9.143

The transactions carried out in the year between the Group and its minority shareholders, all on an arm's length basis, were the following:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Operating income	7.839	6.510
Operating expenses	35.505	31.747

18.2 The Club's Board of Directors and senior management
The members of the Board of Directors and those holding other management positions at the Group, including the team serving at the date of preparation of the accompanying consolidated interim financial statements and earlier teams, did not undertake any transactions other than in connection with the ordinary course of the Group's activities.

1. **Board pay:**
   The members of the Board of Directors did not accrue any compensation for serving as directors.
   At June 30, 2012 and 2011, the Group had no pension plan or life insurance policies for former or current members of the Board of Directors nor had it extended any guarantees on their behalf.

2. **Identification of senior management and total compensation paid**
   During the period ended June 30, 2012, there were 33 executives in senior management (2010/2011: 36), of whom 30 were on the payroll at June 30, 2012 (June 30, 2011: 32).
   Total compensation for these executives during the period ended June 30, 2012, including indemnification payments, totaled €8,898 thousand (June 30, 2011: €12,685 thousand).

The members of the Board of Directors at June 30, 2012 were:

Chairman:
D. Florentino Pérez Rodríguez
1st Vice-Chairman:
D. Fernando Fernández Tapias
2nd Vice-Chairman:
D. Eduardo Fernández de Blas
3rd Vice-Chairman:
D. Pedro López Jiménez
Secretary:
D. Enrique Sánchez González
Board members:
D. Santiago Aguado García
D. Luis Blasco Bosqued
D. Manuel Cerezo Velázquez
D Jerónimo Farré Muncharaz
D. Luis Gómez-Montejano y Arroyo
D. Angel Luis Heras Aguado
D. Nicolás Martín-Sanz García
D. José Manuel Otero Lastres
D. Enrique Pérez Rodríguez
D. Raúl Ronda Ortiz
D. José Sánchez Bernal
D. Gumersindo Santamaría Gil

The members of the Board have provided notification that there are no situations representing a conflict for the Club.

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 serving in this post.
The Foundation is committed to making financial contributions to maintaining and carrying out its activities.

19. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Real Madrid Group has established a series of procedures and controls designed to identify, measure and manage the risks deriving from its dealings in financial instruments.

Specifically, financial instrument activity exposes the Group to credit, market and liquidity risk.

19.1 Credit risk

Credit risk is the potential loss arising from a breach of contractual obligations by the Group's counterparties, i.e. the possibility that financial assets will not be recovered at their carrying amount within the established timeframe.

The maximum credit risk exposure is as follows:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Non-current investments		
Non-current accounts receivable from sporting entities (Note 8.1)	13.696	21.373
Other financial assets (Note 8.1.)	809	574
Trade and other receivables		
Trade receivables (Note 8.2)	48.712	40.066
Current accounts receivable from sporting entities (Note 8.2)	36.539	39.654
Other financial assets (Note 8.2)	959	951
Receivables from public administrations (Note 8.2)	1.740	17.661
Current assets - Financial investments (Note 10)	40.585	-
Cash and cash equivalents (Note 10)	113.237	97.769
TOTAL	256.277	218.048

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

- **Operatings activities**

  The Group has put in place a procedure to measure, manage and monitor the risks deriving from each of its loans. The procedure covers risk analysis and the initial authorization, ongoing monitoring of the exposure and subsequent controls.

  Initial analysis and authorization is based on a hierarchical credit limit authorization system. Subsequent monitoring is an automated procedure comprising a periodic warning system managed by the Group's IT system and adequately supervised at the corresponding management levels.

  The breakdown, by counterparty, of credit risk concentration within current and non-current "Accounts receivable from sporting entities" and "Trade receivables" is as follows:

2011/2012

	Nº of debtors	Thousands of euros
With a balance of more than €1,000 thousand	17	94.472
With a balance between €1,000 thousand and €500 thousand	11	8.249
With a balance between €500 thousand and €200 thousand	41	12.444
With a balance between €200 thousand and €100 thousand	39	5.224
With a balance of less than €100 thousand	529	6.960
Impairment allowances		(28.402)
TOTAL	637	98.947

2010/2011

	Nº of debtors	Thousands of euros
With a balance of more than €1,000 thousand	22	108.652
With a balance between €1,000 thousand and €500 thousand	7	3.896
With a balance between €500 thousand and €200 thousand	31	9.014
With a balance between €200 thousand and €100 thousand	30	4.129
With a balance of less than €100 thousand	610	3.210
Impairment allowances		(27.808)
TOTAL	700	101.093

The breakdown of these balances by age is the following:

	Thousands of euros	
	June 30, 2012	June 30, 2011
Not due	72.871	84.012
Past due, not impaired		
Less than 30 days	14.959	11.602
30 – 60 days	3.374	1.874
60 – 90 days	363	733
90 - 120 days	458	280
More than 120 days	6.922	2.592
	26.076	17.081
Doubtful receivables	28.402	27.808
Impairment allowances	(28.402)	(27.808)
TOTAL	98.947	101.093

The increase in accounts receivable past due for over 120 days is mainly due to balances with public entities.

The various implicated departments analyze and monitor these exposures on a monthly basis with a view to pinpointing risky situations and collection delays and to take 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 Group often demands suitable collateral and guarantees.

- **Investing activities**

  The Group's investment policies allow the Group's 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, promissory notes issued by highly solvent financial institutions, interest-bearing accounts and other similar financial products. 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 are made in liquid assets with an original maturity of less than three months, or with a repurchase commitment or a secondary market to guarantee their immediate convertibility to cash if necessary.
- The Group'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 triggered by fluctuations in the fair value or future cash flows from assets or liabilities as well as due to changes in the discount rates used to determine the carrying amount of its assets, particularly player valuations, due to changes in market interest rates.

In relation to the estimation of its players' value in use, the Group performs the analysis and considers the circumstances outlined in Note 3.6 when assessing potential impairment losses.

As explained in Note 14.1, the Group has three loans from 3 financial entities with an aggregate outstanding principal of €138.135 thousand (June 30, 2011: €141,485 thousand), carrying interest at Euribor plus a market spread. The loans are repayable over the next four financial years. One of these loans, one was restructured in 2010/2011, extending maturity an additional three years beyond the initially arranged repayment date. Given the long-term nature of this financing arrangement, the Group has put in place hedges to mitigate a potential increase in Euribor over and above a specific limit.

19.3 Liquidity risk

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

The undiscounted contractual maturity schedule for its financial liabilities were as follows:

2011/2012

	Thousands of euros				
	Up to 3 months	3 months - 1 year	One to five years	Subsequent years	Total
Other financial liabilities					
Amounts owed to suppliers of fixed assets	27.184	1.257	38.264	42	66.747
Player transfer accounts payable	44.230	1.100	17.604	-	62.934
Broadcasting accounts payable	-	-	-	-	-
Trade and other payables	147.321	33.977	-	-	181.298
TOTAL	218.735	36.334	55.868	42	310.979

2010/2011

	Thousands of euros				
	Up to 3 months	3 months - 1 year	One to five years	Subsequent years	Total
Other financial liabilities					
Amounts owed to suppliers of fixed assets	23.059	3.032	42.718	42	68.851
Player transfer accounts payable	62.156	3.274	34.626	-	100.056
Broadcasting accounts payable	-	-	2.277	-	2.277
Trade and other payables	147.622	23.075	-	-	170.697
TOTAL	232.837	29.381	79.621	42	341.881

Maturities of the loans referred to in Note 14 are short-term for €42,562 thousand (June 30, 2011: €6,836 thousand) and long-term for €100,747 thousand (June 30, 2011: €138,926 thousand).

In determining liquidity risk, however, the relevant indicator would be the net balance between receivables and payables.

To this end, the table below provides contractual maturity schedule for the Group's financial assets:

2011/2012

	Thousands of euros			
	Up to 3 months	3 months - 1 year	One to five years	Total
Trade receivables	47.113	1.599	-	48.712
Accounts receivable from sporting entities	30.149	6.390	13.696	50.235
Other receivables	959	-	431	1.390
Tax receivables	29	1.711	-	1.740
Current financial investments	-	40.585	-	40.585
TOTAL	78.250	50.285	14.127	142.662

2010/2011

	Thousands of euros			
	Up to 3 months	3 months - 1 year	One to five years	Total
Trade receivables	40.066	-	-	40.066
Accounts receivable from sporting entities	30.294	9.360	21.373	61.027
Other receivables	951	-	574	1.525
Tax receivables	17.661	-	-	17.661
Current financial investments	-	-	-	-
TOTAL	88.972	9.360	21.947	120.279

As indicated in Note 14.4, "Working capital," a significant portion of the balances comprising "Trade and other accounts payable" is recurring, i.e. they are renewed from one year to the next due to the intrinsic nature of the Group's business operations.

Payment commitments to suppliers of property, plant, and equipment and to sporting entities in relation to player transfers are amply covered by operating income to be collected in upcoming years, as well as available cash and credit lines discussed in Note 14.

19.4 Information on late payments to suppliers in commercial transactions.

In compliance with Law 15/2010 of July 5, modifying Law 3/2004 of December 29, which establishes measures to be taken in combating arrears in commercial transactions, below we include a breakdown of the total amount of payments made to suppliers during the year ended June 30, 2012, disclosing those that exceeded the legal payment deadlines; the weighted average period of time exceeded for payments; and the balance pending payment to suppliers exceeding the legal deadline at year end:

	2011/2012	
Payments made and payments pending settlement at the balance sheet date	Amount	%
Within the legally-established deadline (75 days)	163.079	100 %
Other	-	-
Total payments during the year	163.079	100 %
Weighted average period of time exceeded for overdue payments (days)	75	-
Overdue payments exceeding the legal payment deadline at the closing date	-	-

20. OTHER DISCLOSURES

20.1 Workforce structure

The Group's headcount by professional category is as follows:

2011/2012

	Headcount at June 30, 2012			
	Men	Women	Total	Average headcount during the year
Senior managers	28	2	30	31
Middle managers	12	5	17	16
Players and coaching staff	399	1	400	374
General staff	97	97	194	192
Laborers	42	17	59	56
Fixed term employees	64	9	73	78
TOTAL	642	131	773	747

2010/2011

	Headcount at June 30, 2011			
	Men	Women	Total	Average headcount during the year
Senior managers	30	2	32	34
Middle managers	11	5	16	16
Players and coaching staff	347	1	348	363
General staff	97	93	190	193
Laborers	42	12	54	57
Fixed term employees	72	11	83	87
TOTAL	599	124	723	750

20.2 Environmental disclosures

Given the activities in which Group companies engage, they have no environmental liabilities, expenses, assets, provisions or contingencies that could have a significant effect on its equity, financial situation or consolidated results. Consequently, the notes to the accompanying consolidated financial statements do not include specific environmental disclosures.

21. EVENTS AFTER THE BALANCE SHEET DATE

The most significant events between year end and approval of the accompanying consolidated financial statements are as follows:

- Collection was made on the first installment of the contract with Mediaproducciones S.L. related to its 2012/2013 operating license, and on a bank guarantee corresponding to the second installment of said season (Note 13.3.1).

- Approximately €17 million revenue came from the transfer of players' federative rights.

- On July 12, 2012 the Comisión Nacional de la Competencia (CNC - Anti-trust authorities) initiated a sanctions procedure regarding the Club's signing of an agreement with Mediaproducción S.L. granting the 2014/2015 audiovisual broadcasting rights, as it considered that it exceeded the permitted time limits. The Group's legal advisors feel that there are solid arguments that no trust rights were violated, and that the contract does not infringe on the CNC's resolution. The Club will file its appeal within the legally-established deadline.

- On July 13, 2102, the Supreme Court of Madrid for administrative appeals upheld the counterclaim filed by the Club and the Madrid City Council, while rejecting the precautionary measures established by the Madrid Court of Administrative Appeals 14, which consisted in suspending execution of the appealed agreement (signed on July 29, 2011 between the Madrid City Council and the Real Madrid Football Club, regularizing the commitments arising from their agreements of May 29, 1998 and December 20, 1991). (Note 17.5).

- On July 18, 2012, the Madrid City Council's Urban Planning Committee approved a one-time modification of the General Urban Development Plan in order to remodel the surroundings of the Santiago Bernabéu stadium. Ratification was scheduled to take place during a meeting held in the Madrid City Council on July 25, 2012.

At the date of preparation of these consolidated financial statements, no event has occurred which might modify the financial statements or warrant the inclusion of additional disclosures.

22. INCOME STATEMENT BY ANALYTICAL SEGMENT

	Football	Basketball	General	Total
Membership dues, ticketing and stadium revenue	130.829	2.653	16.900	150.382
Revenues from friendly matches and international competitions	39.949	100	-	40.049
Broadcasting	157.526	1.666	-	159.192
Marketing	-	4.186	160.162	164.348
TOTAL OPERATING INCOME (BEFORE NET GAINS ON DISPOSALS)	328.304	8.605	177.062	513.971
Goods for consumption	(3.062)	(411)	(19.123)	(22.596)
Player and staff personnel expenses	(205.216)	(18.381)	(10.349)	(233.946)
Other operating expenses	(49.260)	(4.043)	(60.489)	(113.792)
Losses on, impairment of and change in trade provisions	738	-	(10.606)	(9.868)
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION AND NET GAINS ON DISPOSALS	71.504	(14.230)	76.495	133.769
Gains (losses) on disposals and other gains and losses	4.052	(66)	19.484	23.470
Impairment charges and losses	-	(477)	(2.846)	(3.323)
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION (EBITDA)	75.556	(14.773)	93.133	153.916
Depreciation and amortization	(94.056)	(2.766)	(13.180)	(110.002)
OPERATING PROFIT (EBIT)	(18.500)	(17.539)	79.953	43.914
NET FINANCE COST	-	-	-	(11.652)
Finance income	-	-	-	4.554
Finance cost	-	-	-	(16.206)
ORDINARY PROFIT				32.262
PROFIT BEFORE TAX				32.262

23. PERFORMANCE RELATIVE TO BUDGET IN 2011/2012

Deviation column legend:
Positive figure: higher income or lower expense.
Negative figure: lower income or higher expense.

	Budget	Actual	Deviation
Membership dues, ticketing and stadium revenue	147.631	150.382	2.751
Revenues from friendly matches and international competitions	31.931	40.049	8.118
Broadcasting	155.360	159.192	3.832
Marketing	153.090	164.348	11.258
TOTAL OPERATING INCOME (BEFORE NET GAINS ON DISPOSALS)	488.012	513.971	25.959
Goods for consumption	(18.956)	(22.596)	(3.640)
Player and staff personnel expenses	(212.516)	(233.946)	(21.430)
Other operating expenses	(102.211)	(113.792)	(11.581)
Losses on, impairment of and change in trade provisions	-	(9.868)	(9.868)
TOTAL OPERATING EXPENSES BEFORE DEPRECIATION AND AMORTIZATION	(333.683)	(380.202)	(46.519)
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION AND NET GAINS ON DISPOSALS	154.329	133.769	(20.560)
Gains (losses) on disposals and other gains and losses	1.418	23.470	22.052
Impairment charges and losses	-	(3.323)	(3.323)
IMPAIRMENT LOSSES AND GAINS (LOSSES) ON DISPOSAL OF NON-CURRENT ASSETS	1.418	20.147	18.729
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION (EBITDA)	155.747	153.916	(1.831)
Depreciation and amortization	(103.815)	(110.002)	(6.187)
OPERATING PROFIT (EBIT)	51.932	43.914	(8.018)
Finance income	974	4.554	3.580
Finance cost	(12.964)	(16.206)	(3.242)
NET FINANCE COST	(11.990)	(11.652)	338
ORDINARY PROFIT	39.942	32.262	(7.680)
PROFIT BEFORE TAX	39.942	32.262	(7.680)
TOTAL INCOME (OPERATING+FINANCE+GAINS ON DISPOSALS)	490.404	541.995	51.591
TOTAL EXPENSES (OPERATING+FINANCE+D&A+IMPAIRMENT+LOSSES ON DISPOSALS)	(450.462)	(509.733)	(59.271)
PROFIT BEFORE TAX	39.942	32.262	(7.680)

Total income came in at €542 million, €51.6 million more than expected.

The main factors that contributed to this increase were greater income from the Champions League, increased sponsorship revenue and merchandise sales, as well as gains on disposal of assets.

Total expenses were €509.7 million, €59.3 million over projections.

The main factors behind this increase in expenses were as follows: costs assumed arising from sporting achievements and changes in tax regulation, expenses due to increased income from competitions and commercial activities, as well as increased expenses arising from the different composition of sporting staff.

In addition, more than €13 million have been provisioned to cover contingencies and risks arising from developments in the economic environment and restructuring.

Since changes in finance income were paralleled by changes in finance cost, net finance cost was in line with the budget.

Due to the abovementioned reasons, reconciliation of the 2011/12 income statement to the budget resulted in a €32.3 million profit before tax, €7.7 million less than the projected profit.

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

In a meeting held on July 23, 2012, the members of the Board of Directors of Real Madrid, Club de Fútbol hereby approve the consolidated financial statements and Group management report for the financial year ended June 30, 2012, which consist of the documents attached to this witnessed page.

Mr. Florentino Pérez Rodríguez
Chairman

Mr. Fernando Fernández Tapias
1st Vide-Chairman

Mr. Eduardo Fernández de Blas
2nd Vide-Chairman

Mr. Pedro López Jiménez
3rd Vide-Chairman

Mr. Enrique Sánchez González
Secretary

Mr. Santiago Aguado García
Board member

Mr. Luis Blasco Bosqued
Board member

Mr. Manuel Cerezo Velázquez
Board member

Mr Jerónimo Farré Muncharaz
Board member

Mr. Luis Gómez-Montejano y Arroyo
Board member

Mr. Angel Luis Heras Aguado
Board member

Mr. Nicolás Martín-Sanz García
Board member

Mr. José Manuel Otero Lastres
Board member

Mr. Enrique Pérez Rodríguez
Board member

Mr. Raúl Ronda Ortiz
Board member

Mr. José Sánchez Bernal
Board member

Mr. Gumersindo Santamaría Gil
Board member

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Audit Report on the Consolidated Financial Statement

Real Madrid C. F.

AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

To the General Assembly of Delegate Members of Real Madrid, Club de Fútbol:

We have audited the consolidated financial statements of Real Madrid, Club de Fútbol and its subsidiary, which comprise the consolidated balance sheet at June 30, 2012, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto for the year then ended. The Company's directors are responsible for the preparation of the financial statements in accordance with the regulatory framework for financial information applicable to the entity in Spain (identified in Note 2 to the accompanying consolidated financial statements), and specifically in accordance with the accounting principles and criteria contained therein. Our responsibility is to express an opinion on the aforementioned consolidated financial statements taken as a whole, based upon work performed in accordance with the regulatory audit standards prevailing in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the financial statements, and the evaluation of whether their presentation, the accounting principles and criteria applied and the estimates made are in agreement with the applicable regulatory framework for financial information.

In our opinion, the accompanying consolidated financial statements for the year ended June 30, 2012 give a true and fair view, in all material respects, of the consolidated equity and the consolidated financial position of Real Madrid, Club de Fútbol and its subsidiary at June 30, 2012, and the consolidated results of operations and consolidated cash flow for the year then ended, in conformity with the applicable regulatory framework for financial information in Spain, and specifically the accounting principles and criteria contained therein.

The accompanying consolidated management report for the year ended June 30, 2012 contains such explanations as the directors consider appropriate concerning the situation of Real Madrid Club de Fútbol and its subsidiary, the evolution of its business and other matters; however, it is not an integral part of the consolidated financial statements. We have checked that the accounting information included in the aforementioned consolidated management report agrees with the consolidated financial statements for the year ended June 30, 2012. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from Real Madrid Club de Fútbol and its subsidiary accounting records

ERNST & YOUNG, S.L.
(Signed on the original)

July 24, 2012

Manuel Martínez Pedraza

Real Madrid C. F. Financial Report

Real Madrid C. F.

For the year ended June 30, 2012

BALANCE SHEET AT JUNE 30, 2012
(THOUSANDS OF EUROS)

ASSETS	Notes	30.06.12	30.06.11	EQUITY AND LIABILITIES	Notes	30.06.12	30.06.11
NON-CURRENT ASSETS		618.646	638.750	EQUITY		274.354	250.444
Intangible sporting assets	4	283.696	315.928	Capital and reserves	11	269.069	245.015
				Social fund		236.467	205.036
Intangible non-sporting assets	5	5.312	6.297	Revaluation reserve (RD 7-96)		8.548	8.548
				Profit for the year		24.054	31.431
Property, plant and equipment	6	290.516	282.691				
Investment property	7	19.084	6.888	Grants, donations and bequests received	12	5.285	5.429
Financial investments	8.1	14.505	21.947				
Group		4	4				
Deferred tax assets	16	5.529	4.995	NON-CURRENT LIABILITIES		220.793	246.420
				Provisions	13.1	12.223	8.326
				Financial liabilities	14.1	156.657	218.589
				Bank borrowings		100.747	138.926
				Other financial liabilities		55.910	79.663
				Deferred tax liabilities	16	10.996	19.505
				Accruals	15	40.917	-
CURRENT ASSETS		252.518	204.692	CURRENT LIABILITIES		376.017	346.578
				Provisions	13.2	720	755
Inventories	9	1.100	1.558				
				Financial liabilities	14.2	116.333	98.357
Trade and other receivables	8.2, 16	97.476	104.749	Bank borrowings		42.562	6.836
				Other financial liabilities		73.771	91.521
Current financial investments	10	40.585	-				
Accruals		1.707	2.182	Trade and other payables	14.3	190.077	176.327
Cash and cash equivalents	10	111.650	96.203	Accruals	15	68.887	71.139
TOTAL ASSETS		871.164	843.442	TOTAL EQUITY AND LIABILITIES		871.164	843.442

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2012
(THOUSANDS OF EUROS)

	Notes	2011/2012	2010/2011
CONTINUING OPERATIONS			
Revenue			
Membership dues, ticketing and other stadium revenue		150.190	146.663
Revenue from friendly matches and international competitions		40.049	27.545
Broadcasting		159.192	155.968
Marketing		129.033	115.283
	17.1	478.464	445.459
Goods for consumption			
Consumption of raw materials and other consumables	17.2	(22.596)	(18.263)
Other operating revenues	17.1	372	4.174
Player and staff personnel expenses	17.3	(233.946)	(216.099)
Other operating expenses			
Losses on, impairment of and change in trade provisions		(2.274)	(2.957)
Other operating expenses	17.4	(87.944)	(65.713)
		(90.218)	(68.670)
Depreciation and amortization	4,5,6,7	(110.002)	(104.519)
Grants related to non-financial assets and other grants	12	192	192
Overprovisions	13.1	1.344	648
Impairment losses and gains (losses) on disposal of non-current assets			
Impairment charges and losses	17.5	(3.323)	(224)
Gains (losses) on disposals and other gains and losses	17.5	23.470	3.550
		20.147	3.326
OPERATING PROFIT		43.757	46.248
Finance income			
From marketable securities and other financial instruments	17.6	4.477	13.215
Finance cost	17.6	(16.198)	(12.807)
NET FINANCE COST		(11.721)	408
PROFIT BEFORE TAX		32.036	46.656
Income tax	16.1	(7.982)	(15.225)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		24.054	31.431
PROFIT FOR THE PERIOD		24.054	31.431

Consolidated Budget 2012-2013

Real Madrid C. F.

REAL MADRID CLUB DE FÚTBOL AND SUBSIDIARY 2012/2013 CONSOLIDATED BUDGET

Thousands	2011/2012	2012/2013
Membership dues, ticketing and stadium revenue	150.382	150.808
Revenues from friendly matches and international competitions	40.049	34.363
Broadcasting	159.192	166.377
Marketing	164.348	165.094
TOTAL OPERATING INCOME (BEFORE NET GAINS ON DISPOSALS)	513.971	516.642
Goods for consumption	(22.596)	(20.009)
Player and staff personnel expenses	(233.946)	(249.267)
Other operating expenses	(113.792)	(117.940)
Losses on, impairment of and change in trade provisions	(9.868)	0
TOTAL OPERATING EXPENSES BEFORE DEPRECIATION AND AMORTIZATION	(380.202)	(387.216)
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION AND NET GAINS ON DISPOSALS	133.769	129.426
Gains (losses) on disposals and other gains and losses	23.470	19.379
Impairment charges and losses	-3.323	0
IMPAIRMENT LOSSES AND GAINS (LOSSES) ON DISPOSAL OF NON-CURRENT ASSETS	20.147	19.379
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION (EBITDA)	153.916	148.805
Depreciation and amortization	(110.002)	(105.722)
OPERATING PROFIT (EBIT)	43.914	43.083
Finance income	4.554	1.375
Finance cost	(16.206)	(12.052)
NET FINANCE COST	(11.652)	(10.677)
ORDINARY PROFIT	32.262	32.406
PROFIT BEFORE TAX	32.262	32.406
TOTAL INCOME (OPERATING + FINANCE + GAINS ON DISPOSALS)	541.995	537.396
TOTAL EXPENSES (OPERATING + FINANCE + D&A + IMPAIRMENT + LOSSES ON DISPOSALS)	(509.733)	(504.990)
PROFIT BEFORE TAX	32.262	32.406

- Operating income (before disposal of fixed assets) is €517M, + €3 M above last yer. The lower income from the summer tour, largely due to the 2012 European Cup is offset by increases from other sources.
- Personnel expenses are higher in accordance with the contracts and structure of teams. The cost of winning the League has been included.
- All other operating expenses before depreciation (supplies + operations + provisions) have decreased - €8 M - as a result of the growth in business and lower cost per contingency.
- As a result of the growth in income and expenses, the operating profit before depreciation and the disposal of fixed assets was €129 M, -€4 M less than last year.
- Including the €19 M profit from the disposal of fixed assets
- (- €1 M less than in the previous year), an EBITDA of €149 M was obtained, -€5 M less than in the previous year.
- An operating profit of €43 M has been budgeted, after absorbing a depreciation expense of €106 M (- €4 M less than in last year).
- The financial profit is €1 M less than in the previous year.
- As a result of the above, a net profit of €32 M is expected in 2012/2013, in line with that of the previous year.

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Real Madrid C. F.

Group Management Report **2011·2012**