



Annual Report
at 30 June 2018



Headquarter

via Aldo Rossi 8
20149 Milan (MI)
Italy
Tel. +39 02.62281

Share Capital (fully subscribed and paid)

€ 113,443,200.00 consisting of no. 218,160,000 ordinary shares each with a nominal value of € 0.52

Company Registry Registration

No. 010730200154

Officers of the company (*)

Board of Directors

Chair	Paolo Scaroni
Directors	Salvatore Cerchione Stefano Cocirio Alfredo Craca Gianluca D'Avanzo Giorgio Furlani Marco Patuano Franck Tuil

Board of Statutory Auditors

Chair	Franco Carlo Papa
Standing auditors	Cesare Ciccolini Alberto Dello Strologo

Substitute auditors	Andrea Filippo Bucarelli Francesca Ventimiglia
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Supervisory and Control Body

Chair	Michaela Castelli Umberto Lago Giorgio Perroni
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Auditing firm	EY S.p.A. Via Meravigli, 12 20123 Milan
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() In office on the date of approval of the financial statements for the year ending 30 June 2018*

Organisational chart (*)

Executive Chairman	Paolo Scaroni
Managing Director – Finance Department	Gianluca D’Avanzo
Director of Technical and Football Area	Leonardo De Araujo
Chief Commercial Officer	Lorenzo Giorgetti
Chief Communication Officer	Fabio Guadagnini
Chief International Sponsorship & Development Officer	Francisco M. Lampreia
Director of Strategic Development – Sports Area	Paolo Maldini
Chief Operations Officer	Alessandro Sorbone

() In office on the date of approval of the financial statements for the year ending 30 June 2018*

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Milan Group

Consolidated Financial Statements as at 30 June 2018

MILAN GROUP

A.C. MILAN S.p.A.

Registered office: Milan, via Aldo Rossi no. 8

Secondary offices: Carnago (VA), Via Milanello no. 25 –
Milan, Via dei Missaglia no. 17 – Rho (MI), Via dei Fontanili no. 61/63

Share Capital: Euro 113,443,200.00 fully subscribed and paid
comprising 218,160,000 shares, each with a nominal value of €0.52
Tax ID and Milan Companies' Registry Registration No. 01073200154

BOARD OF DIRECTORS' REPORT ON OPERATIONS TO 30 JUNE 2018

Sports results

The 2017/2018 football season ended with sixth place in the Italian Serie A championship, which allowed the club to enter the 2018/2019 edition of the Uefa Europa League.

On 9 May 2018 the team also played the final of the 2017/2018 TIM Cup in Rome, losing to Juventus F.C., after eliminating Hellas Verona F.C., F.C. Internazionale Milano and S.S. Lazio.

In the 2017/2018 Uefa Europa League, after coming through the preliminary rounds, the knockout stage and the round of sixteen, Milan played the quarter finals in March, losing to Arsenal F.C.

On 7 May 2018, U.E.F.A.'s first licence committee, having examined the documents filed in support of the application for the UEFA licence, granted the licence to the parent company A.C. Milan S.p.A. for the 2018/2019 season.

On 12 July 2018, Co.Vi.So.C./F.I.G.C., having examined the documents submitted by the parent company A.C. Milan S.p.A., found that the conditions required for the national licence for the 2018/2019 professional championship had been met, in accordance with Title I) of Official Communication no. 26 of 13 April 2018.

Transfer Campaign

Sales and purchases of player rights

The operations completed in the 2017/2018 transfer campaign which as usual took place during the summer 2017 and winter 2018 transfer windows, led to an increase in invested capital of €108 million resulting from acquisitions and increases of €128.5 million, and sales of €20.5 million (net value of the rights sold).

The net gains generated by from sales amounted to €34.7 million.

The major new signings were Biglia Lucas Rodrigo, Bonucci Leonardo, Conti Andrea, Donnarumma Antonio and Kalinic Nicola, and Halilovic Alen, Reina Paez Josè Mael and Strinic Ivan, who were bought on a free transfer, as their contracts expired on 30 June 2018.

The main sales were those of Beretta Giacomo, Crociata Giovanni, De Sciglio Mattia, Ely Rodrigo, Kucka Juraj, Lapadula Gianluca, Niang Mbaye, Pessina Matteo, Sosa Josè Ernesto, Vangioni Leonel Jesus, Vido Luca, Zanellato Niccolò and Zigoni Gianmarco.

Renewals of player contracts

During 2017/2018, several player contracts were renewed, including the following:

- Bonaventura Giacomo (until 30 June 2020);
- Calabria Davide (until 30 June 2022);
- Cutrone Patrick (until 30 June 2023);
- Donnarumma Gianluigi (until 30 June 2021);
- Fernandez Saenz de la Torre Jesus “Suso” (until 30 June 2022);
- Romagnoli Alessio (until 30 June 2022).

Terminations of player contracts

During 2017/2018, the contracts of the following players were terminated by mutual consent: Bernardes Soares Nathan, Cornaggia Mattia, Modic Andrej and Paletta Gabriel, whose residual net book value totalled Euro 0.2 million prior to the write-down made in 2017/2018.

Season Tickets Campaign

The 2017/2018 season ticket campaign rose to 32,364 championship passes (16,450 passes for the 2016/2017 season) and 7,927 passes for the qualifying rounds of the Uefa Europa League.

The average number of paying spectators for 2017/2018 for the home championship matches was 52,676 (40,292 spectators in 2016/2017).

Business performance

Introduction

On 13 April 2017 Fininvest S.p.A., the company which at the time held control of the parent company A.C. Milan S.p.A., completed the sale of its 99.93% shareholding in that company, to Rossoneri Sport Investment Luxembourg S.à r.l., the special-purpose company designated by the Chinese company Sino Europe Sport Investment Management Changxing Co. Ltd. in execution of the sale agreement signed on 5 August 2016 and subsequently amended.

The current majority shareholder of the parent company A.C. Milan S.p.A. is Rossoneri Sport Investment Luxembourg S.à r.l., which holds 99.93% of the share capital of A.C. Milan S.p.A.

Currently, the share capital of Rossoneri Sport Investment Luxembourg S.à r.l. is held entirely by Project Redblack S.à r.l., whose share capital is in turn held by Blue Sky Financial Partners S.à r.l. and by several companies held indirectly by Elliott Associates L.P. and Elliott International Limited. On 10 July 2018 the shares representing the capital of Rossoneri Sport Investment Luxembourg S.à r.l. were transferred to Project Redblack S.à r.l. following the enforcement of a pledge placed on the shares, in favour of Project Redblack S.à r.l. by the previous shareholder of Rossoneri Sport Investment Luxembourg S.à r.l.

On 18 May 2017, following the transfer of the majority shareholding mentioned above, the Meeting of Shareholders of A.C. Milan S.p.A. authorised a change of company year, effective from 1 July 2017, moving from the calendar year (01/01 – 31/12) to the football season (01/07 – 30/06). Therefore these financial statements relate to the 2017/2018 football season.

As a result, the individual income statement items for the year 2017/2018 are not directly comparable to the previous year, as the year 2017 only included 6 months between 1 January and 30 June 2017.

To provide a better understanding of the business performance for the period, the 2017/2018 football season has been compared against the 2016/2017 season, and the main differences are commented on below.

Consolidated result for the year

The net consolidated result for 2017/2018 shows a loss of Euro 126.0 million, an increase of Euro 53.0 million compared to the consolidated loss for the previous year of Euro 73.0 million.

This change is mainly due to the higher write-downs of player registration rights of Euro 49.3 million, higher costs of registered (Euro 13.2 million) and non-registered (Euro 2.0 million) personnel costs, higher financial expenses of Euro 16.4 million, higher costs of services and use of leased assets of Euro 6.4 million, higher other operating costs of Euro 3.0 million, and a reduction of Euro 7.3 million in revenues from sponsorship, commercial income and royalties.

These increases were partly mitigated by higher net income from player management (Euro 36.6 million), higher gate receipts of Euro 13.4 million and higher income from the sale of broadcasting and media rights, of Euro 9.9 million.

Finally, there was a net increase in non-recurring costs and revenues of Euro 8.4 million, lower write-downs of financial assets of Euro 1.6 million and higher taxes of Euro 1.2 million.

Value of production

The value of production for 2017/2018 amounted to Euro 255.8 million, an increase of 17.1% compared to the Euro 212.1 million for the previous year, as follows:

	2017.2018		2016/2017		Changes
	Value	%	Value	%	
Broadcasting rights and media revenues	109.3	42.7%	98.4	46.4%	10.9
Match receipts	35.3	13.8%	21.9	10.3%	13.4
Income from management of player rights	42.1	16.5%	6.1	2.9%	36.0
Sponsorship revenues	44.7	17.5%	51.0	24.0%	- 6.3
Commercial revenues and royalties	17.8	7.0%	18.9	8.9%	- 1.1
Other revenues and income	6.6	2.6%	15.8	7.4%	- 9.2
Total	255.8	100%	212.1	100%	43.7

Revenues from the sale of broadcasting and media rights, of Euro 109.3 million (+10.0% on the previous year) have risen by Euro 14.3 million, mainly as a result of reaching the round of sixteen of the UEFA Europa League 2017/2018 (not played in 2016/2017 season). In the previous season, this item included Euro 2.0 million for filming and transmission rights (unencrypted and/or digital terrestrial/satellite with conditional access) for all Milan's friendly matches, and Euro 2.1 million in payments from Lega Calcio di Serie A for the Italian Super Cup Final match.

Match receipts amounted to Euro 35.3 million (an increase of 37.8% on the previous year). The increase was mainly thanks to higher ticketing revenues for the Uefa Europa League – 2017/2018 competition which was not played in the previous season (+ Euro 5.8 million), season tickets (+ Euro 5.1 million), TIM Cup (+ Euro 3.2 million), the Championship (+ Euro 0.2 million). Some of these increases were partially offset by the smaller number of fixtures for friendly matches (- Euro 1.0 million).

Income from the management of player registration rights, of Euro 42.1 million rose by 36.0 million as a result of increased gains from the sale of players (+ Euro 31.7 million), increased revenues from temporary player loans (+ Euro 1.8 million) and higher income from player management (+ Euro 2.5 million) mainly thanks to bonuses paid by certain football clubs following specific performance targets achieved after the transfers of various players, and the fee paid to the club on the re-sale of one player.

Sponsorship revenues and Commercial revenues and royalties amounted to Euro 62.5 million, which is Euro 7.3 million less than the previous year. Euro 11.7 million of this reduction was due to the fact that following the previous change in the shareholder body, the sponsor Adidas Italia S.p.A., which also owns the licensing and merchandising rights for Milan-branded products, initially exercised its contractual right to terminate the contract early on 30 June 2017, only to then renegotiate the contract for a lower price, for the 2017/2018 season only.

The reduction in this item was partly counterbalanced by the Euro 1.6 million increase in the sales of corporate seats (“Sky Boxes”, “Sky Lounges” and luxury seating) at Milan’s San Siro stadium, the increased sales of multi-product advertising packages (Euro 0.8 million), the higher revenues from the directly-managed retail operations at Casa Milan (Milan Store, Museo Mondo Milan and Ristorante Casa Milan Bistrot/Fourghetti) of Euro 0.6 million, and higher bonuses paid by sponsors for the achievement of pre-set targets (Euro 1.3 million).

Other income and revenues amounted to Euro 6.6 million (Euro 15.8 million in the previous year). Euro 0.3 million (Euro 0.5 million in 2016/2017) refers to the income from the chargeback of costs made to players and third parties for their own expenses, Euro 1.3 million (Euro 1.3 million in 2016/2017) relates to payments from invoices issued to the affiliate M-I Stadio S.r.l. for the use of internal and external space at the San Siro stadium under a contract effective from 1 January

2012 until 30 June 2018, and which was recently renewed until 30 June 2019. This item also includes Euro 2.1 million (Euro 5.3 million in 2016/2017) for various uses of the provision for future charges, allocated on previous' years accounts, and Euro 2.8 million (Euro 8.2 million in 2016/2017) for contingent assets and other minor revenues and income, for which the reduction mainly relates to the fact that in the previous year the parent company A.C. Milan S.p.A. had obtained a Euro. 4.0 million insurance payout following incidents occurring to several players during matches played with their national teams.

Costs of production

The costs of production for 2017/2018 amounted to Euro 354.4 million, an increase of 22.7% compared to the Euro 273.9 million for the previous year, as follows:

	2017.2018		2016/2017		Changes
	Value	%	Value	%	
Cost of personnel	150.4	42.4%	135.1	49.3%	15.3
Amortisation, depreciation and write-downs	110.5	31.2%	61.0	22.3%	49.5
Cost of services and use of leased assets	57.9	16.3%	51.6	18.8%	6.3
Income from management of player rights	2.7	0.8%	3.3	1.2%	- 0.6
Cost of purchasing raw materials and goods	4.0	1.1%	3.9	1.4%	0.1
Other costs and charges	28.9	8.2%	19.0	6.9%	9.9
Total	354.4	100%	273.9	100%	80.5

The Cost of personnel, of Euro 150.4 million, shows an increase of 10.1% (+ Euro 15.3 million compared to the previous year), mainly due to the effects of the important summer transfer season (+ Euro 13.3 million) and on the other hand, due to the hiring of new staff and top management following the change in the shareholder body that took place in April 2017 (+ Euro 2.0 million). However, a

contra entry to this increase is the reduction in the fees to members of the Board of Directors (Euro 2.2 million), which falls under the item Costs of services.

Depreciation, amortisation, depreciation and write-downs amounted to Euro 110.5 million, an increase of Euro 49.5 million (+44.8% on the previous year) mainly as a result of the important 2017/2018 summer transfer season, and following the write-downs of the rights to certain players after consensual terminations of contract prior to the expiry date and/or losses on sales, during July and August 2018.

Costs of management of player rights amounted to Euro 2.7 million, Euro 0.6 million less than the previous year as a result of the reduced costs of buying players on temporary loan (- Euro 2.6 million), partly offset by the higher losses from the sale of player rights, and from higher costs of managing player rights. This was mainly attributable to costs payable to football clubs on the sales of certain players.

Costs of raw materials and goods when essentially in line with the previous year (+ Euro 0.1 million) and they essentially refer to the costs incurred in buying training kit, the official strips supplied by the technical sponsor, goods purchased for the Milan Store (Casa Milan) and costs of buying medical items.

The item Other costs and charges, of Euro 28.9 million (Euro 19.0 million in the previous year) mainly includes Euro 6.0 million (Euro 3.9 million in the previous year) in relation to costs of organising home matches at San Siro, an increase that was mainly due to the involvement in the 2017/2018 UEFA Europa league, Euro 3.9 million (Euro 3.9 million in the previous year) of contributions payable to the Lega Nazionale Professionisti and other bodies, fines, match penalties, contingent liabilities, other indirect taxes and chargebacks made to players and third parties for their own costs, as well as Euro 1.0 million (Euro 45 thousand in 2016/2017)

being the costs of receipts payable to visiting teams, for the TIM Cup 2017/2018 matches.

This item also includes provisions for Other risks, of Euros 17.5 million (Euro 10.6 million in the previous year), relating in particular to the allocation of costs of restructuring personnel, future costs of “exempted” training staff who are still employed by the company, exit bonuses for players sold on a final transfer during the July/August 2018 season, and the prudential allocation to cover the risk of U.E.F.A. Imposing fines for violating the break even rule according to the *Financial Fair Play* standard, as described in Potential liabilities and other information, to which please refer. In 2016/2017 this item had included Euro 5.5 million, relating to costs in settling the dispute with the Independent Trade Fair Foundation of Milan. The dispute arose in March 2017 in relation to a declaration of interest for redeveloping Pavilions 1 and 2 (Portello), in the Polo Urbano district of Fieramilanocity, concerning the plans to build Milan’s new stadium.

Financial Income and Expenses

Financial income and expenses showed a negative balance of Euro 22.3 million compared to Euro 5.9 million (negative) in the year 2016/2017.

This significant change is mainly due to the following:

- Euro 12.8 million being interest payable on two non-convertible bonds with the objective of: (i) repaying all the company’s debt towards the parent company Rossoneri Sport Investment Luxembourg S.à r.l.; (ii) funding the purchases of players; and (iii) meeting the company’s cash flow requirements;

- Euro 2.0 million, being higher commission on guarantees issued by leading banks and/or insurance companies, mainly for the partial coverage of the 2017/2018 transfer season;
- Euro 3.8 million being the net effect of applying the amortised cost principle on receivables and payables relating to the player transfer season;
- Euro 1.6 million being the lower amount of interest payable to banks as a result of the current indebtedness being substituted with the medium-term debt represented by the above-mentioned bonds.

Adjustments in value of financial assets

This item amounts to Euro 0.2 million (Euro 1.8 million in the year 2016/2017) and relates to the adjustment of the investment in the affiliate M-I Stadio S.r.l. to the value of the share of net equity on the accounts on 30 June 2018.

Income taxes for the year

The balance of this item, which amounts to - Euro 4.8 million (- Euro 3.6 million in the previous year) mainly includes current taxes of Euro 2.5 million, being the I.R.A.P. liability, and Euro 2.3 million of advance taxes on consolidation adjustments, mainly relating to the reversal of operations pertaining to infra-group gains.

Player registration rights

On 30 June 2018 the multi-year player registration rights totalled Euro 211.2 million compared to Euro 206.7 million in the previous year.

The net increase of Euro 4.5 million derives from the investments (+ Euro 128.5 million) and net disinvestments (- Euro 20.5 million), amortisation for the year (- Euro 82.0 million) and the write-downs of player registration rights (- Euro 21.5 million).

For details of the players involved in these movements, please see the relevant section of the Notes.

Shareholders' Equity

Consolidated shareholders' equity on 30 June 2018 was -Euro 36.0 million, a reduction compared to the positive balance of Euro 30.0 million on 30 June 2017 due to the consolidated loss for the year (- Euro 126.0 million) and the increases to the share capital and the share premium reserve made by the parent company A.C. Milan S.p.A. in 2017/2018 for a total of Euro 60.0 million.

However, as in August and September 2018 the majority shareholder made payments on account of the future capital increase, totalling Euro 170.5 million, the financial equilibrium of the Milan Group has been re-established.

Net Financial Position

On 30 June 2018 the consolidated net financial position of the Milan Group showed net indebtedness of Euro 128.4 million, an improvement (+ Euro 11.2 million) compared to 2016/2017 (Euro 139.6 million).

For more details about the composition and movements in net financial position, please see the Notes to the consolidated financial statements.

Relations with subsidiaries, affiliates and parent companies

The parent company A.C. Milan S.p.A. is not subject to direction and coordination by the controlling entity Rossoneri Sport Investment Luxembourg S.à r.l.

With regard to current relations with subsidiaries, associates and parent companies:

- With effect from 1 January 2017 the parent company A.C. Milan S.p.A. exercised the option to join the fiscal consolidation scheme (Articles 117-129 of Presidential Decree 917/86), as the consolidating entity, jointly with Milan Entertainment S.r.l. and Milan Real Estate S.p.A., as consolidated companies;
- The parent company A.C. Milan S.p.A. currently has an agreement for the subleasing of facilities at the “Casa Milan” complex, which is leased from Vittoria Assicurazioni S.p.A. with the non-profit Milan Foundation, at an annual rent of Euro 43 thousand, subject to Istat revaluation;
- The parent company A.C. Milan S.p.A. and F.C. Internazionale Milano S.p.A. have a joint contract with M-I Stadio S.r.l. for the licensing for use of some of the internal and external facilities at the San Siro Stadium, under which the annual fee payable to the licensees is Euro 2.4 million (subject to Istat revaluation). The agreement was recently renewed until 30 June 2019 at an annual price of Euro 1.5 million;
- The parent company A.C. Milan S.p.A. and F.C. Internazionale Milano S.p.A. have a joint contract with M-I Stadio S.r.l. to cover the operating costs of the San Siro Stadium, under which the annual fee payable to the licensees is Euro 7.0 million (subject to Istat revaluation plus any adjustments). The

agreement was recently renewed until 30 June 2019 at an annual price of Euro 8.6 million;

- details of all other intercompany relationships and the changes in equity investments are provided in the summary tables in the Notes.

Potential liabilities and other information

Financial Fair Play

As mentioned, in the 2017/2018 season A.C. MILAN S.p.A. again played the UEFA Europa league competition. Participation in this competition is subject to compliance with the *U.E.F.A. Club Licensing and Financial Fair Play Regulations – Edition 2015*.

A.C. Milan S.p.A. has applied to the *Club Financial Control Body* (C.F.C.B.) for a *Voluntary Agreement* (V.A.), as permitted under the regulations, in order to take part in European competitions in accordance with the financial requirements, and specifically with the *Break-even rule*, which means that all its expenses (with the exception of certain types as specified in the UEFA regulations) have to be covered with its own income.

Following acceptance of this application by the C.F.C.B., during 2017/2018 the previous Management held a series of meetings in order to illustrate to the C.F.C.B. the club's compliance with the financial requirements laid down in the regulations, during the period between the 2017/2018 and 2020/2021 football seasons.

On 15 December 2017, the Investigation Chamber (IC) of the C.F.C.B. noted that some of the conditions for acceptance of the V.A. had not been met by AC Milan and referred the final decision to the Adjudication Chamber of the C.F.C.B., which ruled on 19 June 2018 that there had been a violation of the break-even rule

according to the *Financial Fair Play* standard and ordered that the club be excluded from the UEFA competition for which it would otherwise have qualified for the subsequent two seasons (2018/2019 or 2019/2020), but would allow an appeal to the Sports Arbitration Tribunal of Lausanne (T.A.S.), under Article 34 (2) of the procedural regulations governing the C.F.C.B. and under Articles 62 and 63 of the UEFA Bylaws.

On 4 July 2018, A.C. Milan S.p.A. lodged an appeal with the T.A.S. asking that the C.F.C.B.'s decision be annulled. – A.C.

On 20 July 2018 the T.A.S. partially accepted Milan's appeal, upholding the C.F.C.B.'s decision – of 19 June 2018 as to the part relating to AC Milan's failure to meet the break-even requirement, but reversing the body's decision to exclude the club from taking part in the next UEFA competition for which it would otherwise have qualified in the next two seasons (2018/2019 or 2019/2020), as it was disproportionate. The tribunal found in particular that some of the significant factors had not been adequately considered when the decision was made, including the changes in the club's financial situation, which significantly improved following the change of ownership in July 2018.

The tribunal then decided to refer the case to the C.F.C.B. – A.C. considering the request by A.C. Milan S.p.A., and in consideration of the fact that the body itself is in a better position than the sports tribunal to impose a disciplinary penalty that is proportionate to the club's current financial situation.

On the date of this management report was drafted, UEFA has not yet issued its decision on the nature of any penalty, or the amount that will be imposed on the club and has merely adopted certain temporary, precautionary measures, regarding the suspension of revenues due to the club for the 2018/2019 UEFA Europa League competition.

In view of these considerations, A.C. Milan S.p.A., partly on the basis of its advisors' opinions, has decided to make a prudential allocation on the financial statements to 30 June 2018 to cover the risk of any fines being imposed by UEFA.

Other information

With regard to relations with Management and the personnel of A.C. Milan S.p.A., in July and August 2018, AC Milan terminated, for good cause, its relations with the ex-CEO and director-general. Although, with the support of its advisers, A.C. Milan S.p.A. examined the arguments put forward by the ex-CEO and director-general in response to the complaints made against him, finding them to be groundless, it is still possible that following the termination the former CEO may take action against the club. In view of this, based on the information currently in its possession and as advised by its consultants, A.C. Milan S.p.A. considers that the various reasons that led to the termination of this relationship are well-founded, but there is still a possibility of future legal proceedings, of an amount that cannot yet be determined partly because of the current status of the arguments raised and the positions taken. Further investigations will be carried out as necessary.

Information on the environment and personnel

In accordance with the provisions of Article 2428, paragraph 2, Italian Civil Code, the Milan Group conducts its business in full compliance with the regulations on environmental protection and safety at work, as laid down in Italian Legislative Decree 81/2008. In addition, the Milan Group conducts its business in full compliance with the regulations on stadium safety, and prevention and suppression of violence connected to soccer competitions, as laid down in Italian Law 41 of 4 April 2007 and the preceding Pisanu and Amato Decrees.

Details of the number and composition of personnel are provided in the Explanatory Notes.

Research and Development

In 2017/2018 the Milan Group companies did not carry out any research and development activity.

Going concern

The Milan Group had a consolidated loss for the year 2017/2018 of Euro 126.0 million, negative shareholders' equity of Euro 36.0 million and a consolidated negative net financial position, as of 30 June 2018, of Euro 128.4 million.

However, as the majority shareholder made payments totalling Euro 170.5 million in August and September 2018, and considering that A.C. Milan S.p.A. has discharged the bonds "Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017-2018 - Serie 1" (ISIN Code IT005254435) and "Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017-2019 - Serie 2" (ISIN Code IT0005254443), the capital and financial situation of the Group has been re-established, as of the date on which this consolidated report was drafted.

The majority shareholder Rossoneri Sport Investment Luxembourg S.à r.l. has guaranteed its commitment to provide financial support to the Milan Group companies for at least 12 months from the date of approval of the financial statements.

Based on these considerations, the directors have prepared these financial statements on a going concern basis.

Main risks and uncertainties and business outlook

Due to the nature of the Milan Group's business, operational performance is exposed to the risks associated with sporting competitions, especially in terms of the sporting results of the first team and the consequent levels of revenues from competitions, and broadcasting and advertising rights.

The business performance of the next year will be influenced by the placing in the Serie A championship, in the UEFA Europa League and in the TIM Cup 2018/2019.

On 18 May 2017 the meeting of shareholders of the parent company A.C. Milan S.p.A. authorised a capital increase of Euro 49.9 million, for 96,000,000 shares, each with a nominal value of Euro 0.52, to be offered under option to all shareholders and paid in cash, with a premium of Euro 0.10 per share, giving a total premium of Euro 9.6 million. The Board of Directors was also authorised, under Article 2443 civil code, to increase the share capital by a total of Euro 60.0 million.

The capital increase of Euro 49.9 million authorised by the meeting of shareholders of the parent company A.C. Milan S.p.A. was fully subscribed and paid in multiple instalments, from July 2017 until March 2018.

On 13 March 2018, the Board of Directors of A.C. Milan S.p.A. exercised the authority granted to it by the meeting of shareholders of 18 May 2017, authorising a further increase totalling Euro 60.0 million, fully subscribed and paid in multiple instalments from March 2018 until June 2018.

The parent company A.C. Milan S.p.A. Also obtained consent from Project Redblack S.à r.l. to make part of the authorised capital increase in the name of the majority shareholder.

As the majority shareholder Rossoneri Sport Investment Luxembourg S.à r.l., after having previously paid the various instalments of the capital increase, did not pay the Euro 32.4 million payment by the deadline set by the Board of Directors, on 22 June 2018 Project Redblack S.à r.l. – following up on the availability previously declared to the club - exercised its option under the pledge agreement of 13 April 2017 made between Rossoneri Sport Investment Luxembourg S.à r.l., as the pledgor, and Project Redblack S.à r.l., as the secured creditor, in relation to the shareholding of Rossoneri Sport Investment Luxembourg S.à r.l. in A.C. Milan S.p.A. and paid A.C. Milan S.p.A. Euro 32.4 million, in favour of the majority shareholder.

On 6 June 2018, A.C. Milan S.p.A., after agreement with Project Redblack S.à r.l. and BNP Paribas Securities Services Milan Branch, amended the terms of the Guaranteed Bond “Associazione Calcio Milan S.p.A. 2017-2019 – Serie II (ISIN Code IT0005254443)” and included two repayment dates (15 October 2018 and 30 June 2019), postponing the final reimbursement to 30 June 2019.

On 30 June 2018, A.C. Milan S.p.A. also executed the partial early reimbursement of the Guaranteed Bond “Associazione Calcio Milan S.p.A. 2017-2019 – Serie II (ISIN Code IT0005254443)”, in the amount of Euro 21.1 million as provided for in the agreement amending the terms of the bond, signed on 6 June 2018, following payment of the corresponding share of the capital increase by Project Redblack S.à r.l. on behalf of Rossoneri Sport Investment Luxembourg S.à r.l.

On 10 July 2018, as a result of the enforcement of the pledge in its favour, on the whole of the share capital of Rossoneri Sport Investment Luxembourg S.à r.l., Project RedBlack S.à r.l. (held by the Elliott funds and Blue Sky Financial Partners S.à r.l.) acquired 100% of the share capital of Rossoneri Sport Investment

Luxembourg S.à r.l. thereby acquiring indirect ownership of the controlling interest in A.C. Milan S.p.A..

On 21 July 2018, the ordinary meeting of the shareholders of A.C. Milan S.p.A., which was convened at the request of the majority shareholder, acknowledged the resignation of various directors and decided to revoke the mandates of the directors still in office on that date, also electing a new Board of Directors and a new Chairman.

As various disciplinary complaints had been made against the former director general, A.C. Milan S.p.A. then ordered his dismissal for good cause.

In July and August 2018, the officers of the subsidiaries Milan Entertainment S.r.l. and Milan Real Estate S.p.A. were also re-elected.

In August and September 2018, the new majority shareholder made additional capital contributions totalling Euro 170.5 million, of Euro 21.0 million, Euro 30.0 million and Euro 119.5 million respectively, with the aim of providing the parent company A.C. Milan S.p.A. with the funds needed for the early, full, voluntary reimbursement of the bond issued in 2017 originally maturing on 15 October 2018, as described in more detail in the “Bonds” paragraph of the Notes (to which please refer), the funds needed to meet cashflow requirements and to strengthen the capital of the Milan Group, and to meet the financial requirements imposed by the F.I.G.C. (Liquidity Indicator).

On 25 September 2018, A.C. Milan S.p.A. exercised its option to repay in advance all the bonds named “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 – 2018 – Serie 1” (ISIN Code IT005254435) and “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 – 2019 – Serie 2” (ISIN Code IT0005254443) issued by the parent company A.C. Milan S.p.A. and listed on the third Market of the Vienna Stock Exchange , indicating the date of repayment

as 28 September 2018. On 28 September 2018, A.C. Milan S.p.A. repaid the above bonds in full.

Financial risk management objectives and policies

The Milan Group has put in place specific policies outlining its financial risk management guidelines and objectives, with the aim of reducing its exposure to exchange, credit and liquidity risks connected to its core business.

The existing financial instruments (which do not include derivatives) such as bank and postal deposits, cash, cheques and other valuables and accounts receivable do not carry any type of financial risk. Finally, the trade receivables were not considered to pose financial risks, as almost all of them have a maturity date of 18 months' maximum (apart from various accounts receivable from football clubs as a result of the various transfer campaigns) or because they are already covered by a specific provision.

The main financial risks that the Milan Group is exposed to are described below.

Exchange rate risk

Exposure to exchange risk derives almost entirely from the acquisition of player registration rights in currencies other than the Euro (generally US Dollars, Swiss Francs and Pound Sterling). However, the Milan Group carries out the majority of its transactions (both purchases and sales) in Euro, and accordingly there are no significant risks connected to exchange rate fluctuations.

Interest rate risk

The interest rate risk mainly derives from the variable-rate payables that expose the Group to variable cashflow.

Credit risk

The Milan Group has relations with leading national and international clients and has suitable procedures in place to minimise exposure to credit risk. In particular, receivables from domestic football clubs are guaranteed by the clearing house mechanism of the Lega Nazionale Professionisti. Receivables for fees resulting from the negotiation of contracts for television broadcasting rights are guaranteed by bank sureties issued by the clients. Lastly, receivables not backed by guarantees are regularly monitored to manage collection risk, with specific provisions for doubtful debts made where necessary.

Liquidity risk

Liquidity risk is linked to the difficulty in raising funds to meet commitments. As stated above, the shareholder Rossoneri Sport Investment Luxembourg S.à.r.l., as part of the acquisition of A.C. Milan S.p.A., granted a loan of Euro 10.0 million, aimed at funding the club's core business. The majority shareholder also completed a recapitalisation of Euro 120.0 million.

On 26 May 2017, A.C. Milan S.p.A. issued two non-convertible bonds which were fully subscribed by Project RedBlack S.à r.l., listed on the Third Market of the Vienna Stock Exchange at a fixed annual rate of 7.7%, specifically:

- “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 - 2018 — Serie I (ISIN Code IT005254435)”, issued with a nominal amount of Euro 73.7 million and maturing on 15 October 2018, intended to fully repay the club's debt to the parent company Rossoneri Sport Investment Luxembourg S.à r.l., which is subject to various financial covenants, which are tested periodically;
- “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 - 2019 — Serie II (ISIN Code IT0005254443)”, issued with a nominal amount of Euro 54.3 million and with an original maturity date of 15 October 2018,

intended to fund the club's cashflow requirements, and which is subject to various financial covenants, which are tested periodically.

On 6 June 2018 Group Parent, A.C. Milan S.p.A., after agreement with Project Redblack S.à r.l. and BNP Paribas Securities Services Milan Branch, amended the terms of the Guaranteed Bond “Associazione Calcio Milan S.p.A. 2017-2019 – Serie II (ISIN Code IT0005254443)” and included two repayment dates (15 October 2018 and 30 June 2019), postponing the final reimbursement to 30 June 2019.

On 30 June 2018, A.C. Milan S.p.A. also executed the partial early reimbursement of the Guaranteed Bond “Associazione Calcio Milan S.p.A. 2017-2019 – Serie II (ISIN Code IT0005254443)”, in the amount of Euro 21.1 million as provided for in the agreement amending the terms of the bond, signed on 6 June 2018, following payment of the corresponding share of the capital increase by Project Redblack S.à r.l. on behalf of Rossoneri Sport Investment Luxembourg S.à r.l..

On 25 September 2018, A.C. Milan S.p.A. exercised its option to repay in advance all the bonds named “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 – 2018 – Serie 1” (ISIN Code IT005254435) and “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 – 2019 – Serie 2” (ISIN Code IT0005254443) issued by the parent company A.C. Milan S.p.A. and listed on the third Market of the Vienna Stock Exchange, indicating the date of repayment as 28 September 2018. On 28 September 2018, A.C. Milan S.p.A. repaid the above bonds in full.

At the request of the Group Parent A.C. Milan S.p.A., the controlling entity Rossoneri Sport Investment Luxembourg S.à r.l. ha made a payment of Euro 119.5 million on 24 September 2018, to be used to fully extinguish the above debt. This payment is added to those made in August and September 2018, totalling Euro 51.0 million.

The majority shareholder Rossoneri Sport Investment Luxembourg S.à r.l. has guaranteed its commitment to provide financial support to the Milan Group companies for at least 12 months from the date of approval of the financial statements.

Milan, 28 September 2018.

for the **Board of Directors**

Chairman

Paolo Scaroni

MILAN GROUP

CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2018

(in thousands of Euros)

BALANCE SHEET

ASSETS

	30.06.2018	30.06.2017	Changes
A) RECEIVABLES FROM SHAREHOLDERS FOR PAYMENTS DUE	—	59,518	(59,518)
B) FIXED ASSETS			
I INTANGIBLE ASSETS			
4 Concessions, licences, trademarks and similar rights	28,803	30,819	(2,016)
6 Assets in progress and advances	350	433	(83)
7 Player registration rights	211,165	206,663	4,502
8 Other	18,486	20,196	(1,710)
Total	258,804	258,111	693
II TANGIBLE ASSETS			
1 Land and buildings	10,559	10,712	(153)
2 Plant and machinery	2,186	1,846	340
3 Industrial and commercial equipment	650	729	(79)
4 Other assets	1,089	1,315	(226)
5 Assets in progress and advances	57	57	—
Total	14,541	14,659	(118)
III FINANCIAL ASSETS			
1 equity investments in:			
a) Subsidiaries	104	104	—
b) associates	1,085	803	282
Total	1,189	907	282
2 accounts receivable from:			
e) others			
- within 12 months	15	—	15
- after 12 months	8,849	350	8,499
Total	8,864	350	8,514
Total	10,053	1,257	8,796
TOTAL FIXED ASSETS (B)	283,398	274,027	9,371

MILAN GROUP

CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2018

(in thousands of Euros)

BALANCE SHEET

ASSETS

	30.06.2018	30.06.2017	Changes
C) WORKING CAPITAL:			
I INVENTORIES			
4 Finished products and goods	119	243	(124)
Total	119	243	(124)
II RECEIVABLES			
1 trade	46,170	58,737	(12,567)
2 from subsidiaries	2	1	1
3 from associates	—	1,640	(1,640)
4 from parent companies	26	50	(24)
5 from companies subject to parent companies' control	—	—	—
5 bis tax receivables			
a) within 12 months	1,739	1,248	491
b) after 12 months	1,653	1,075	578
5 ter prepaid tax	17,673	19,920	(2,247)
5 quater others	998	2,041	(1,043)
6 receivables from institutions - specific sector			
a) within 12 months	36,081	8,076	28,005
b) after 12 months	16,928	4,753	12,175
Total	121,270	97,541	23,730
III FINANCIAL ASSETS (other than fixed assets)			
7 other receivables	2,497	—	2,497
Total	2,497	—	2,497
IV CASH AND CASH EQUIVALENTS			
1 bank and postal deposits	24,742	13,188	11,554
3 cash in hand	34	35	(1)
Total	24,776	13,223	11,553
TOTAL WORKING CAPITAL (C)	148,662	111,007	37,656
D) ACCRUALS AND DEFERRALS			
1 accruals	—	—	—
2 deferrals	3,105	3,005	100
TOTAL ACCRUALS AND DEFERRALS (D)	3,105	3,005	100
TOTAL ASSETS	435,165	447,557	(12,391)

MILAN GROUP

CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2018

(in thousands of Euros)

BALANCE SHEET

LIABILITIES

	30.06.2018	30.06.2017	Changes
A) SHAREHOLDERS' EQUITY			
I CAPITAL	113,443	74,880	38,563
II SHARE PREMIUM RESERVE	31,020	9,600	21,420
III WRITE-BACKS RESERVE	—	—	—
IV LEGAL RESERVE	124	124	—
V STATUTORY RESERVES	—	—	—
VI OTHER RESERVES	(37,423)	(4,823)	(32,600)
VII RESERVE FOR HEDGING EXPECTED CASH FLOWS	—	—	—
VIII PROFIT (LOSS) CARRIED FORWARD	(17,188)	(17,188)	—
IX PROFIT/(LOSS) FOR THE YEAR	(126,019)	(32,624)	(93,395)
X NEGATIVE RESERVE FOR OWN SHARES IN PORTFOLIO	—	—	—
GROUP SHAREHOLDERS' EQUITY	(36,043)	29,969	(66,012)
(PROFIT) LOSS OF MINORITY INTERESTS	—	—	—
EQUITY OF MINORITY SHAREHOLDERS	—	—	—
TOTAL SHAREHOLDERS' EQUITY (A)	(36,043)	29,969	(66,012)
B) PROVISIONS FOR RISKS AND CHARGES			
3 other	20,297	4,359	15,938
TOTAL PROVISIONS FOR RISKS AND CHARGES (B)	20,297	4,359	15,938
C) EMPLOYEE LEAVING ENTITLEMENTS	1,745	1,862	(117)
D) PAYABLES			
1 bonds			
a) within 12 months	116,520	—	116,520
b) after 12 months	—	74,346	(74,346)
3 payables to shareholders for loans			
a) within 12 months	—	—	—
b) after 12 months	10,000	10,000	—
4 bank payables	1,210	1	1,209
5 payables to other financial institutions			
a) within 12 months	22,541	30,583	(8,042)
b) after 12 months	14,000	37,869	(23,869)
6 advances	—	—	—
7 payables to suppliers	59,481	55,544	3,937
9 payables to subsidiaries	—	—	—
10 payables to affiliates	1,479	2,484	(1,005)
11 payables to parent companies	—	—	—
11 bis payables to companies subject to parent companies' control	—	—	—
12 tax payables	11,026	12,242	(1,216)
13 payables to pension funds and social security agencies	651	507	144
14 other payables	14,021	11,036	2,985
15 payables to institutions - specific sector			
a) within 12 months	83,250	39,458	43,792
b) after 12 months	88,778	103,212	(14,434)
TOTAL PAYABLES (D)	422,957	377,282	45,675
E) ACCRUALS AND DEFERRALS			
1 accruals	44	31	13
2 deferrals	26,165	34,054	(7,889)
TOTAL ACCRUALS AND DEFERRALS (E)	26,209	34,085	(7,876)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	435,165	447,557	(12,392)

MILAN GROUP

CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2018

(in thousands of Euros)

INCOME STATEMENT

	FY 2017/2018	FY 2017	Changes
A) VALUE OF PRODUCTION			
1 Revenues from sales and services			
a) match revenues	22,819	5,620	17,199
b) season tickets	9,796	2,703	7,093
c) revenues from other competitions	2,723	—	2,723
Total	35,338	8,323	27,015
2 changes in inventories of work in progress, semi-finished goods and finished products	(125)	(50)	(75)
5 other revenues and income			
b) sponsorship revenues	44,711	25,277	19,434
d) commercial revenues and royalties	17,760	9,657	8,103
e) income from sale of broadcasting rights	100,578	44,377	56,201
f) miscellaneous income	8,927	4,503	4,424
g) revenues from player loans	2,454	538	1,916
h) gains from the sale of player registration rights	35,956	202	35,754
i) other income from player management	3,652	991	2,661
l) revenues and other income	6,482	9,048	(2,566)
Total	220,520	94,593	125,927
TOTAL VALUE OF PRODUCTION (A)	255,733	102,866	152,867
B) COSTS OF PRODUCTION			
6 for raw materials, ancillary materials, consumables and goods	4,030	1,844	2,186
7 for services	47,813	19,902	27,911
8 for use of third-party assets	10,095	4,729	5,366
Total	61,938	26,475	35,463
9 for personnel:			
a) wages and salaries	141,860	62,668	79,192
b) social security charges	6,682	3,682	3,000
c) employee leaving entitlements	1,581	737	844
e) other costs	274	151	123
Total	150,397	67,238	83,159
10 amortisation, depreciation and write-downs			
a) amortisation of intangible assets	86,419	22,530	63,889
b) depreciation of tangible assets	1,070	529	541
c) other write-downs of fixed assets	21,822	2,821	19,001
d) Write-down of receivables included in working capital and in cash and cash equivalents	1,211	677	534
Total	110,522	26,557	83,965
12 provisions for risks	17,965	2,486	15,479
14 sundry management expenses			
a) various match organisation expenses	5,978	2,071	3,907
b) match registration costs	2	1	1
c) percentage paid to visiting teams	965	—	965
d) costs for acquisition of players on loan	107	2,200	(2,093)
e) loss from the sale of player registration rights	1,290	500	790
f) other expenses from player management	1,332	48	1,284
g) other management expenses	3,892	2,141	1,751
Total	13,566	6,961	22,084
TOTAL COSTS OF PRODUCTION (B)	354,388	129,717	224,671
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A - B)	(98,655)	(26,851)	(71,804)

MILAN GROUP

CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2018

(in thousands of Euros)

INCOME STATEMENT

	FY 2017/2018	FY 2017	Changes
C) FINANCIAL INCOME AND (EXPENSES)			
16 other financial income			
d) income different from the above:			
- other	1,531	88	1,443
Total	1,531	88	1,443
17 interest and other financial charges			
d) other financial expenses	(23,844)	(3,526)	(20,318)
Total	(23,844)	(3,526)	(20,318)
17 bis gains and losses on foreign exchange:			
a) exchange gains	27	23	4
b) exchange losses	(57)	(1)	(56)
Total	(30)	22	(52)
TOTAL FINANCIAL INCOME AND (EXPENSES) (C)	(22,343)	(3,416)	(18,927)
D) ADJUSTMENTS IN VALUE OF FINANCIAL ASSETS			
18 write-backs	—	—	—
19 write-downs			
a) of equity investments	(218)	—	(218)
Total	(218)	—	(218)
TOTAL ADJUSTMENTS IN VALUE OF FINANCIAL ASSETS (D)	(218)	—	(218)
RESULT BEFORE TAX	(121,216)	(30,267)	(90,949)
20 income taxes for the year (current, deferred and prepaid)			
a) current taxes	(2,556)	(1,155)	(1,401)
b) deferred and prepaid taxes	(2,247)	(1,202)	(1,045)
Total	(4,803)	(2,357)	(2,446)
PROFIT/(LOSS) FOR THE YEAR	(126,019)	(32,624)	(93,395)
(PROFIT) LOSS OF MINORITY SHAREHOLDERS	—	—	—
GROUP PROFIT (LOSS)	(126,019)	(32,624)	(93,395)

for the Board of Directors

Chairman

Paolo Scaroni

MILAN GROUP

CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2018

(in thousands of Euros)

CASH FLOW STATEMENT	30.06.2018	30.06.2017
Profit (Loss) for the period	(126,019)	(32,625)
Amortisation, depreciation and write-downs	109,995	25,788
Changes in Employee leaving entitlements	(117)	(27)
Changes in Provisions for risks and charges	15,938	(6,205)
Self-financing	(203)	(13,069)
Changes in inventories	125	50
Changes in receivables	(24,885)	28,642
Change in tax receivables	1,160	(251)
Changes in accrued income and prepayments	(99)	1,679
Changes in Payables	35,421	97,788
Change in tax payables	(1,573)	(460)
Changes in accrued charges and deferred income	(7,875)	(9,672)
Funds generated (used) by operating activities	2,071	104,707
Disposals of player registration rights	20,480	587
Disposals of other intangible assets	10	0
Disposals of tangible assets	0	5
Disposals of financial assets	76	0
Investments in player registration rights	(128,525)	(119,014)
Investments in other intangible assets	(667)	(361)
Investments in tangible assets	(951)	(106)
Investments in financial assets	(850)	(500)
Cash generated (used) by disposals and investments	(110,427)	(119,389)
Change in financial receivables/payables	384	(29,466)
Dividends paid	0	0
Other changes in equity	119,524	53,502
Funds generated (used) by financial activities	119,908	24,036
Change in cash and cash equivalents	11,552	9,354
Opening cash and cash equivalents	13,223	3,869
Closing cash and cash equivalents	24,775	13,154
Change in cash and cash equivalents	11,552	9,285

for the Board of Directors

Chairman

Paolo Scaroni

MILAN GROUP

CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2018

EXPLANATORY NOTES

PREAMBLE

On 13 April 2017 Fininvest S.p.A., the company which at the time held control of the club, completed the sale of its 99.93% shareholding in A.C. Milan S.p.A., to Rossoneri Sport Investment Luxembourg S.à r.l., the special-purpose company designated by the Chinese company Sino Europe Sport Investment Management Changxing Co. Ltd. in execution of the sale agreement signed on 5 August 2016 and subsequently amended.

The current majority shareholder is Rossoneri Sport Investment Luxembourg S.à r.l., which holds 99.93% of the share capital of A.C. Milan S.p.A.

Currently, the share capital of Rossoneri Sport Investment Luxembourg S.à r.l. is held entirely by Project Redblack S.à r.l., whose share capital is in turn held by Blue Skye Financial Partners S.à r.l. and by several companies held indirectly by Elliott Associates L.P. and Elliott International Limited. On 10 July 2018 the shares representing the capital of Rossoneri Sport Investment Luxembourg S.à r.l. were transferred to Project Redblack S.à r.l. following the enforcement of a pledge placed on the shares, in favour of Project Redblack S.à r.l. by the previous shareholder of Rossoneri Sport Investment Luxembourg S.à r.l.

In July 2018, the ordinary meeting of the shareholders of A.C. Milan S.p.A., which was convened at the request of the majority shareholder, acknowledged the resignation of various directors and decided to revoke the mandates of the directors still in office on that date, also electing a new Board of Directors and a new Chairman.

In July and August 2018 the officers of the subsidiaries Milan Entertainment S.r.l. and Milan Real Estate S.p.A. were also re-elected.

On 18 May 2017, following the transfer of the majority shareholding mentioned above, the Meeting of Shareholders of A.C. Milan S.p.A. authorised a change of company year, effective from 1 July 2017, moving from the calendar year (01/01 – 31/12) to the football season (01/07 – 30/06). Therefore, these financial statements relate to the 2017/2018 football season.

GENERAL INFORMATION

A.C. Milan S.p.A. is a joint stock company incorporated in Italy and entered in the Milan Companies Register. Its registered office is located in 8 Aldo Rossi, 20149 Milan.

The company's sole purpose is the pursuit of sporting activities and in particular, the training, the preparation and management of soccer teams and the promotion and organisation of competitions, tournaments and all other soccer activities in general, for the purposes and in compliance with the rules and guidelines of the Italian Soccer Federation and its Bodies (the FIGC).

The main activities of the company and its subsidiaries described in the Report on Operations.

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

The consolidated accounts for the year ending 30 June 2018, and these Notes, have been prepared in accordance with the requirements for consolidated accounts, in Legislative Decree no. 127 of 9 April 1991 enacting the VII EC Directive and in accordance with the provisions of the Civil Code, as amended by Legislative Decree 139/2015 (the “Decree”), interpreted and amended by the Italian Accounting Standards issued by the Italian Accounting Body (“OIC”) amended and updated following the enactment of Directive 2013/34/EU (the “Accounting Directive”) with the Decree.

The financial statements used for preparing these consolidated accounts to 30 June 2018 were those prepared for approval by the Boards of Directors of each company, apart from those relating to the subsidiaries, whose business years do not coincide with those of the consolidating entity. The aforementioned Financial Statements were restated, where required, to align them with the Group accounting principles, which are in line with applicable legislation, the OIC accounting principles and the provisions issued by the Soccer Federation and the Committee for the Supervision of Italian Soccer Clubs.

SCOPE OF CONSOLIDATION

The consolidated financial statements for the year 30 June 2018 include the accounts of the Group Parent A.C. Milan S.p.A. and the companies in which it holds, directly or indirectly, the absolute majority of the share capital and voting rights, as well as companies with shares of 50% or close to that amount, and for which the Milan Group is responsible for managing or exercises a dominant influence. Subsidiaries that are in liquidation or are inactive and those whose financial positions show insignificant values have therefore not been included in the scope of consolidation and have been accounted for using the cost

method. For more details about the consolidation area, please see the list of equity investments as at 30 June 2018, which is annexed to these Notes.

On 27 December 2017, the Chinese company AC Milan (Beijing) Sports Development Co. Ltd., controlled entirely by the Group Parent A.C. Milan S.p.A., joined the consolidation area.

CONSOLIDATION METHODS

The financial statements of subsidiaries are consolidated using the line-by-line method, replacing the carrying amount of the equity investments with the assumption of the assets and liabilities of the subsidiaries.

The difference between the acquisition cost and the shareholders' equity (or share of shareholders' equity for the companies consolidated using the proportional method) in the financial statements of the subsidiaries at the time of purchase, if it is not attributable to specific assets, is recognised as a "Consolidation difference" and is amortised in the manner indicated in the "Measurement criteria and accounting principles". Any remaining negative balance is recognised under the "Provisions for risks and charges" if attributable to a forecast of unfavourable economic results, otherwise it is recognised under the Shareholders' Equity item "Other reserves".

Equity investments in the companies in which the Group exerts significant influence (generally those in which the ownership percentage is between 20 and 50 percent) are valued using the equity method, replacing the carrying value of those equity investments, with an amount equal to the corresponding portion of shareholders' equity shown in the last approved financial statements, after the making the adjustments required by the appropriate principles for preparing the consolidated financial statements.

Receivables and payables, costs and revenues, and gains and losses resulting from transactions between companies included in the scope of consolidation are eliminated.

The portions of shareholders' equity and profit/(loss) for the period of consolidated subsidiaries attributable to non-controlling interests are shown in specific items.

MEASUREMENT CRITERIA AND ACCOUNTING PRINCIPLES

The consolidated accounts to 30 June 2018 were prepared on the basis of the principles of clarity, accurate and truthful representation of the financial situation of the Milan Group and of the profit or loss for the period, in accordance with Art. 2423(2) civil code.

The consolidated financial statements to 30 June 2018 were prepared in accordance with the general principles of prudence, accrual, and on a going-concern basis, and also took into account the economic function of the asset and liability items.

The valuation criteria of various financial statement items comply with the provisions of Article 2426 of the Italian Civil Code and the reference accounting principles. Budget

assumptions include continuity with the previous financial year with respect to the application of the valuation criteria adopted to prepare the Financial Statements.

As also required by the first paragraph of Article 2423-ter Italian Civil Code, in view of the nature of the Parent Company A.C. Milan S.p.A.'s business, the instructions issued by the Italian Soccer Federation (FIGC) and the Committee for the Supervision of Italian Soccer Clubs (Co.Vi.So.C.) have also been taken into consideration.

There were no derogations (Art. 2423 (4) civil code) in the drafting of the consolidated financial statements to 30 June 2018.

The most significant valuation criteria and first-implementation rules adopted are detailed below.

Intangible fixed assets

Intangible assets are recognised as assets when they can be individually identified and their cost can be estimated in a sufficiently reliable way. They are recognised at purchase or production cost, including ancillary charges net of depreciation/amortisation and write-downs. Fixed assets are systematically depreciated on the basis of their estimated future life.

Multi-year charges were registered as assets because:

- their future useful life is demonstrated;
- there is an objective link with the relevant future benefits that the companies belonging to the Milan Group shall enjoy;
- their recovery can be estimated with reasonable certainty.

Player registration rights

These are intangible assets with a defined useful life equal to the term of the sports contracts signed with players.

Multi-year players' registration rights are registered at their historic purchase price inclusive of any directly attributable ancillary charges and, where appropriate, time-discounted to take into account the deferral of payments over more than one financial period.

The amounts were stated net of amortisation charges, calculated on a straight-line basis in relation of the duration of the contracts signed with individual professional footballers.

With regard to transactions involving the transfer of player registration rights or the renewal of player contracts, in accordance with industry regulations, the accounting treatment of fees for services performed for the Parent Company A.C. Milan S.p.A. by

licensed third parties (sports agents) is as follows:

- in the absence of conditions precedent (for example the player remaining registered with the Parent Company A.C. Milan S.p.A.), these fees are capitalised because they constitute a transaction cost for the purchase of the registration rights;
- otherwise the fees are recognised each time in the income statement if they are conditional on the player remaining registered with the Parent Company A.C. Milan S.p.A. or relate to services performed for the temporary acquisition or transfer (definitive or temporary) of the right.

Player registration rights are recognised on the date of stipulation of the contract, or on any date after the stipulation of the contract, as agreed between the parties, and in accordance with Art. 1360 civil code, the effect of the approval issued by Lega Nazionale Professionisti Serie A for national transfers, or the effect of the international transfer certificate (I.T.C. – “Transfer”) from the F.I.G.C. for international transfers, through F.I.F.A.'s “T.M.S.” system.

Amortisation starts from the year when the player is registered. For rights acquired during the year, amortisation starts from the date when the player is available, on a time accrual basis.

The original amortisation schedule is amended if a contract is extended due to its early renewal. The new amortisation schedule takes account, on a straight-line basis, of the net book value of the rights at the date of extension of the contract and of the new duration of that contract.

If there is no contractual provision about the effect of the Agreement, the time of recognition is the date of the approval issued by Lega Nazionale Professionisti Serie A for national transfers, or the effect of the international I.T.C. – “Transfer”) issued by the F.I.G.C. for international transfers, via F.I.F.A.'s “T.M.S.” system.

The item player registration rights also includes the costs incurred by the Parent Company A.C. Milan S.p.A. for the registration of players from amateur soccer clubs, or foreign clubs that have contributed to the technical training of the players. In particular, the following are recognised:

- technical training and coaching bonuses, pursuant to Article 99 NOIF, paid to amateur soccer clubs following the signing of the first “professional” contract by players from those clubs. These costs are amortised on a straight-line basis over the duration of the contracts signed with the individual players;
- the training compensation and/or solidarity mechanism payments made, pursuant to FIFA regulations, to soccer clubs following definitive or temporary transfers of players registered with foreign clubs. These costs are amortised on a straight-line basis over the duration of the contracts signed with the individual players.

Concessions, licenses, trademarks and similar rights

Recognised at purchase cost, they relate to the rights to the profits of the television archive of A.C. Milan S.p.A., with a definite life, taking into account the archive's economic life, and the costs of creating and registering the trademarks for the purchase of software licences, which are amortised on a straight-line basis based on their expected future utility.

Other intangible fixed assets

These specifically refer to leasehold improvements amortised over the term of the related contract.

Tangible fixed assets

They are recorded at the purchase cost effectively paid to acquire the asset and are recognised on the date on which the transfer of risks and benefits takes place, which usually coincides with the transfer of title. This cost includes the purchase cost, ancillary purchase costs and all costs incurred to bring the asset to the location and in the conditions required for it to be a long-term asset for the companies belonging to the Milan Group.

Tangible fixed assets with a limited useful life are systematically depreciated on a straight-line basis based on their residual useful life.

The depreciation charge for each financial year refers to the distribution of the cost incurred over the entire duration of use.

For assets purchased during the financial year, the depreciation charge is reduced by 50%. The basis for depreciation, initially estimated upon drafting the depreciation schedule based on the prices achievable on the market through the disposal of similar assets both in terms of technical features and the type of use to which they have been subject, is periodically reviewed in order to verify that the initial estimate is still valid. This amount is considered net of presumable removal costs.

If the tangible asset includes components or accessories with a useful life other than that of the principal asset, the depreciation of such components is calculated separately from that of the principal asset, unless this is not material or feasible.

The annual depreciation rates used are shown in the table below:

Asset	Rate
Industrial Buildings	3.0 %
Light constructions	10.0 %
Plant and machinery	7.5 % - 25.0% - 30.0%
Industrial and commercial equipment	15.0 % – 15.5 %
Furniture and fittings	12.0 %
Electrical office equipment	20.0 %
Vehicles	25.0 %

Ordinary maintenance costs are charged in full to the income statement. Improvement-related maintenance costs are allocated to the related assets and depreciated over their remaining useful life.

Impairment losses for intangible and tangible assets

Impairment losses for intangible and tangible assets are posted pursuant to the provisions of the OIC 9 Accounting Principle.

The Company accesses at each financial statements date whether objective evidence exists that an asset has incurred an impairment loss. If such evidence exists, it estimates the recoverable value of the asset.

In particular, if the recoverable value of an asset (that is the greater out its use value and fair value) is lower than its book value, the asset is posted at such lower value. The difference is recognised in the income statement as an impairment loss under item B10c). If, in the subsequent financial years, the reasons for the write-down no longer apply, the original value is restored, adjusted only for depreciation, and recognised in the income statement under item A5).

In absence of evidence of potential impairment losses, the recoverable amount is not determined.

The value is restored if the reasons for the impairment losses no longer exist and takes place to the extent of the value that the asset would have had, had the value adjustment not been performed. The impairment of goodwill cannot be restored.

With specific reference to player registration rights, if there are indications of value impairments (for example serious injuries or significant losses from post-year end sales, and contractual market conditions that prohibit the sales of players who are surplus to requirements (“*impairment*”) of the residual book value.

Financial fixed assets

Equity investments in subsidiaries, associates, parent companies and other companies

Equity investments are registered as financial fixed assets if they are expected to be part of the Milan Group's long-term investment portfolio, otherwise they are recognised in the Working capital.

Equity investments in the companies in which the Milan Group exerts significant influence (generally those in which the ownership percentage is between 20 and 50 percent) are valued using the equity method in the manner described above.

The carrying amount of equity investments valued using the equity method is determined on the basis of their purchase or establishment price, including any ancillary charges. The cost incurred when purchasing an investment booked as a fixed asset is maintained in the financial statements of the subsequent financial years, unless an impairment loss occurs. The Milan Group assesses at each financial statements date whether objective evidence exists that an asset has incurred an impairment loss. The impairment loss is determined by comparing the value the equity investment was recorded at in the financial statements with the relevant recoverable value, calculated on the basis of the future benefits expected for the investor. The impairment loss is not maintained if the reasons for the adjustment made no longer apply.

Receivables

Receivables are carried at the amortised costs, time-adjusted, to the extent of their expected realisable value and, therefore, they are shown in the income statement net of the relevant provisions for doubtful accounts deemed adequate to cover reasonably predictable losses due to uncollectability.

If the transaction's interest rate is not markedly different from the market rate, the receivable is initially recognised at a value equal to the nominal value net of all premiums, discounts, allowances and inclusive of any costs directly attributable to the transaction that generated the receivable. The aforementioned transaction costs, any commission income and expenses and any difference between the initial value and the nominal value at maturity are distributed along the life of the receivable using the effective interest method.

When, on the other hand, the interest rate for the transaction that can be inferred from contractual conditions is markedly different from the market rate, the receivable (and the relevant income in the case of commercial transactions) is initially posted at a value equal to the present value of estimated future cash flows plus any transactions costs. The rate used to discount future cash flows is the market rate.

In the case of receivables from commercial transactions, the difference between the thus determined initial recognition value of the receivable and the value upon maturity is posted

to the income statement as financial income throughout the life of the loan, using the effective interest rate method. In the case of financial receivables, the difference between the liquidity disbursed and the current value of future financial flows, always determined using the market interest rate, is recognised in financial expenses or income in the income statement upon their initial recognition, unless the substance of the transaction or of the agreement attribute a different nature to this component. Subsequently, the active interest accruing on the transaction is calculated at the effective interest rate and posted to the income statement with the value of the receivable as a contra-entry.

The value of the receivables is then subsequently reduced by the amounts received both as capital and as interest, as well as by any write-downs effected to readjust the receivables to their expected realisable value or due to losses.

The Milan Group assumes that effects resulting from the implementation of the amortised costs and the discounting are not material when receivables are due within 12 months, taking into account that all contractual and substantial considerations that apply upon recognition of the receivable, as well as all transaction costs and any difference between the initial value and the nominal value at maturity are also negligible. In this case, discounted can be omitted, the interest can be calculated on the capital and transaction costs registered as deferred expenses and amortised on a straight-line basis over the duration of the receivable to adjust nominal interest income.

It should be noted that the Milan Group took advantage of the option - provided for by Article 12 of Italian Legislative Decree 139 of 18 August 2015 - to apply the amortised cost only to receivables that have arisen after 1 January 2016.

Write-off of receivables

A receivable is written off from the Financial Statements when:

- the contractual rights on the financial flows arising from the receivable are extinguished; or
- the ownership of the contractual rights arising from the receivable is transferred and, with it, the risks linked to the receivable area also essentially transferred.

For the purposes of the valuation of the transfer of risks, all contractual clauses are taken into account, such as repurchase obligations at the occurrence of certain events or the presence of commissions, excesses or penalties due for non-payment.

When the receivable is written off from the financial statements as a result of a disposal transaction that entails the substantial transfer of all risks, the difference between the price and the value the receivable was recognised at the time of disposal is recognised as disposal loss to be posted under item B14) of the income statement, unless the contract does not allow the identification of other economic components of different nature,

including financial.

When the sale agreement does not include the transfer of all risks (e.g. pro-solvendo agreements), the account receivable is kept on the financial statements. If part of the consideration agreed by the transferee is paid in advance, a financial receivable is recorded as counterparty of the advance received. Cost elements, such as interest and commission, to be paid to the transferee, are recorded in the income statement depending on their nature.

When, also by virtue of a disposal contract that can substantially transfer all risks linked to the receivable, minimal risks for the companies belonging to the Milan Group can be identified, the presence of the conditions required to effect a relevant provision to the risk provision is assessed.

Cash and cash equivalents

Bank deposits, post office deposits, and cheques (current account, bank drafts and similar), and are measured according to the general principle of the estimated realisable value, unless the collection of such receivables is very doubtful.

Cash and revenue stamps, measured at their nominal amount.

Cash pooling, consisting in the centralised treasury management by one company within a Group, enables the optimisation of financial resources and is characterised by receivable and payable items towards the company managing the aforementioned *cash pooling*, respectively for collections from and deposits to the joint current account. Individual companies that participate in centralised treasury management recognise the receivables generated in the item “Financial assets for centralised treasury management” with an indication of the counterparty, which can be the subsidiary of the parent company, in Financial assets that do not constitute long-term investments. If the receivables are not due within one year, they are classified as financial fixed assets. Any such revaluations and write-downs are posted to the income statement under “Write-down of financial assets due to centralised treasury management” and “Revaluation of financial assets due to centralised treasury management”, indicating the counterparty. Any debt position arising from centralised treasury management shall be classified based on the provision of OIC 19 “Debts”.

Accruals and deferrals

The items include the portions of costs and revenues that are common to two or more financial years, based on the accruals principle. This principle provides that an accrual or a deferral is recognised when the following conditions are met:

- the contract starts in one financial year and ends in a subsequent one;
- the consideration for the services provided is contractually due in advance or in arrears compared to performance common to two or more subsequent financial years;
- the size of accruals and deferrals varies over time.

Accruals and deferrals do not include costs and revenues that accrued in full in the financial year to which the Financial Statements refer or in subsequent ones.

At the end of each financial year, the Company assesses whether the conditions that determined the initial recognition of the accrual or the deferral still apply; if necessary, the required value adjustments are effected. This assessment takes into account not only the passage of time, but also the estimated recoverability of the amount posted to the Financial Statements.

Shareholders' Equity and Treasury Shares

This item recognises all capital transactions effected between the company and the individuals who exercise their rights and duties as Shareholders. The share capital increase may only be recognised in the accounts after the transaction has been recorded in the companies' registry, as provided for by Article 2444, paragraph 2, of the Italian Civil Code. This condition entails, from an accounting viewpoint, the need to use a Shareholders' equity item other than "Equity" in order to recognise the capital contributions subscribed by the Shareholders, which shall be reclassified under that item only after the transaction has been registered in the companies registry.

Any decrease in the share capital due to the withdrawal of a Shareholder entails an obligation for the Company to purchase his/her shares in order to reimburse him/her, if they are not acquired by other Shareholders. From an accounting viewpoint, a negative provision is registered under the item AX) "Negative reserve for treasury shares in the portfolio". The difference between the reduction in Shareholders' equity and the payable towards the ceased Shareholder is channelled to a provision.

If a shareholder defaults, the share capital is reduced by an amount corresponding to the cancelled shares, which from an accounting point of view reverses the amount due from the outgoing shareholder (as to the tenths still payable by him), and the difference between the reduction in net equity and the claim against the outgoing shareholder is paid into a reserve.

Provisions for risks and charges

Provisions for risks are recognised for specific liabilities that are probable and whose values are estimated. Therefore, they are potential liabilities linked to conditions that

already existed at the date of the Financial Statements, but that were characterised by a degree of uncertainty, whose outcome depends on the occurrence of one or more future events.

The provisions for costs are entered for liabilities that are known and determinate, estimated as to the amount or date, connected to obligations already accepted on the closing date, but which will be received in future years.

Provisions are quantified based on estimates that take into account all available information, in compliance with the principles of accruals and prudence. These elements can also include the time horizon when at the Financial Statements' date there is a known commitment, on the basis of a contractual or legal obligation, whose disbursement can be reliably estimated and whose occurrence can be reasonably determined, that is sufficiently distant in time so as to make its current value at the date of the Financial Statements significantly different from the one estimated at the time of disbursement.

No generic risk funds without economic justification were set up.

Potential liabilities, if any, are posted to the Financial Statements and registered in the provisions only if they are deemed probable and if the amount of the relevant expense can be reasonably estimated. As a result, remote risks were not taken into account, whereas for potential liabilities that are deemed possible, even if unlikely, information about the uncertainty situation, where relevant, that the loss would cause, as well as the estimated amount or the indication that such amount cannot be estimated, other possible effects, if not apparent, the indication of the management's opinion and that of its legal and other advisers, where available.

With respect to classification, the provisions to risks and charges are initially registered in the income statement items of the relevant classes Per (B, C or D), depending on their nature. If the link between the nature of the provision and one of the aforementioned classes is not immediately apparent, provisions for risks and charges are posted to items B12) and B13) of the income statement.

Employee leaving entitlements

Italian Law no. 296 of 27 December 2006, (2007 Finance Act) introduced new rules for employee leaving entitlements accruing from 1 January 2007. As a result of the Supplementary Pension Reform:

- employee leaving entitlements accrued up to 31/12/2006 remain in the company;
- employee leaving entitlements accruing from 1 January 2007, at the employee's discretion, either through explicit or tacit agreement, have been:
 - allocated to supplementary pension schemes;
 - remained with the company, which transferred the employee leaving entitlements to the I.N.P.S.'s Treasury Fund.

The amounts accrued from 1 January 2007 are still shown in the income statement item B9c) "Employee leaving entitlements". In the balance sheet, item C) "Employee leaving entitlements" represents the remainder of the provision outstanding as at 31 December 2006, item D13) "Amounts payable to social security and welfare institutions" includes the amount payable on 30 June 2018 in respect of post-employment benefits still to be paid to pension funds and welfare institutions.

Payables

Payables are recorded in the Financial Statements using the amortised cost method, on a time-adjusted basis.

If the transaction's interest rate is not markedly different from the market rate, the receivable is initially recognised at a value equal to the nominal value net of all transaction costs and all premiums, discounts, allowances and inclusive of any costs directly attributable to the transaction that generated the payable. The aforementioned transaction costs, such as accessory costs to obtain loans, any commission income and expenses and any difference between the initial value and the nominal value at maturity are distributed along the life of the payable using the effective interest method.

When, on the other hand, the interest rate for the transaction that can be inferred from contractual conditions is markedly different from the market rate, the payable (and the relevant cost in the case of commercial transactions) is initially posted at a value equal to the present value of estimated future cash flows plus and considering any transactions costs. The rate use to discount future cash flows is the market rate.

In the case of payables from commercial transactions, the difference between the thus determined initial recognition value of the payable and the value upon maturity is posted to the income statement as financial expense throughout the life of the loan, using the effective interest rate method. In the case of financial receivables, the difference between the liquidity disbursed and the current value of future financial flows, always determined using the market interest rate, is recognised in financial income or expenses in the income statement upon their initial recognition, unless the substance of the transaction or of the agreement attribute a different nature to this component. Subsequently, the interest expense accruing on the transaction is calculated at the effective interest rate and posted to the income statement with the value of the payable as a contra-entry.

The value of the payables is then subsequently reduced by the amounts paid both as capital and as interest, as well as by any write-downs effected to readjust the receivables to their expected realisable value or due to losses.

The Milan Group assumes that effects resulting from the implementation of the amortised costs and the discounting are not material when payables are due within 12 months, taking into account that all contractual and substantial considerations that apply upon recognition of the payable, as well as all transaction costs and any difference between the initial value and the nominal value at maturity are also negligible. In this case, discounted can be omitted, the interest can be calculated on the capital and transaction costs registered as deferred expenses and amortised on a straight-line basis over the duration of the receivable to adjust nominal interest expense.

Payables towards Group companies

Items D9), D10) e D11) include respectively payables towards subsidiaries, associates and parent companies, as defined by Article 2359 of the Italian Civil Code. These payables are shown separately in the income statement.

Item D11 bis) includes payables towards companies subject to parent companies' control.

Revenues

Match revenues are recognised at the actual time of performance (when each match is played). Season pass sales, if collected at the end of the previous soccer season, are recognised on an accrual basis using the same rule (i.e. when each match is played).

Revenues from sponsorship are allocated pro rata according to the related contracts, which are signed on the basis of the FIGC soccer seasons. Sponsor premiums are recognised in the income statement on an accruals basis, depending on when the sports event to which they refer takes place.

Revenues from broadcasting license rights and subsequent use of images relating to home league matches are recognised on an accrual basis according to the soccer season to which they relate.

Revenues from service provision and expenses for their purchase are recognised on the date on which provision ended, or, for those governed by contracts with periodical payments, on the date such payments are due.

The revenues from the sale are recognised net of returns, discounts, allowances and premiums, as well as any taxes directly linked to the sale of the products and the provision of the services, and any adjustments to the revenues accrued during the year directly reduce the item "Revenues".

The item "Other revenues and income" includes non-financial positive income components solely due to additional management. This item includes any grants related to income.

Cost

Acquisition costs are recognised on an accruals basis.

The costs for raw materials, ancillaries, consumables and goods are inclusive of ancillary purchase costs (transport, insurance, loading and downloading, etc.) if included by the supplier in the purchase price, otherwise they are separately posted to service costs depending on their nature.

The costs include not only those whose amount is certain, but also those that are not yet documented, which have been specifically recognised in the Financial Statements.

The costs for bonuses for footballers, managers and coaches for the achievement of pre-defined sports objectives.

Financial Income and Expenses

They include the positive and negative components of the economic result for the year linked to the financial activity of the companies belonging to the Milan Group, and are recognised based on the accruals principle.

All revenues, with suitable indication of the relevant sub-items, are recognised on an accruals basis.

Dividends

Dividends are recognised at the time when, as a result of the Resolution adopted by the Shareholder's Assembly of the subsidiary to distribute the profit, or the provisions, a collection right arises for the investor company. The dividend is recognised as financial income, independently from the nature of the reserves distributed. The investee company verifies that, following the distribution, the recoverable value of the equity investment has not diminished to such an extent as to require the recognition of an impairment loss.

Gains and losses

Gains and losses arising from the sale of player registration rights are classified under revenues and costs from the core business.

Gains and/or losses are calculated as the difference between the price agreed and the net carrying amount at the date of sale.

Current and deferred taxes and national tax consolidation

Taxes for the year are recognised in the Financial Statements in the item "Current income taxes".

Direct taxes accrued for the year are recognised based on the estimate of taxable income, in line with legal provisions and current tax rates and considering any applicable exemptions.

Moreover, the analysis of the presence of any time difference between the asset and liability values and the corresponding values relevant for tax purposes and/or between the income components posted in the income statement and those taxable or deductible for the purposes of the calculation of tax for the financial year, as provided for by OIC 25.

In presence of taxable temporary differences, deferred tax liabilities are registered in the Financial Statements, with the exceptions detailed below and provided by OIC 25.

In presence of deductible timing differences, taxes are registered in the Financial Statements only if their future recoverability is reasonably certain.

If tax liabilities have occurred, deferred tax assets are calculated and registered against the future tax benefit linked to them and to the extent of the taxable result achievable in line with tax projections within a reasonable time scale.

Current and deferred taxes are calculated on the amount of all the timing differences for the financial year, applying the tax rates applicable during the financial year in which the timing differences will be taxed, as provided for by the tax regulations that apply at the date of the Financial Statements. If tax regulations do not set out the tax rates applicable to the year in which the timing differences shall be taxed, the Milan Group calculates deferred taxes based on the rates applicable at the date of the Financial Statements.

Assets for current taxes and liabilities for deferred taxes are not discounted.

For the purposes of classification in the Financial Statements, tax receivables and payables are offset against each other only if there is a legal right to pay the amounts recognised based on tax legislation and if there the intention to net financial receivables and payables with a single payment.

The remuneration of the tax losses of the companies in the consolidation area is recognised at the time that the losses are effectively utilised in the consolidation area (and are not subject to the taxation of future profits by the individual consolidated company), at the IRES rate applicable during the tax period in which the tax loss is carried forward to reduce the consolidated taxable income. The economic benefits arising from consolidation adjustments effected by the consolidating company, but relating to the consolidated company, are remunerated in favour of the aforementioned consolidated company.

The consolidation adjustments that generated benefits in the consolidated tax return are recognised on the income statement under “Fiscal income from consolidated taxation”, which is classified under “Current income taxes” with a contra-entry in the balance sheet, under “Receivables from Treasury from tax consolidation”.

With respect to the treatment of I.R.E.S. withholding tax, positive differences, as well as advances paid independently by the consolidated companies, as this is a real transfer of operations to the consolidated entity, the transferring entity recognises a credit due from the consolidating entity.

Change of accounting principles

Below is a description of the standards used when there are changes to voluntary accounting standards, and also to mandatory standards if different rules are not specifically required.

The change to an accounting principles is registered in the financial year in which it is adopted and the relevant events and transactions are treated in compliance with the new principle, which is applied with retroactive effect. This entails the accounting recognition of such effects on the opening balance of the Shareholders' equity for the year.

For comparison purposes only the opening balance of the Shareholders' equity of the previous year is adjusted and the comparative figures for the previous financial year are considered as if the new accounting principle had always been applied. However, when, after all reasonable efforts, it is not possible to determine the effect pertaining to the previous financial year, or when this calculation is excessively onerous, the Milan Group does not restate figures.

Ultimately, when it is not possible to calculate the cumulative effect of the change of accounting principle of such calculation is too onerous, the Milan Group applies the new accounting principle starting from the first feasible date. When this date coincides with the start of the current financial year, the new accounting principle is applied on a forward-looking basis.

The effects resulting from the adoption of new accounting principles on the balance sheet, income statement and cash flow statement, where available, have been highlighted and commented in these this supplementary notes in correspondence of the explanatory notes pertaining to the items in the Financial Statements that were impacted in a specific way.

This standard had no significant impact on the financial statements for the year ending 30 June 2018.

Error correction

An error is registered at the time in which an incorrect qualitative and/or quantitative representation of a Financial Statement figure and/or an information provided in an explanatory note and, at the same time, information and data for its correct management is

available. Correction of relevant errors is performed by rectifying the balance sheet item that was affected by the error at the time, charging the error's correction to the opening statement of the Shareholders' equity of the financial year in which the error is identified.

For comparison purposes only, when feasible, the Milan Group corrects a material error for the previous year by restating comparable figures, whilst if an error relates to previous financial years, it is corrected by restating the opening balances of the previous financial year. When the cumulative effect of a material error cannot be restated for all previous financial years, the Milan Group must recalculate comparable figures to correct the material error starting from the first feasible date.

Non-material errors committed in previous years are recognised in the income statement of the financial year in which the error is detected.

This standard had no significant impact on the financial statements for the year ending 30 June 2018.

Conversion criteria for items in foreign currency

Pursuant to Article 2426, paragraph 1, no. 8 bis of the Italian Civil Code, monetary assets and liabilities in currencies other than the functional currency in which the Financial Statements are presented (the so-called "accounting currency"), subsequently to initial recognition, are recognised at the spot exchange on the date of the end of the financial year. The resulting exchange rate gains or losses are posted to the income statement at the items C17-bis) "Exchange rate gains and losses" and any net profit, which contributes to the result for the financial year, is allocated to the dedicated reserve that cannot be distributed until realisation.

Non-monetary assets and liabilities in currencies other than the accounting one are recognised at the exchange rate applicable at the time of their purchase. When the exchange rate at the closing date of the financial year is markedly different from that at the purchase date, the exchange rate variance is one of the elements considered in the assessment process to determine the value that can be recognised in the financial statements for individual non-monetary assets. In this case, therefore, any (positive or negative) exchange rate differences contribute to the calculation of the recoverable value.

Exchange rates

The exchange rates used to translate the main items in foreign currency are:

	Spot rate 30.06.2018 (*)	Average rate 2017/2018 (*)
U.S.dollar	1.1658	1.1678
Japanese Yen	129.0400	128.5290
GB Pound	0.8860	0.8789
Swiss franc	1.1569	1.1562
Chine Yuan	7.7170	7.5512

(*) Source European System of Central Banks.

OTHER INFORMATION

Tax consolidation

With effect from 1 January 2017 the parent company A.C. Milan S.p.A. exercised the option to join the fiscal consolidation scheme (Articles 117-129 of Presidential Decree 917/86), as the consolidating entity, jointly with Milan Entertainment S.r.l. and Milan Real Estate S.p.A., as consolidated companies.

Statutory audit of the accounts

The consolidated financial statements are audited by EY S.p.A..

The total fees payable to the legal auditor are listed below:

	A.C. Milan S.p.A.	Milan Entertainment S.r.l.	Milan Real Estate S.p.A.	Red & Black Milan (Beijing) Sports Development Co. Ltd.
Financial statements	28	20	10	16
Consolidated financial statements	23	—	—	—
Total	51	20	10	16

Statement of amounts

In view of their significance, the values of the items of the consolidated financial statements, as well as the figures presented and commented on in the explanatory notes, are stated in thousands of Euros, unless otherwise indicated.

Disclosure on commitments, guarantees and potential liabilities not included in the balance sheet

The explanatory note must detail the overall amount of the commitments, guarantees and potential liabilities not included in the balance sheet, specifying the nature of any collateral provided, itemised in:

- a) existing pension and similar commitments,
- b) commitments towards subsidiaries, associates, as well as parent companies and companies subject to the latter's control.

Going concern

The Milan Group had a consolidated loss for the year 2017/2018 of Euro 126.0 million, negative shareholders' equity of Euro 36.0 million and a consolidated negative net financial position, as of 30 June 2018, of Euro 128.4 million.

However, as the majority shareholder made payments totalling Euro 170.5 million in August and September 2018, and considering that A.C. Milan S.p.A. has discharged the bonds "Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017-2018 - Serie 1" (ISIN Code IT005254435) and "Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017-2019 - Serie 2" (ISIN Code IT0005254443), the capital and financial situation of the Group has been re-established, as of the date on which this consolidated report was drafted.

The majority shareholder Rossoneri Sport Investment Luxembourg S.à r.l. has guaranteed its commitment to provide financial support to the Milan Group companies for at least 12 months from the date of approval of the financial statements.

Based on these considerations, the directors have prepared these financial statements on a going concern basis.

Significant events occurring after year end

On 18 May 2017 the meeting of shareholders of the parent company A.C. Milan S.p.A. authorised a capital increase of Euro 49.9 million, for 96,000,000 shares, each with a nominal value of Euro 0.52, to be offered under option to all shareholders and paid in cash, with a premium of Euro 0.10 per share, giving a total premium of Euro 9.6 million. The Board of Directors was also authorised, under Article 2443 civil code, to increase the share capital by a total of Euro 60.0 million.

The capital increase of Euro 49.9 million authorised by the meeting of shareholders of the parent company A.C. Milan S.p.A. was fully subscribed and paid in multiple instalments, from July 2017 until March 2018.

On 13 March 2018, the Board of Directors of A.C. Milan S.p.A. exercised the authority granted to it by the meeting of shareholders of 18 May 2017, authorising a further increase totalling Euro 60.0 million, fully subscribed and paid in multiple instalments from March 2018 until June 2018.

The parent company A.C. Milan S.p.A. Also obtained consent from Project Redblack S.à r.l. to make part of the authorised capital increase in the name of the majority shareholder.

As the majority shareholder Rossoneri Sport Investment Luxembourg S.à r.l., after having previously paid the various instalments of the capital increase, did not pay the Euro 32.4 million payment by the deadline set by the Board of Directors, on 22 June 2018, Project Redblack S.à r.l. – following up on the availability previously declared to the club - exercised its option under the pledge agreement of 13 April 2017 between Rossoneri Sport Investment Luxembourg S.à r.l. as the pledgor, and Project Redblack S.à r.l. as the secured creditor, in relation to the shareholding of Rossoneri Sport Investment Luxembourg S.à r.l. in A.C. Milan S.p.A. and paid A.C. Milan S.p.A. Euro 32.4 million, in favour of the majority shareholder.

On 6 June 2018, A.C. Milan S.p.A., after agreement with Project Redblack S.à r.l. and BNP Paribas Securities Services Milan Branch, amended the terms of the Guaranteed Bond “Associazione Calcio Milan S.p.A. 2017-2019 – Serie II (ISIN Code IT0005254443)” and included two repayment dates (15 October 2018 and 30 June 2019), postponing the final reimbursement to 30 June 2019.

On 30 June 2018, A.C. Milan S.p.A. also executed the partial early reimbursement of the Guaranteed Bond “Associazione Calcio Milan S.p.A. 2017-2019 – Serie II (ISIN Code IT0005254443)”, in the amount of Euro 21.1 million as provided for in the agreement amending the terms of the bond, signed on 6 June 2018, following payment of the corresponding share of the capital increase by Project Redblack S.à r.l. on behalf of Rossoneri Sport Investment Luxembourg S.à r.l..

On 10 July 2018, as a result of the enforcement of the pledge in its favour, on the whole of the share capital of Rossoneri Sport Investment Luxembourg S.à r.l., Project RedBlack S.à r.l. (held by the Elliott funds and Blue Skye Financial Partners S.à r.l.) acquired 100% of the share capital of Rossoneri Sport Investment Luxembourg S.à r.l. thereby acquiring indirect ownership of the controlling interest in A.C. Milan S.p.A..

On 21 July 2018, the ordinary meeting of the shareholders of A.C. Milan S.p.A., which was convened at the request of the majority shareholder, acknowledged the resignation of various directors and decided to revoke the mandates of the directors still in office on that date, also electing a new Board of Directors and a new Chairman.

As various disciplinary complaints had been made against the former director general, A.C. Milan S.p.A. then ordered his dismissal for good cause.

In July and August 2018, the officers of the subsidiaries Milan Entertainment S.r.l. and Milan Real Estate S.p.A. were also re-elected.

In August and September 2018, the new majority shareholder made additional capital contributions totalling Euro 170.5 million, of Euro 21.0 million, Euro 30.0 million and Euro 119.5 million respectively, with the aim of providing the parent company A.C. Milan S.p.A. with the funds needed for the early, full, voluntary reimbursement of the bond issued in 2017 originally maturing on 15 October 2018, as described in more detail in the “Bonds” paragraph of the Notes (to which please refer), the funds needed to meet cashflow requirements and to strengthen the capital of the Milan Group, and to meet the financial requirements imposed by the F.I.G.C. (Liquidity Indicator).

On 25 September 2018, A.C. Milan S.p.A. exercised its option to repay in advance all the bonds named “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 – 2018 – Serie 1” (ISIN Code IT005254435) and “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 – 2019 – Serie 2” (ISIN Code IT0005254443) issued by the parent company A.C. Milan S.p.A. and listed on the third Market of the Vienna Stock Exchange, indicating the date of repayment as 28 September 2018. On 28 September 2018, A.C. Milan S.p.A. repaid the above bonds in full.

With regard to player transfers, in July and August 2018, the following purchases were made, either permanent or temporary with the right to acquire full rights to the player: Bakayoko Tiémoué, Caldara Mattia, Castillejo Azuaga Samuel, Higuain Gonzalo Gerardo, Laxalt Suarez and Diego Sebastian.

Highlights of the definitive and/or temporary sales of player rights include: Antonelli Luca, Bacca Ahumada Carlos Arturo, Bargiel Przemyslaw, Bonucci Leonardo, Gomez Portillo Gustavo Raul, Kalinic Nikola, Locatelli Manuel, Valente Da Silva André Miguel, Vasconcelos Gabriel and Vergara Amu Jherson.

NOTES ON THE MAIN ASSET ITEMS

(in thousands of Euros)

RECEIVABLES FROM SHAREHOLDERS FOR PAYMENTS DUE

On 30 June 2018, these receivables were completely cancelled out following the execution of the resolutions of the parent company A.C. Milan S.p.A. concerning the various capital increases approved and paid prior to year-end.

FIXED ASSETS

Specific tables have been prepared for each class of fixed assets (intangible assets, tangible assets and financial fixed assets), shown in the attachments, which indicate for each item: the historical cost, the accumulated depreciation, any write-backs and write-downs, movements during the period and the final balance.

INTANGIBLE FIXED ASSETS

This item amounts to Euro 258,804 thousand (Euro 258,111 thousand on 30 June 2017). The breakdown is as follows:

	30.06.2018	30.06.2017	Change
Concessions, licenses, trademarks and similar rights	28,803	30,819	(2,016)
Assets in progress and advances	350	433	(83)
Player registration rights	211,165	206,663	4,502
Other intangible fixed assets	18,486	20,196	(1,710)
Total	258,804	258,111	693

The change in intangible fixed assets is shown in attachment 1, which is an integral part of these Explanatory Notes.

The item Concessions, licences, trademarks and similar rights, of Euro 28,803 thousand (Euro 30,819 thousand on 30 June 2017) mainly includes the rights to use the television archive of the parent company A.C. Milan S.p.A. ("*Library Milan*") bought by R.A.I. and R.T.I. S.p.A. (Mediaset Group) for a total of Euro 26,653 thousand (Euro 27,892 thousand on 30 June 2017), in 2009. This archive is supposed to be self-sustaining over time depending on the matches played by the team from time to time. The value of the *Library* is amortised on a straight-line basis over their expected future useful life. This item also includes the

expenses related to the development of the official website, the company software, and the "A.C. Milan Lab" software of the Group Parent A.C. Milan S.p.A. and the company Milan Entertainment S.r.l., as well as the various "A.C. Milan" brands, owned by the Group Parent A.C. Milan S.p.A., not transferred to the subsidiary Milan Entertainment S.r.l.

Assets in progress and advances, of Euro 350 thousand (Euro 433 thousand on 30 June 2017), relate mainly to the new IT and digital systems currently being implemented, and which became operational from the 2018/2019 season.

Player registration rights, of Euro 211,165 thousand (Euro 206,663 thousand on 30 June 2017), relate exclusively to the parent company A.C. Milan S.p.A. This item also includes the costs of direct allocation which are amortised according to the players' contract expiry dates, taking into account any contract extensions agreed before the financial statements are approved. The main changes for the period, as detailed in the specific table in the attachment, primarily related to new acquisitions of Euro 128,525 thousand, sales and other movements of Euro 20,480 thousand and amortisation and write-downs of Euro 103,543 thousand.

Other intangible assets, amounting to Euro 18,486 thousand (Euro 20,196 thousand on 30 June 2017), relate in particular to the following:

- Euro 7,600 thousand (Euro 8,085 thousand on 30 June 2017) to the investments in the new "Casa Milan" headquarters, which were amortised according to the duration of the rental agreement for the technical and commercial areas;
- Euro 6,948 thousand (Euro 7,393 thousand on 30 June 2017), being the incremental costs incurred for the San Siro Stadium in Milan, as to the share of the parent company A.C. Milan S.p.A.;
- Euro 3,912 thousand (Euro 4,694 thousand on 30 June 2017) relating to the acquisition of a 10-year ground lease (Article 952 (2) civil code) for the Vismara sports centre, home to the Milan youth team, owned by the Opera Diocesana per la Preservazione e la Diffusione della Fede. The ground lease includes improvements which are recognised at cost, less the related amortisation calculated on the duration of the ground lease itself.

Regarding the intangible assets, of Euro 258,804 thousand on 30 June 2018, write-downs of Euro 21,822 thousand were made to the item Player registration rights resulting from consensual contract terminations with various players prior to the contractual expiry date and/or from sales at a loss, in July and August 2018.

TANGIBLE FIXED ASSETS

This item amounts to Euro 14,541 thousand (Euro 14,659 thousand on 30 June 2017). The breakdown is as follows:

	30.06.2018	30.06.2017	Change
Land and buildings	10,559	10,712	(153)
Plant and machinery	2,186	1,846	340
Industrial and commercial equipment	650	729	(79)
Other assets	1,089	1,315	(226)
Assets in progress and advances	57	57	0
Total	14,541	14,659	(118)

The change in tangible fixed assets is shown in attachment 2, which is an integral part of these Explanatory Notes.

Land and buildings, amounting to Euro 10,559 thousand (Euro 10,712 thousand on 30 June 2017), relates in particular to the following:

- Land adjacent to the Milanello centre, of Euro 6,934 thousand (no change compared to 30 June 2017) owned by the subsidiary Milan Real Estate S.p.A.;
- Milanello sports centre, owned by the subsidiary Milan Real Estate S.p.A. of Euro 3,625 thousand (Euro 3,778 thousand on 30 June 2017).

Plant and machinery, of Euro 2,186 thousand (Euro 1,846 thousand on 30 June 2017) which mainly relates to facilities at the Milanello sports centre, owned by the subsidiary Milan Real Estate S.p.A.

Industrial and commercial equipment, of Euro 650 thousand (Euro 729 thousand on 30 June 2017), mainly including Euro 296 thousand (Euro 369 thousand on 30 June 2017) of the parent company A.C. Milan S.p.A. and Euro 241 thousand (Euro 283 thousand on 30 June 2017) of the subsidiary Milan Entertainment S.r.l.

Other tangible assets, of Euro 1,089 thousand (Euro 1,315 thousand on 30 June 2017), which mainly includes electronic office equipment, furniture, office supplies and vehicles owned by the Milan Group.

Assets in progress and advances, of Euro 57 thousand (Euro 57 thousand on 30 June 2017), mainly relates to projects that have been started but not yet completed in relation to facilities for Milan's first team.

FINANCIAL FIXED ASSETS

Equity investments

The breakdown of equity investments in subsidiaries, associates and other companies is as follows:

	30.06.2018	30.06.2017	Change
Subsidiaries	104	104	0
Associates	1,085	803	282
Other companies	—	—	0
Total	1,189	907	282

Details of the changes during the year for financial fixed assets are provided in attachment 3, which is an integral part of these Explanatory Notes.

Equity investments in subsidiaries

The total for this item, of Euro 104 thousand (Euro 104 thousand on 30 June 2017) relates to 100% of the share capital of the non-profit Milan Foundation, which was set up in 2003 with the aim of meeting basic individual needs and freedoms, of diffusing a culture of sport as a tool for mental and physical wellbeing, social integration, improving quality of life, and to support and organise charitable projects.

Equity investments in associates

They refer to the 50% equity investment in M-I Stadio S.r.l., established with F.C. Internazionale Milano S.p.A. for the technical and commercial management of the San Siro Stadium in Milan.

In the year 2017/2018 there was an increase of Euro 500 thousand following payments made on account of a capital increase and/or for the future coverage of losses, involving the partial waiver of commercial claims against the affiliate company. There was also a decrease of Euro 218 thousand following a write-down of the investment as a result of the loss recorded on the financial statements to 30 June 2018, in order to bring the value of the investment into line with the corresponding share of net equity.

Long-term receivables

Other receivables

This item amounts to Euro 8,864 thousand (Euro 350 thousand on 30 June 2017). The most part, Euro 8,590 thousand, consists of receivables restricted by guarantees granted by a leading insurer, to partially cover the 2017/2018 transfer campaign, while Euro 274 thousand consists of security deposits.

These receivables are due both from Italian entities and European Union Entities and are all short-term receivables, with the exception of Euro 8.849 thousand payable beyond the following financial year. There were no receivables with a remaining duration of more than five years.

WORKING CAPITAL

INVENTORIES

Inventories of finished products and goods, of Euro 119 thousand (Euro 243 thousand on 30 June 2017) relates to the Milan merchandise at “Store Milan” opened by the subsidiary Milan Entertainment S.r.l. at “Casa Milan”.

RECEIVABLES

	30.06.2018	30.06.2017	Change
Receivables from customers	46,170	58,737	(12,567)
Receivables from subsidiaries	2	1	1
Receivables from associates	—	1,640	(1,640)
Receivables from parent companies	26	50	(24)
Receivables from companies subject to parent companies' control	—	—	0
Tax receivables	3,392	2,323	1,069
Deferred tax assets	17,673	19,920	(2,247)
Other receivables	998	2,041	(1,043)
Receivables from institutions – specific sector	53,009	12,829	40,180
Total	121,270	97,541	23,729

Receivables due beyond the next financial year amounted to Euro 18,581 thousand. There were no receivables with a remaining duration of more than five years.

Receivables from customers

At the end of the period this item was composed as follows:

	30.06.2018		30.06.2017		Change
	Gross	Write-down provision	Net value	Net value	
Parent Company A.C. Milan S.p.A.	43,908	(2,583)	41,325	52,785	(11,460)
Milan Entertainment S.r.l.	7,534	(2,727)	4,807	5,938	(1,131)
Milan Real Estate S.p.A.	99	(89)	10	14	(4)
Red & Black Milan (Beijing)	28	—	28	—	28
Total	51,569	(5,399)	46,170	58,737	(12,567)

Trade receivables includes receivables from the core operations of the sale of goods and services by the Milan Group companies. The decrease in this item mainly relates to the different invoicing times, compared to the previous technical sponsor Adidas Italia S.p.A.

The provision for doubtful debts shown above reflects the value adjustment to the receivables to align them to their estimated realisable value. In 2017/2018 the provision for doubtful accounts was increased by Euro 976 thousand, as prudent provision was made for uncollectible risks. Euro 660 thousand was utilised to cover receipts of previously written-down receivables, and also to cover certain claims that could no longer be collected.

Receivables from subsidiaries, associate, parent companies and companies subject to parent companies' control

Receivables from subsidiaries, of Euro 2 thousand (Euro 1 thousand on 30 June 2018) are all trade-related.

Receivables from affiliates on 30 June 2017 related to the trade receivables from M-I Stadio S.r.l., for charges for using internal and external facilities at the San Siro stadium under an agreement between A.C. Milan S.p.A., F.C. Internazionale Milano S.p.A. and M-I Stadio S.r.l. for which the licensees pay an annual fee of Euro 2,400 thousand. The contract is subject to ISTAT revaluation and is valid until 30 June 2018. The contract was recently extended until 30 June 2019 with an annual fee of Euro 1,507 thousand. The decrease in this balance is mainly due to the set-off carried out to cover the trade payables due from the affiliate company.

Receivables from parent companies, of Euro 26 thousand (Euro 50 thousand on 30 June 2017) are all trade-related.

Tax receivables

At end of the period this item was composed as follows:

	30.06.2018	30.06.2017	Change
Due from Treasury for tax consolidation	1	772	(771)
Due from Treasury for VAT	2,560	—	2,560
I.R.A.P. (Regional business tax) receivables	412	1,132	(720)
Other tax receivables	419	419	0
Total	3,392	2,323	1,069

I Receivables from Treasury for tax consolidation, of Euro 1 thousand (Euro 772 thousand on 30 June 2017) relates to amounts due from the “Agreement on exercise of the option for the national tax consolidation scheme”. relating to claims for taxes paid abroad.

During the year, there was a prudential write-down of the items relating to claims the taxes paid abroad by the parent company A.C. Milan S.p.A. and by its subsidiaries, considering the fiscal result currently expected for the current year.

In the item Receivables from Treasury for VAT, of Euro 2,560 thousand (liability of Euro 2,724 thousand on 30 June 2017), it should be noted that Euro 1,947 thousand resulting from the 2018 VAT return (tax year 2017) has been requested as a rebate. This change mainly relates to the effects of the Italy 2017/2018 transfer season.

Receivables for I.R.A.P. consists only of the Economic Growth Aid surplus, which has been converted into a tax credit that can be used on a straight-line basis over five tax years.

Claims for I.R.A.P. already paid have been recognised as a set-off against the relevant IRAP liability.

Deferred tax assets

The amount of Euro 17,673 thousand (Euro 19,920 thousand on 30 June 2017) relates to the recognition of advance taxes, mainly:

- Euro 15,773 thousand (Euro 17,948 thousand on 30 June 2017) which represents consolidation adjustments concerning the reversal of operations pertaining to intra-group gains;
- Euro 1,900 thousand (Euro 1,833 thousand on 30 June 2017) on amounts allocated to the write-down provision and provision for risks, as to the part that cannot be deducted for tax purposes.

Other receivables

This item, equal to Euro 998 thousand (Euro 2,041 thousand on 30 June 2017) mainly includes:

- Euros 534 thousand (Euro 1,004 thousand on 30 June 2017), being advances to suppliers and consultants of the Milan Group;
- Euro 353 thousand (Euro 999 thousand) to Fininvest S.p.A. from indemnities granted by the previous parent company following the sale of the majority holding to Rossoneri Sport Investment Luxembourg S.à r.l.

Receivables from institutions – specific sector

Net of the provision for doubtful accounts, this item amounts to Euro 53,009 thousand (Euro 12,829 thousand on 30 June 2017). The amount is due from various football clubs, for payments relating to the current and/or past transfer seasons, and in connection with international trips by teams taking part in the training of players sold by those clubs, in accordance with the F.I.F.A. Solidarity regulations.

Specifically, they consist of:

- Euro 41,168 thousand (Euro 12,278 thousand on 30 June 2017) being amounts due from the Lega Nazionale Professionisti, in respect of various transfer seasons;
- Euro 7,894 thousand (not present on 30 June 2017) being amounts due from the club Trabzonspor Kulübü for the definitive sale of Kucka Juraj and Sosa Josè Ernesto;
- Euro 1,900 thousand (not present on 30 June 2017) of bonuses receivable from Villarreal Club de Fútbol following the temporary loan of Bacca Ahumada Carlos Arturo;
- Euro 1,484 thousand (not present on 30 June 2017) being amounts due from the club Deportivo Alavés for the definitive sale of Ely Rodrigo;
- Euro 564 thousand (Euro 533 thousand on 30 June 2017) being amounts due from various football clubs under the “solidarity scheme”.

The amount due from Real Zaragoza S.A.D., for the sale of Ricardo De Oliveira, which was originally Euro 3,000 thousand, has been fully covered by the provision for doubtful accounts - professional bodies.

FINANCIAL ASSETS OTHER THAN FIXED ASSETS

Other receivables, of Euro 2,497 thousand (not included on 30 June 2017), is the balance of current accounts that were frozen due to failure to meet various financial covenants of the non-convertible bonds issued on 26 May 2017, referred to in the section "Bonds", to which please refer. On the date these notes were drafted, there was no longer any restriction on the club's accounts, thanks to the capital contributions made after the 2018 year-end.

CASH AND CASH EQUIVALENTS

This item consists of the funds in the restricted and ordinary current accounts, totalling Euro 24,742 thousand (Euro 13,188 thousand on 30 June 2017).

Cash and valuables on hand amounted to Euro 34 thousand (Euro 35 thousand on 30 June 2017).

ACCRUED INCOME AND PREPAYMENTS

At end of the period this item was composed as follows:

	30.06.2018	30.06.2017	Change
Accrued income	—	—	0
Prepaid expenses:			
• prepaid insurance premiums	388	408	(20)
• prepaid apartment rentals	4	13	(9)
• prepaid sports consultancy	—	15	(15)
• prepaid technical equipment and clothing	—	1,161	(1,161)
• prepaid sports fields	702	788	(86)
• Other prepayments	2,011	620	1,391
Total prepaid expenses	3,105	3,005	100
Total accruals and deferrals	3,105	3,005	100

The item Other deferrals includes Euro 1,464 thousand which relates to commission on guarantees for the 2017/2018 summer transfer campaign, pertaining to future years.

NET FINANCIAL POSITION

As a supplement to the reporting of financial payables and financial receivables in the consolidated financial statements, the Net Financial Position of the Milan Group is also provided in this section.

	30.06.2018	30.06.2017	Change
Non-current financial assets (<i>cash collateral</i>)	8,590	—	8,590
Financial assets other than fixed assets	2,497	—	2,497
Cash and cash equivalents	24,776	13,223	11,553
Total financial assets	35,863	13,223	22,640
Bonds	(116,520)	(74,346)	(42,174)
Payables to shareholders for loans	(10,000)	(10,000)	0
Financial payables	(1,210)	(1)	(1,209)
Payables to other financial institutions	(36,541)	(68,453)	31,912
Total financial liabilities	(164,271)	(152,800)	(11,471)
Net financial position	(128,408)	(139,577)	11,169

A breakdown of changes in the individual items making up the net financial position is provided in the specific sections of these Explanatory Notes.

NOTES ON MAIN SHAREHOLDERS' EQUITY AND LIABILITY ITEMS

(in thousands of Euros)

SHAREHOLDERS' EQUITY

The changes in the items of shareholders' equity are provided in attachment 4. Comments are provided on those changes below.

SHARE CAPITAL

The Share capital of the parent company A.C. Milan S.p.A. on 30 June 2018 amounted to Euro 113,443,200 fully subscribed and paid, comprising 218,160,000 ordinary shares, each with a nominal value of Euro 0.52, of which 74,160,000 were newly issued, with a nominal value of Euro 0.52 each, following:

- the Board of Directors' resolution of 13 March 2018, partially exercising the authority granted by the meeting of shareholders on 18 May 2017 which authorised a paid, divisible share capital increase up to a maximum nominal value of Euro 37,440,000 through the issue of 72,000,000 shares with a nominal value of Euro 0.52 each and with a premium of Euro 0.02 for each newly-issued share, giving a total share premium of Euro 1,440,000;
- the Board of Directors' resolution of 17 April 2018, partially exercising the authority granted by the meeting of shareholders on 18 May 2017 which authorised the paid, divisible share capital increase up to a maximum nominal value of Euro 1,123,200 through the issue of 2,160,000 shares with a nominal value of Euro 0.52 each and with a premium of Euro 9.25 for each newly-issued share, giving a total share premium of Euro 19,980,000.

SHARE PREMIUM RESERVE

On 30 June 2018, the Share premium reserve was Euro 31,020 thousand (Euro 9,600 thousand on 30 June 2017), fully subscribed and paid and relating to the premium paid to cover 170,160,000 shares following the execution of the Meeting resolution of 18 May 2017, and authorities to increase the share capital granted to the Board of Directors, as commented on in the paragraph "Share capital", above.

LEGAL RESERVE

This amounts to Euro 124 thousand (no change compared to 30 June 2017) and is the same as the amount indicated by the parent company A.C. Milan S.p.A.

OTHER RESERVES

The item Other reserves, which is negative at Euro 37,423 thousand (- Euro 4,823 thousand on 30 June 2017) includes the capital contributions and/or payments to cover losses already made, and the effects of the consolidation adjustments. The change compared to 30 June 2017 mainly relates to the parent company A.C. Milan S.p.A., following the utilisation of these reserves to cover all of the loss from the previous consolidated financial statements.

PROFIT (LOSS) CARRIED FORWARD

On 30 June 2018 this amounted to - Euro 17,188 thousand (no change compared to 30 June 2017) and it includes the effects of the changes of first adoption of the new OIC accounting standards.

PROFIT/(LOSS) FOR THE YEAR

In 2017/2018 the result of the Milan Group shows a loss for the period of Euro 126,019 thousand (the consolidated result for the year ending 30 June 2017 was - Euro 32,624 thousand).

PROVISIONS FOR RISKS AND CHARGES

Provisions estimated on the basis of specific losses that are certain or likely are detailed below.

	Balance as at 01.01.2017	Allocations	(Uses)	Other changes	Balance as at 30.06.2018
Provision for deferred tax liabilities	—	—	—	—	0
Other provisions for risks and charges	4,359	17,914	(1,976)	—	20,297
Total	4,359	17,914	(1,976)	0	20,297

Other provisions for risks and charges

On 30 June 2018 this item amounted to Euro 20,297 thousand (Euro 4,359 thousand on 30 June 2017). It relates to the allocation of future costs for the restructuring of registered footballers and non-registered personnel, a prudential allocation to cover the risk of potential fines being levied by UEFA due to violation of the break-even rule according to the *Financial Fair Play* standard, as described in more detail in the paragraph “Potential liabilities and other information”, to which please refer, while the residual part relates to other risks borne by the club.

These utilisations all relate to the settling of disputes arising in previous years, pertaining to footballers and non-footballing personnel.

EMPLOYEE LEAVING ENTITLEMENTS

The changes in this item are shown in the following table. The balance is fully sufficient to cover contractual and legal obligations.

	Employee leaving entitlements	End of career entitlements	Total
Balance as at 01.07.2017	1,811	51	1,862
Accruals	1,085	497	1,582
Uses for employment terminations/ prepayments	(256)	—	(256)
Transfers	37	—	37
Payments	—	(501)	(501)
Other changes	(979)	—	(979)
Balance as at 30.06.2018	1,698	47	1,745

The item Accruals includes revaluation of the pre-existing amount calculated in accordance with legal requirements and the “white semester” amount which represents (solely for the year 2007) the employee leaving entitlements accrued from 1 January 2007 up to the date of selection of allocation to the company supplementary pension fund (closed) or a contractual pension fund (open) or individual pension plan (IPP).

PAYABLES

	30.06.2018	30.06.2017	Change
Bonds	116,520	74,346	42,174
Payables to shareholders for loans	10,000	10,000	0
Financial payables	1,210	1	1,209
Payables to other financial institutions	36,541	68,452	(31,911)
Payables to suppliers	59,481	55,544	3,937
Payables to subsidiaries	—	—	0
Payables to affiliates	1,479	2,484	(1,005)
Payables to parent companies	—	—	0
Payables to companies subject to parent companies' control	—	—	0
Tax payables	11,026	12,242	(1,216)
Payables to pension funds and social security agencies	651	507	144
Payables to third parties	14,021	11,036	2,985
Payables to institutions – specific sector	172,028	142,670	29,358
Total	422,957	377,282	45,675

Payables due beyond the next financial year amounted to Euro 112,778 thousand. There were no payables with a remaining duration of more than five years.

Bonds

The balance, of Euro 116,520 thousand (Euro 74,346 thousand on 30 June 2017) relates to the issue of two non-convertible bonds, which were fully subscribed by Project RedBlack S.à r.l. on the Third Market of the Vienna Stock Exchange at a fixed annual rate of 7.7%, specifically:

- “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 -2018 – Serie I (ISIN Code IT005254435)”, issued with a nominal amount of Euro 73.7 million and maturing on 15 October 2018, intended to fully repay the club’s debt to the parent company Rossoneri Sport Investment Luxembourg S.à r.l., which is subject to various financial covenants, which are tested periodically;
- “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 -2019 – Serie II (ISIN Code IT0005254443)”, issued with a nominal amount of Euro 54.3 million and with an original maturity date of 15 October 2018, intended to fund the club’s cashflow requirements, and which is subject to various financial covenants, which are tested periodically.

On 6 June 2018 Group Parent, A.C. Milan S.p.A., after agreement with Project Redblack S.à r.l. and BNP Paribas Securities Services Milan Branch, amended the terms of the Guaranteed Bond “Associazione Calcio Milan S.p.A. 2017-2019 – Serie II (ISIN Code IT0005254443)” and included two repayment dates (15 October 2018 and 30 June 2019), postponing the final reimbursement to 30 June 2019.

On 30 June 2018, A.C. Milan S.p.A. also executed the partial early reimbursement of the Guaranteed Bond “Associazione Calcio Milan S.p.A. 2017-2019 – Serie II (ISIN Code IT0005254443)”, in the amount of Euro 21.1 million as provided for in the agreement amending the terms of the bond, signed on 6 June 2018, following payment of the corresponding share of the capital increase by Project Redblack S.à r.l. on behalf of Rossoneri Sport Investment Luxembourg S.à r.l.

On 25 September 2018, A.C. Milan S.p.A. exercised its option to repay in advance all the bonds named “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 – 2018 – Serie 1” (ISIN Code IT005254435) and “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 – 2019 – Serie 2” (ISIN Code IT0005254443), indicating the date of repayment as 28 September 2018. On 28 September 2018, A.C. Milan S.p.A. repaid the above bonds in full.

Payables to shareholders for loans

They amount to Euro 10,000 thousand (Euro 10,000 thousand on 30 June 2017) and relate to a non-interest-bearing loan granted by the controlling entity Rossoneri Sport Investment Luxembourg S.à r.l. to A.C. Milan S.p.A., to finance the club’s ordinary business.

Financial payables

The balance of Euro 1,210 thousand (Euro 1 thousand on 30 June 2017) relates to normal banking operations.

Payables to other financial institutions

This amount, of Euro 36,541 thousand (Euro 68,452 thousand on 30 June 2017) relates to amounts payable by the parent company A.C. Milan S.p.A. to factoring companies for advances on future accounts receivable, mainly in relation to commercial agreements. The decrease in this item is essentially linked to replacing the factoring channel with the medium-term loans referred to above.

Payables to suppliers

These are detailed in the table below.

	30.06.2018	30.06.2017	Change
Parent Company A.C. Milan S.p.A.	54,104	46,621	7,483
Milan Entertainment S.r.l.	4,511	8,207	(3,696)
Milan Real Estate S.p.A.	590	716	(126)
Red & Black Milan (Beijing) Sports Development Co. Ltd.	276	—	276
Total	59,481	55,544	3,937

Payables to suppliers are all trade related.

Payables to subsidiaries, associates and parent companies

Amounts payable to affiliates, of Euro 1,479 thousand (Euro 2,484 thousand on 30 June 2017) relate to the company M-I Stadio S.r.l., to cover operating costs for the San Siro stadium, under an agreement between A.C. Milan S.p.A., F.C. Internazionale Milano S.p.A. and M-I Stadio S.r.l., under which the licensees pay an annual payment of Euro 7,000 thousand which is subject to ISTAT revaluation (plus adjustments). The agreement was recently renewed until 30 June 2019 and the annual charge is Euro 8,594 thousand.

Tax payables

	30.06.2018	30.06.2017	Change
Payables for current taxes	616	—	616
Payable to Treasury for VAT	—	2,724	(2,724)
Payables withholding tax on income from work	10,373	9,518	855
Other tax payables and withholdings	37	—	37
Total	11,026	12,242	(1,216)

I Payables for current taxes pertain to the I.R.A.P. payable accrued, net of any accounts paid.

On 30 June 2018, the Milan Group's VAT position towards the Treasury was in credit, and the balance has thus been recognised under Assets.

Payables on withholdings on income from work related to the withholdings made on registered players, employees and freelance workers, and have been duly paid on the established deadlines.

Payables to pension funds and social security agencies

The amount of this item was broken down as follows:

	30.06.2018	30.06.2017	Change
Payables to I.N.P.S.	760	639	121
Payables/(Receivables) to/from other pension institutions	(109)	(132)	23
Total	651	507	144

The payables shown above have been duly paid on the established deadlines.

This item also includes the payables for contributions to supplementary pension funds and/or to the Treasury Fund at the INPS. The changes were in line with the trend in the cost of labour.

Other payables

These consisted of the following:

	30.06.2018	30.06.2017	Change
Payables to registered players and employees	13,529	10,721	2,808
Payables to directors, statutory auditors and the Supervisory Body	89	50	39
Other payables	403	265	138
Total	14,021	11,036	2,985

Payables to registered players and employees relate in particular to the additional month salaries and bonuses to registered players and employees, duly paid on the established deadlines.

Payables to institutions – specific sector

At end of the period this item was composed as follows:

	30.06.2018	30.06.2017	Change
Payables to the Lega Nazionale Professionisti	109,127	52,267	56,860
Payables to foreign and Italian soccer clubs	62,886	90,386	(27,500)
Payables to minor football clubs	15	17	(2)
Total	172,028	142,670	29,358

Payables to the Lega Nazionale Professionisti, of Euro 109,127 thousand (Euro 52,267 thousand of 30 June 2017) are the balance of the 2017/2018 transfer campaign and the residual amounts of the previous seasons.

Payables to national and foreign football clubs, of Euro 62,886 thousand (Euro 90,386 thousand on 30 June 2017) relate to:

- Euro 22,676 thousand (Euro 34,829 thousand on 30 June 2017) being the amount payable to F.C. do Porto for the definitive transfer of Silva Valente André Miguel;
- Euro 12,429 thousand (Euro 18,010 thousand on 30 June 2017) being the amount payable to Bayer 04 Leverkusen Fußball for the definitive transfer of Calhanoglu Hakan;
- Euro 9,347 thousand (Euro 13,756 thousand on 30 June 2017) being the amount payable to Verein für Leibesübungen Wolfsburg for the definitive transfer of Rodriguez Araya Ricardo Iván;
- Euro 10,532 thousand (Euro 15,488 thousand on 30 June 2017) being the amount payable to Villarreal Club de Fútbol for the definitive transfer of Musacchio Mateo Pablo;
- Euro 4,623 thousand (Euro 5,261 thousand on 30 June 2017) being the amount payable to Sunderland Association F.C. for the definitive transfer of Fabio Borini;
- Euro 1,321 thousand (not included on 30 June 2017) to the amount due to Stade Malherbe Caen for the definitive sale by Milan, to Torino F.C. of the player Niang Mbaye;
- Euro 323 thousand (Euro 970 thousand on 30 June 2017) to the amount payable to Real Madrid F.C. following the acquisition of Lopez Diego;
- Euro 150 thousand (not present on 30 June 2017) being amounts due to the club Ruch Chorzów for the definitive purchase of Bargiel Przemyslaw;
- Euro 1,485 thousand (Euro 2,072 thousand on 30 June 2017) to various clubs for the fees payable in connection with international transfers to the teams who contributed to the players' training, in accordance with the F.I.F.A. solidarity rules. Specifically, this derives from the purchases of Fabio Borini, Calhanoglu Hakan and Musacchio Mateo Pablo.

ACCRUED EXPENSES AND DEFERRED INCOME

At end of the period this item was composed as follows:

	30.06.2018	30.06.2017	Change
Accrued expenses	44	31	13
Deferred income:			
• deferred broadcasting rights	3,477	—	3,477
• deferred sponsorships	7,505	17,487	(9,982)
• deferred season tickets	22	—	22
• Other prepayments	15,161	16,567	(1,406)
Total deferred income	26,165	34,054	(7,889)
Total accruals and deferrals	26,209	34,085	(7,876)

This item, equal to Euro 26,165 thousand (Euro 34,054 thousand on 30 June 2017) includes:

- Euro 3,477 thousand (not present on 30 June 2016) relating to early invoicing of the contracts with TV broadcasters for the 2018/2019 football season;
- Euro 7,505 thousand (Euro 17,487 thousand on 30 June 2017) relating to advance invoicing of the contracts with commercial partners for the 2018/2019 football season;
- Euro 10,836 thousand (Euro 11,220 thousand on 30 June 2017) relating to royalties from rights to use images of Milan's home games in specific seasons ("Library Milan");
- Euro 2,780 thousand (Euro 100 thousand on 30 June 2017), being payments received for friendly matches played during the summer, by Milan's first team in July and August 2018.

COMMITMENTS, RISKS AND POTENTIAL LIABILITIES

COMMITMENTS AND GUARANTEES

Bank guarantees, endorsements and other personal guarantees

These are guarantees issued by banks and/or insurers, totalling Euro 69,840 thousand (Euro 26,317 thousand on 30 June 2017), mainly in favour of:

- Lega Calcio, for the transfer season, in the amount of Euro 64,864 thousand (Euro 19,205 thousand on 30 June 2017);
- The Municipality of Milan, for the use of the San Siro Stadium, in the amount of Euro 2,284 thousand (Euro 2,284 thousand on 30 June 2017);
- Vittoria Assicurazioni S.p.A. in respect of one year's rent of the new "Casa Milan" headquarters, in the amount of Euro 2,125 thousand (Euro 2,125 thousand on 30 June 2017);
- M-I Stadio S.r.l., in the amount of Euro 567 thousand (Euro 2,703 thousand on 30 June 2017), to cover the affiliate company's credit lines.

POTENTIAL LIABILITIES AND OTHER INFORMATION

Financial Fair Play

As mentioned, in the 2017/2018 season A.C. MILAN S.p.A. again played the UEFA Europa league competition. Participation in this competition is subject to compliance with the *U.E.F.A. Club Licensing and Financial Fair Play Regulations – Edition 2015*.

A.C. Milan S.p.A. has applied to the *Club Financial Control Body* (C.F.C.B.) for a *Voluntary Agreement* (V.A.), as permitted under the regulations, in order to take part in European competitions in accordance with the financial requirements, and specifically with the *Break-even rule*, which means that all its expenses (with the exception of certain types as specified in the UEFA regulations) have to be covered with its own income.

Following acceptance of this application by the C.F.C.B., during 2017/2018 the previous Management held a series of meetings in order to illustrate to the C.F.C.B. the club's compliance with the financial requirements laid down in the regulations, during the period between the 2017/2018 and 2020/2021 football seasons.

On 15 December 2017, the Investigation Chamber (IC) of the C.F.C.B. noted that some of the conditions for acceptance of the V.A. had not been met by AC Milan and referred the final decision to the Adjudication Chamber of the C.F.C.B., which ruled on 19 June 2018 that there had been a violation of the break-even rule according to the *Financial Fair Play* standard and ordered that the club be excluded from the UEFA competition for which it

would otherwise have qualified for the subsequent two seasons (2018/2019 or 2019/2020), but would allow an appeal to the Sports Arbitration Tribunal of Lausanne (T.A.S.), under Article 34 (2) of the procedural regulations governing the C.F.C.B. and under Articles 62 and 63 of the UEFA Bylaws.

On 4 July 2018, A.C. Milan S.p.A. lodged an appeal with the T.A.S. asking that the C.F.C.B.'s decision be annulled. – A.C.

On 20 July 2018 the T.A.S. partially accepted Milan's appeal, upholding the C.F.C.B.'s decision – of 19 June 2018 as to the part relating to AC Milan's failure to meet the break-even requirement, but reversing the body's decision to exclude the club from taking part in the next UEFA competition for which it would otherwise have qualified in the next two seasons (2018/2019 or 2019/2020), as it was disproportionate. The tribunal found in particular that some of the significant factors had not been adequately considered when the decision was made, including the changes in the club's financial situation, which significantly improved following the change of ownership in July 2018.

The tribunal then decided to refer the case to the C.F.C.B. – A.C. considering the request by A.C. Milan S.p.A., and in consideration of the fact that the body itself is in a better position than the sports tribunal to impose a disciplinary penalty that is proportionate to the club's current financial situation.

On the date of this management report was drafted, UEFA has not yet issued its decision on the nature of any penalty, or the amount that will be imposed on the club and has merely adopted certain temporary, precautionary measures, regarding the suspension of revenues due to the club for the 2018/2019 UEFA Europa League competition.

In view of these considerations, AC Milan SpA, partly on the basis of its advisors' opinions, has decided to make a prudential allocation on the financial statements to 30 June 2018 to cover the risk of any fines being imposed by UEFA.

Other information

With regard to relations with Management and the personnel of AC Milan SpA, in July and August 2018, AC Milan terminated, for good cause, its relations with the ex-CEO and director-general. Although, with the support of its advisers, AC Milan SpA examined the arguments put forward by the ex-CEO and director-general in response to the complaints made against him, finding them to be groundless, it is still possible that following the termination the former CEO may take action against the club. In view of this, based on the information currently in its possession and as advised by its consultants, AC Milan SpA considers that the various reasons that led to the termination of this relationship are well-founded, but there is still a possibility of future legal proceedings, of an amount that cannot yet be determined partly because of the current status of the arguments raised and the positions taken. Further investigations will be carried out as necessary.

NOTES ON THE MAIN ITEMS OF THE INCOME STATEMENT

(in thousands of Euros)

Introduction

Before analysing the individual items, we remind you that the comments on the general changes in costs and revenues are provided in the Report on Operations, as required by Article 2428 paragraph 1 of the Italian Civil Code. We also remind you that the income statement items have been classified according to the financial statement structure established for professional soccer clubs, in compliance with the provisions of the Italian Soccer Federation Official Notice no. 58, published on 5 September 2006.

In accordance with (Article 2423 b (5)), the individual income statement items for 2017/2018 are not directly comparable to the previous year, as the year 2017 only included 6 months between 1 January and 30 June 2017. To provide a better understanding of the business performance, the following table has been prepared, with indications and comments on any differences in the income statement items for the period 1 July 2016-30 June 2017, and thus comparing the 2017/2018 season against the 2016/2017 season.

(in thousands of Euros)

INCOME STATEMENT

	FY 2017/2018	FY 2016/2017	Changes
A) VALUE OF PRODUCTION			
1 Revenues from sales and services			
a) match revenues	22.819	13.592	9.227
b) season tickets	9.796	4.643	5.153
c) revenues from other competitions	2.723	3.749	(1.026)
Total	35.338	21.984	13.354
2 changes in inventories of work in progress, semi-finished goods and finished products	(125)	96	(221)
5 other revenues and income			
b) sponsorship revenues	44.711	51.044	(6.333)
d) commercial revenues and royalties	17.760	18.691	(931)
e) income from sale of broadcasting rights	100.578	89.802	10.776
f) miscellaneous income	8.927	9.205	(278)
g) revenues from player loans	2.454	626	1.828
h) gains from the sale of player registration rights	35.956	4.273	31.683
i) other income from player management	3.652	1.167	2.485
l) revenues and other income	6.482	15.252	(8.770)
Total	220.520	190.060	30.460
TOTAL VALUE OF PRODUCTION (A)	255.733	212.140	43.593
B) COSTS OF PRODUCTION			
6 for raw materials, ancillary materials, consumables and goods	4.030	3.883	147
7 for services	47.813	42.008	5.805
8 for use of third-party assets	10.095	9.543	552
Total	61.938	55.434	6.504
9 for personnel:			
a) wages and salaries	141.860	127.156	14.704
b) social security charges	6.682	6.212	470
c) employee leaving entitlements	1.581	1.462	119
e) other costs	274	304	(30)
Total	150.397	135.134	15.263
10 amortisation, depreciation and write-downs			
a) amortisation of intangible assets	86.419	46.304	40.115
b) depreciation of tangible assets	1.070	1.054	16
c) other write-downs of fixed assets	21.822	12.621	9.201
d) Write-down of receivables included in working capital and in cash and cash equivalents	1.211	1.024	187
Total	110.522	61.003	49.519
12 provisions for risks	17.965	11.144	6.821
14 sundry management expenses			
a) various match organisation expenses	5.978	3.919	2.059
b) match registration costs	2	2	—
c) percentage of gate receipts paid to visiting teams	965	—	965
d) costs for acquisition of players on loan	107	2.750	(2.643)
e) gains from the sale of player registration rights	1.290	529	761
f) other expenses from player management	1.332	52	1.280
q) other management expenses	3.892	3.931	(39)
Total	13.566	11.183	2.204
TOTAL COSTS OF PRODUCTION (B)	354.388	273.898	80.490
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A - B)	(98.655)	(61.758)	(36.897)

(in thousands of Euros)

INCOME STATEMENT

	FY 2017/2018	FY 2016/2017	Changes
C) FINANCIAL INCOME AND (EXPENSES)			
16 other financial income			
d) income different from the above:			
- other	1.531	99	1.432
Total	1.531	99	1.432
17 interest and other financial charges			
d) other financial expenses	(23.844)	(5.912)	(17.932)
Total	(23.844)	(6.067)	(17.777)
17 bis gains and losses on foreign exchange:			
a) exchange gains	27	57	(30)
b) exchange losses	(57)	(15)	(42)
Total	(30)	42	(72)
TOTAL FINANCIAL INCOME AND (EXPENSES)(C)	(22.343)	(5.926)	(16.417)
D) ADJUSTMENTS IN VALUE OF FINANCIAL ASSETS			
18 write-backs	-	-	-
19 write-downs			
a) of equity investments	(218)	(1.803)	1.585
Total	(218)	(1.803)	1.585
TOTAL ADJUSTMENTS IN VALUE OF FINANCIAL ASSETS (D)	(218)	(1.803)	1.585
RESULT BEFORE TAX	(121.216)	(69.487)	(51.729)
20 income taxes for the year (current, deferred and prepaid)			
a) current taxes	(2.556)	(1.222)	(1.334)
b) deferred and prepaid taxes	(2.247)	(2.359)	112
Total	(4.803)	(3.581)	(1.222)
PROFIT/(LOSS) FOR THE YEAR	(126.019)	(73.068)	(52.951)
(PROFIT) LOSS OF MINORITY SHAREHOLDERS	-	-	-
GROUP PROFIT/(LOSS)	(126.019)	(73.068)	(52.951)

(* The income statement for the first half of 2016 was adjusted to take into account the effects of changes deriving from the new OIC accounting standards, following the enactment into Italian law of Directive 2013/34/EU (the "Accounting Directive")

VALUE OF PRODUCTION

The total value of production for 2017/2018 is Euro 255,733 thousand (Euro 212,140 thousand in 2016/2017). The breakdown of this item is shown below.

Revenues from sales and services

The item was composed as follows:

	2017/2018	2016/2017	Change
Match revenues	22,819	13,593	9,226
Season tickets	9,796	4,643	5,153
Revenues from other competitions	2,723	3,748	(1,025)
Total	35,338	21,984	13,354

The item Match revenues, of Euro 35,338 thousand (Euro 13,593 thousand in 2016/2017), mainly relates to the following:

- Euro 13,455 thousand (Euro 13,260 thousand in 2016/2017) to the home matches of the 2017/2018 Serie A championship;
- Euro 2,142 thousand (Euro 52 thousand in 2016/2017) to the home matches of the TIM Cup – 2017/2018, which were boosted by the improved performance of the team during the competition, and also because the quarter-final match was a derby against F.C. Internazionale Milano S.p.A.;
- Euro 1,402 thousand (Euro 281 thousand in 2016/2017) being the amount payable to the visiting team for the round of sixteen, quarter finals and semi final of the TIM Cup 2017/2018;
- Euro 5,820 thousand (not present in 2016/2017) to the home matches in the preliminary and qualifying rounds of the 2017/2018 Uefa Europa League.

Revenues from season tickets, of Euro 9,796 thousand (Euro 4,643 thousand in 2016/2017) relate to the Serie A championship for 2017/2018, with a total of 32,364 passes (16,450 season passes in 2016/2017), and to the qualifying round of the Uefa Europa League 2017/2018, with a total of 7,927 season passes.

The total Revenues from other competitions only relates to the national and international friendly matches played by the first team during the summer, in China (International Champions Cup 2017), Catania (Real Betis Balompié) and in Lugano (F.C. Lugano).

Other revenues and income

This income consisted of:

	2017/2018	2016/2017	change
Sponsorship revenues	44,711	51,044	(6,333)
Commercial revenues and royalties	17,761	18,691	(930)
Income from the sale of broadcasting rights	100,577	89,800	10,777
Miscellaneous income	8,927	9,204	(277)
Revenues from player loans	2,454	625	1,829
Gains from the sale of player registration rights	35,956	4,273	31,683
Other income from player management	3,652	1,168	2,484
Revenues and other income	6,482	15,255	(8,773)
Total	220,520	190,060	30,460

Sponsorship revenues, of Euro 44,711 thousand (Euro 51,044 thousand in the previous year) mainly relate to the following:

- Euro 15,800 thousand (Euro 14,480 thousand in 2016/2017), including Euro 1,800 thousand being bonuses collected for achieving contractual targets, and the payments received from the official sponsor, Emirates, under a contract expiring on 30 June 2020;
- Euro 11,422 thousand (Euro 19,357 thousand in 2016/2017) to the amounts paid by the technical sponsor Adidas Italia S.r.l., to acquire the right to display its logo on the club's official strips, under a contract that runs until 30 June 2018. This reduction was due to the fact that following the previous change in the shareholder body, the sponsor had initially exercised its contractual right to terminate the contract early on 30 June 2017, only to then renegotiate the contract for a lower price, for the 2017/2018 season only;
- Euro 13,051 thousand (Euro 12,250 thousand in 2016/2017) being revenues from the sale of multi-product advertising packages to commercial partners, notably A.O.N. Italia S.r.l., Banco B.P.M. S.p.A., Beiersdorf S.p.A., Betsson Services Ltd., Diesel S.p.A., Enterprise Services Italia S.r.l., Esprinet S.p.A., Eurofred Italy S.p.A., Gi Group S.p.A., G.K.F.X., Konami Digital Entertainment Co. Ltd., Radio Studio 105 S.p.A., Ricoh Italia S.r.l., Shangai Julie Culture and Communication Co., Snaitech S.p.A., Toyo Tires & Rubber Co. Ltd. and Trenitalia S.p.A.;
- Euro 4,438 thousand (Euro 4,777 thousand in 2016/2017) being payments from contracts with the corporate sponsors, official and technical suppliers, and commercial partners under which the club allows sponsors to use the titles of "Official Supplier", "Official Partner", "Institutional Sponsor" and "League Sponsor" for advertising and publicity.

Amortisation of intangible assets, of Euro 17,761 thousand (Euro 18,691 thousand in 2016/2017) is as follows:

- Euro 4,312 thousand (Euro 2,663 thousand in 2016/2017) for Milan Entertainment S.r.l. in respect of income from stadium management for the provision of commercial services for certain seats at San Siro (corporate seating, "Sky Boxes" and "Sky Lounges") and

other non-football-related activity at the stadium. The increase is thanks to the good sales performance during the year;

- Euro 7,340 thousand (Euro 10,943 thousand in 2016/2017) being revenues from merchandising, licensing and “goods exchange”, for which the decrease is mainly due to the expiry of the non-technical licence agreement with Adidas Italia S.r.l.;
- Euro 4,199 thousand (Euro 3,593 thousand in 2016/2017) being revenues from the commercial operations at Milan Store, Mondo Milan, the club’s first museum, and from Milan Tv.

Income from the sale of audiovisual rights, of Euro 100,577 thousand (Euro 89,800 thousand in 2016/2017), pertaining to the parent company A.C. Milan S.p.A., relates to:

- Euro 86,259 thousand (Euro 89,800 thousand in 2016/2017), from the centralised licence for broadcasting rights for the 2017/2018 season, in the various packages allocated to broadcasters including Sky Italia S.r.l. and Mediaset Premium S.p.A. (Mediaset Group). In the previous season, this item included Euro 2,000 thousand for filming and transmission rights (unencrypted and/or digital terrestrial/satellite with conditional access) for all Milan’s friendly matches, and Euro 1,238 thousand in payments from Lega Calcio di Serie A for the Italian Super Cup Final match;
- Euro 8,572 thousand (not present in 2016/2017) being the amount paid to A.C. Milan S.p.A. for the negotiation and use of TV and radio broadcasting rights for the European matches. This refers specifically to the preliminary and qualifying rounds of the Uefa Europa League – 2017/2018;
- Euro 13,457 thousand (not present in 2016/2017) being the amount paid by UEFA for the negotiation and use of TV and radio broadcasting rights for the European matches; specifically, this refers to the preliminary and qualifying rounds, and to the round of 16 and quarter-finals of the Uefa Europa League 2017/2018.

In the previous season, this item included Euro 2,000 thousand for filming and transmission rights (unencrypted and/or digital terrestrial/satellite with conditional access) for all Milan’s friendly matches, and Euro 2,052 thousand in payments from Lega Calcio di Serie A for the Italian Super Cup Final.

Other income, amounting to Euro 8,927 thousand (Euro 9,204 thousand in 2016/2017) includes Euro 8,744 thousand (Euro 8,634 thousand in 2016/2017), being payments from licences granted to third parties to use images from A.C. Milan’s home matches in specific seasons (“*Library Milan*”).

Revenues from player loans, of Euro 2,454 thousand (Euro 625 thousand in 2016/2017) relates to Bacca Ahumada Carlos Arturo who was sold to Villarreal Club de Fútbol, and also includes variable sums linked to the transfer contract.

Gains from the sale of player registration rights, realised in the year 2017/2018, are listed below with details of the name of the player and the selling club:

Player	Selling club	Net carrying amount (*)	Sale amount	Gain
Crociata Giovanni	F.C. Crotone	82	300	218
De Sciglio Mattia	Juventus F.C.	—	12,000	12,000
Kucka Juraj	Trabzonspor Kulübü	2,474	5,000	2,526
Lapadula Gianluca	Genoa Cricket and F.C.	7,626	13,000	5,374
Niang M'Baye	Torino F.C.	834	14,000	13,166
Pessina Matteo	Atalanta Bergamasca Calcio	301	1,500	1,199
Vido Luca	Atalanta Bergamasca Calcio	131	1,000	869
Zanellato Niccolò	F.C. Crotone	100	300	200
Total		11,448	46,800	35,552
<i>Other (**)</i>				<i>404</i>
Gains				35,956

(*) Net of the effect of the implementation of the "amortised cost" method as provided for by Article 2426, paragraph 1, no. 8 of the Italian Civil Code.

(**) The amount refers to recording in 2017/2018 of the gain for the final sale with sharing agreement with registration rights deferred in previous years.

Other income from player management, of Euro 3,652 thousand (Euro 1,168 thousand in 2016) relates to:

- Euro 1,772 thousand (Euro 500 thousand in 2016/2017) relate to bonuses paid by certain clubs after transfer -related player performance targets were met;
- Euro 1,350 thousand (not present in 2016/2017) being the amount paid by Empoli F.C. for the *sell on fee* to A.C.F. Fiorentina;
- Euro 530 thousand (Euro 668 thousand in 2016/2017) being the solidarity contribution paid by various clubs for the transfer of certain players who played for Milan aged between 12 and 23.

Other income and revenues amounted to Euro 6,482 thousand (Euro 15,255 thousand in the previous year). Euro 306 thousand (Euro 495 thousand in 2016/2017) refers to the income from the chargeback of costs made to players and third parties for their own expenses, Euro 1,269 thousand (Euro 1,258 thousand in 2016/2017) relates to payments from invoices issued to the affiliate M-I Stadio S.r.l. for the use of internal and external space at the San Siro stadium under a contract effective from 1 January 2012 until 30 June 2018, and which was recently renewed until 30 June 2019. This item also includes Euro 2,082 thousand (Euro 5,322 thousand in 2016/2017) for various uses of the provision for future charges, allocated on previous' years accounts, and Euro 2,825 thousand (Euro 8,180 thousand in 2016/2017) for contingent assets and other minor revenues and income, for which the reduction mainly relates to the fact that in the previous year the parent company A.C. Milan S.p.A. had obtained a Euro 3,957 thousand insurance payout following incidents occurring to several players during matches played with their national teams.

COST OF PRODUCTION

The total costs of production for 2017/2018 were Euro 354,388 thousand (Euro 273,898 thousand in 2016/2017). The breakdown of this item is shown below.

Costs for the purchase of consumables and goods

This item, of Euro 4,030 thousand (Euro 3,883 thousand in 2016/2017) essentially relates to costs incurred by A.C. Milan S.p.A. and by the subsidiary Milan Entertainment S.r.l. in relation to purchases of sports kit, the official strip supplied by the technical sponsor, medical costs, technical and sporting materials for resale to the Milan Junior Camps and to the Milan Football Schools, as well as the costs of producing tickets.

Cost for services

Were broken down as follows:

	2017/2018	2016/2017	Change
General costs for sporting activities	17,571	12,639	4,932
Consultancy and collaboration	9,406	6,347	3,059
Advertising and promotion	1,746	1,195	551
Insurance	364	404	(40)
Emoluments to company bodies	293	2,560	(2,267)
Administrative and general expenses	4,998	4,609	389
Canteen and catering services	1,212	909	303
Maintenance and repair	1,742	3,287	(1,545)
Transport, storage and travel expenses	817	437	380
Other costs for services	9,664	9,621	43
Total	47,813	42,008	5,805

General costs for sporting activities included the expenses incurred primarily by the Group Parent A.C. Milan S.p.A. and the subsidiary Milan Entertainment S.r.l., of which:

- Euro 7,767 thousand (Euro 3,599 thousand in 2016/2017) being the costs of player observation, technical/football consultants, and sports agents, for which the increase relates to the major summer transfer campaign in 2017/2018;
- Euro 3,041 thousand (Euro 3,333 thousand in 2016/2017) being the costs of medical and educational services, training sessions and camps for the first and youth teams;
- Euro 1,213 thousand (Euro 2,098 thousand in 2016/2017) being fees payable to medical and healthcare professionals, and other related costs;
- Euro 3,155 thousand (Euro 2,587 thousand in 2016/2017) being the costs of travel to away matches for the first and youth teams, for which the increase is mainly due to the cost of travelling to play in the Uefa Europa League 2017/2018;

- Euro 2,395 thousand (Euro 1,022 thousand in 2016/2017) being insurance premiums paid by A.C. Milan S.p.A. to protect its stock of players, which have increased due to the introduction of further items of insurance cover.

Consulting agreements and collaboration, of Euro 9,406 thousand (Euro 6,347 thousand in 2016/2017) includes the amounts payable for legal and notarial fees, administration, fiscal and management, commercial, communications, technical and other costs, and commission paid to third parties. The significant increase compared to the previous year is mainly due to management consulting, relating to the refinancing of the bond maturing in October 2018, legal fees, particularly in connection with the dispute with U.E.F.A. about a violation of the *break-even rule* under the *Financial Fair Play* standard, and commercial consulting in relation to developing the Milan brand on the Asian market.

Advertising and promotion, of Euro 1,746 thousand (Euro 1,195 thousand in 2016/2017) mainly includes the costs incurred by the Milan Group in respect of gifts, corporate entertainment, external events, the costs of the season pass campaign and other promotional activities.

Emoluments to company bodies, of Euro 293 thousand (Euro 2,560 thousand in 2016/2017), includes fees payable to the directors, the statutory auditors and the Supervisory Control Body for their services to the Milan Group.

Administration, overheads and utilities, of Euro 4,998 thousand (Euro 4,609 thousand in 2016/2017), includes the costs incurred by the Milan Group mainly in respect of insurance and IT services, utility bills, security and cleaning costs.

Other costs for services, of Euro 9,664 thousand (Euro 9,621 thousand in 2016/2017) are as follows:

- Euro 4,272 thousand (Euro 4,413 thousand in 2016/2017) relates to the costs of providing technical and maintenance services at the San Siro stadium, commercial and administration services charged by M-I Stadio S.r.l., under an agreement that will run until 30 June 2019;
- Euro 1,702 thousand (Euro 1,398 thousand in 2016/2017), being the costs of audiovisual production and distribution for the Serie A and Tim Cup 2017/2018, charged by Lega Nazionale Professionisti Serie A;

- Euro 2,817 thousand (Euro 2,937 thousand in 2016/2017), being the content production and broadcasting costs for Milan Tv;
- Euro 527 thousand (Euro 392 thousand in 2016/2017), being bank charges and the costs of ticket and/or season pass sales.

Leases and rentals

The item was composed as follows:

	2017/2018	2016/2017	Change
Rental expenses	7,963	7,266	697
Rentals and other hires	2,132	2,277	(145)
Total	10,095	9,543	552

Rents payable, of Euro 7,963 thousand (Euro 7,266 thousand in 2016/2017) are as follows:

- Euro 4,611 thousand (Euro 4,569 thousand in 2016/2017) being the costs of using the San Siro stadium under the agreement between the Municipality of Milan and A.C. Milan S.p.A., which provides for joint management with F.C. Internazionale Milano S.p.A. from 1 July 2000 until 30 June 2030, of which Euro 2,145 thousand (Euro 2,666 thousand in 2016/2017) will be “deducted” from the rent once the annual modernisation works are completed;
- Euro 179 thousand (Euro 151 thousand in 2016/2017) being the costs of renting property and ancillary facilities which Milan Real Estate S.p.A. provides to players and some employees of the Milan Group;
- Euro 3,036 thousand (Euro 2,460 thousand in 2016/2017) being the costs of rental, and service charges, for the headquarters “Casa Milan” and the Chinese offices of Red & Black Milan (Beijing) Sports Development Co. Ltd.

Rentals and other hires, of Euro 2,132 thousand (Euro 2,277 thousand in 2016/2017), relates mainly to the hiring of vehicles and equipment for club use.

Personnel costs

Personnel costs were broken down as follows:

	2017/2018			2016/2017		
	Registered players	Other employees	Total	Registered players	Other employees	Total
Wages and salaries	129,863	11,997	141,860	116,835	10,320	127,155
Social security charges	3,561	3,121	6,682	3,399	2,813	6,212
End of career entitlements/Employee leaving entitlements	816	765	1,581	757	705	1,462
Other costs	111	163	274	108	197	305
Total	134,351	16,046	150,397	121,099	14,035	135,134

The item Other personnel costs includes the contributions to supplementary pension funds paid by the Company as well as education subsidies for young players in the youth sector of A.C. Milan. Details of the average numbers of personnel employed by the Milan Group in the year 2017/2018 are provided below:

	2017/2018	2016/2017	Change
Players	55.3	56.8	(1.5)
Coaches / Other technical personnel	139.3	132.1	7.2
Directors	14.4	12.8	1.6
Journalists	2.5	2.8	(0.3)
Office workers and middle managers	124.7	121.3	3.4
Workers	3.0	3.0	0.0
Total	339.2	328.8	10.4

Amortisation, depreciation and write-downs

	2017/2018	2016/2017	Change
Amortisation of Intangible fixed assets	86,419	46,303	40,116
Depreciation of tangible fixed assets	1,070	1,055	15
other write-downs of fixed assets	21,822	12,621	9,201
Write-down of receivables included in working capital and in cash and cash equivalents	1,211	1,024	187
Total	110,522	61,003	49,519

The details of the amortisation and depreciation of the intangible and tangible fixed assets are provided in the attached statements of changes.

The significant increase in Amortisation of intangible assets, relating to the amortisation of player registration rights, is connected to the important summer transfer campaign in 2017/2018.

Depreciation, amortisation, depreciation and write-downs amounted to Euro 21,822 thousand, (Euro 12,621 thousand in 2016/2017) and relates to the write-downs of rights to certain players after consensual terminations of contract prior to the expiry date and/or losses on sales, during July and August 2018.

Write-downs of receivables held as current assets and liquid assets, of Euro 1,211 thousand (Euro 1,024 thousand in 2016/2017), relates to the allocation to the provisions for doubtful accounts and amounts that potentially cannot be collected from customers or football clubs.

Provisions for risks

This item amounts to Euro 17,965 thousand (Euro 11,144 thousand in the previous year), relating in particular to the allocation of costs of restructuring personnel, future costs of “exempted” training staff who are still employed by the company, exit bonuses for players sold on a final transfer during the July/August 2018 season, and the prudential allocation to cover the risk of U.E.F.A. Imposing fines for violating the break even rule according to the *Financial Fair Play* standard, as described in Potential liabilities and other information, to which please refer.

In 2016/2017 this item had included Euro 5,500 thousand, relating to costs in settling the dispute with the Independent Trade Fair Foundation of Milan. The dispute arose in March 2017 in relation to a declaration of interest for redeveloping Pavilions 1 and 2 (Portello), in the Polo Urbano district of Fieramilanocity, concerning the plans to build Milan’s new stadium.

Sundry management expenses

Sundry management expenses consisted of:

	2017/2018	2016/2017	Change
Various match organisation expenses	5,978	3,919	2,059
Match subscription taxes	2	2	0
Percentage paid to visiting teams	965	—	965
Costs for acquisition of players services on loan	107	2,750	(2,643)
Losses from the sale of player registration rights	1,290	529	761
other expenses from player management	1,332	52	1,280
Other management expenses	3,892	3,931	(39)
Total	13,566	11,183	2,383

Other match organisation costs, of Euro 5,978 thousand (Euro 3,919 thousand in 2016/2017), mainly relate to the costs of managing the corporate seating, Sky Boxes and Sky Lounges, and the stewarding, ticketing and customer services at San Siro during home matches for the season 2016/2017. The increase compared to 2016/2017 is mainly due to the higher number of matches played, as a result of participation in the Uefa Europa League 2017/2018.

Costs for acquisition of players on loan, of Euro 107 thousand (Euro 2,750 thousand in 2016/2017), relate to the following players, bought by the club:

Player	Selling club	Amount
Cultraro Giovanni	Calcio Catania	7
Larsen Jørgen Strand	Sarpsborg 08 FF	100
Total		107

Losses from the sale of player registration rights, of Euro 1,290 thousand (Euro 529 thousand in 2016/2017) during 2017/2018, relate to the following players:

Player	Selling club	Net carrying amount	Sale amount (*)	Loss
Beretta Giacomo	Foggia Calcio	800	—	(800)
Ely Rodrigo	Deportivo Alavés	2,968	2,775	(193)
Sosa Josè Ernesto	Trabzonspor Kulübü	4,357	4,106	(251)
Zigoni Gianmarco	Venezia F.C.	446	400	(46)
Total		8,571	7,281	(1,290)

(*) Net of the effect of the implementation of the “amortised cost” method as provided for by Article 2426, paragraph 1, no. 8 of the Italian Civil Code.

Other expenses from player management, of Euro 1,333 thousand (Euro 52 thousand in 2016/2017), include Euro 1,321 thousand paid to Stade Malherbe Caen in relation to the amount due for the sell-on by Milan of Niang Mbaye, to Torino F.C.

Other management expenses, of Euro 3,892 thousand (Euro 3,931 thousand in 2016/2017) include contributions paid to the Lega Nazionale Professionisti and to other bodies, fines, penalties, contingent liabilities, other indirect taxes, and chargebacks to players and third parties, for their own expenses.

FINANCIAL INCOME AND (EXPENSES)

Financial income and expenses showed a negative balance of Euro 22,343 thousand compared to costs of Euro 5,926 thousand in the year 2016/2017. The details are given below.

	2017/2018	2016/2017	Change
Bank interest income	3	1	2
Interest from other receivables	1,528	98	1,430
Total financial income	1,531	99	1,432
Interest payable on bonds	(9,881)	(558)	(9,323)
Bank interest expenses	(9)	(1,604)	1,595
Interest expense on other debt	(2,236)	(2,091)	(145)
Interest payable to parent companies	—	(736)	736
Interest expense on other debt	—	—	0
Other interest and financial charges	(11,718)	(1,078)	(10,640)
Total financial expenses	(23,844)	(6,067)	(17,777)
Exchange rate gains	27	57	(30)
Exchange rate losses	(57)	(15)	(42)
Total exchange rate gains (losses)	(30)	42	(72)
Total	(22,343)	(5,926)	(16,417)

The item Other interest and financial charges includes Euro 2,215 thousand (Euro 251 thousand in 2016/2017) being the commission payable on guarantees issued by banks and/or insurers, mainly used as partial coverage for the 2017/2018 transfer season, and Euro 9,502 thousand (Euro 714 thousand in 2016/2017), being the effects of applying the amortised cost principle to the bonds and liabilities arising from the player transfers.

The item Interest on other receivables also includes the positive impact of Euro 1,528 thousand (Euro 98 thousand in 2016/2017), deriving from application of the amortised cost principle to the receivables relating to the player transfer season.

VALUE ADJUSTMENTS OF FINANCIAL ASSETS

Write-downs

This item amounts to Euro 218 thousand (Euro 1,803 thousand in 2016/2017), and relates to the adjustment of the investment in the affiliate M-I Stadio S.r.l. to the value of the share of net equity on the accounts on 30 June 2018.

INCOME TAXES FOR THE PERIOD

Current taxes

	2017/2018	2016/2017	Change
I.R.A.P.	(2,556)	(2,590)	34
Tax income from tax consolidation	—	1,367	(1,367)
Direct taxes from previous financial years	—	—	0
Total	(2,556)	(1,223)	(1,333)

In the fiscal year 2017/2018 there was no recognition of Tax income from tax consolidation, as the taxable income was offset against the tax losses within the Milan Group, in application of the “Agreement on the exercise of the option for the national tax consolidation scheme”.

Deferred and prepaid taxes

The item Deferred and prepaid taxes, negative at -Euro 2,247 thousand (-Euro 2,358 thousand in 2016/2017), relates specifically to the issue of advance taxes on consolidation adjustments which mainly relate to the reversal of infragroup gains.

CONSOLIDATED RESULT FOR THE PERIOD

The period 2017/2018 resulted in a loss of Euro 126,019 thousand (loss of Euro 32,624 thousand in 2016/2017).

Milan, 28 September 2018.

for the **Board of Directors**

Chairman

Paolo Scaroni

ATTACHMENTS

These attachments contain additional information to that reported in the Explanatory Notes, of which they are an integral part.

This information is contained in the following attachments:

- statement of changes in intangible fixed assets;
- statement of changes in tangible fixed assets;
- statement of changes in equity investments;
- statement of changes in shareholders' equity;
- segment breakdown;
- reconciliation between the A.C. Milan S.p.A. and the Consolidated shareholders' equity and profit or loss;
- list of equity investments in subsidiaries, associates and others.

Annex 1

Schedule of changes in intangible assets

(in thousands of Euros)

Historic cost	01.07.2017	Investments	(Disposals)	Other changes	(Amortisation)	(Write-downs) / Write-backs	Scope of consolidation	30.06.2018
Start-up and expansion costs	3	—	—	—	—	—	—	3
Industrial patent rights and use of intellectual property	—	—	—	—	—	—	—	—
Concessions, licences, trademarks and similar rights	48,067	375	—	—	—	—	—	48,442
Goodwill and consolidation difference	—	—	—	—	—	—	—	—
Assets in progress and advances	433	—	—	(83)	—	—	—	350
Player registration rights	329,623	128,525	(55,295)	—	—	—	—	402,853
Other intangible assets	34,421	292	(11)	83	—	—	—	34,785
Total	412,547	129,192	(55,306)	—	—	—	—	486,433

Accumulated Depreciation and Provision for Doubtful Debts	01.07.2017	Investments	(Disposals)	Other changes	(Amortisation)	(Write-downs) / Write-backs	Scope of consolidation	30.06.2018
Start-up and expansion costs	(3)	—	—	—	—	—	—	(3)
Industrial patent rights and use of intellectual property	—	—	—	—	—	—	—	—
Concessions, licences, trademarks and similar rights	(17,248)	—	—	—	(2,391)	—	—	(19,639)
Goodwill and consolidation difference	—	—	—	—	—	—	—	—
Player registration rights	(122,960)	—	34,815	—	(81,954)	(21,589)	—	(191,688)
Other intangible assets	(14,225)	—	—	—	(2,074)	—	—	(16,299)
Total	(154,436)	—	34,815	—	(86,419)	(21,589)	—	(227,629)

Net value	01.07.2017	Investments	(Disposals)	Other changes	(Amortisation)	(Write-downs) / Write-backs	Scope of consolidation	30.06.2018
Start-up and expansion costs	—	—	—	—	—	—	—	—
Industrial patent rights and use of intellectual property	—	—	—	—	—	—	—	—
Concessions, licences, trademarks and similar rights	30,819	375	—	—	(2,391)	—	—	28,803
Goodwill and consolidation difference	—	—	—	—	—	—	—	—
Assets in progress and advances	433	—	—	(83)	—	—	—	350
Player registration rights	206,663	128,525	(20,480)	—	(81,954)	(21,589)	—	211,165
Other intangible assets	20,196	292	(11)	83	(2,074)	—	—	18,486
Total	258 111	129,192	(20,491)	—	(86,419)	(21,589)	—	258,804

Annex 2

Schedule of changes in tangible assets

(in thousands of Euros)

Historic cost	01.07.2017	Investments	(Disposals)	Other changes	(Amortis ation)	(Write-downs) / Write-backs	Scope of consolidation	30.06.2018
Land and buildings	12,571	—	—	—	—	—	—	12,571
Plant and machinery	4,089	662	—	(4)	—	—	—	4,747
Industrial and commercial equipment	3,527	151	—	3	—	—	—	3,681
Other tangible assets	3,089	132	—	—	—	—	6	3,227
Tangible assets in progress	58	—	—	(1)	—	—	—	57
Total	23,334	945	—	(2)	—	—	6	24,283

Accumulated Depreciation and Provision for Doubtful Debts	01.07.2017	Investments	(Disposals)	Other changes	(Amortis ation)	(Write-downs) / Write-backs	Scope of consolidation	30.06.2018
Land and buildings	(1,859)	—	—	—	(153)	—	—	(2,012)
Plant and machinery	(2,238)	—	—	—	(323)	—	—	(2,561)
Industrial and commercial equipment	(2,801)	—	—	—	(230)	—	—	(3,031)
Other tangible assets	(1,777)	—	—	4	(364)	—	(1)	(2,138)
Total	(8,675)	—	—	4	(1,070)	—	(1)	(9,742)

Net value	01.07.2017	Investments	(Disposals)	Other changes	(Amortis ation)	(Write-downs) / Write-backs	Scope of consolidation	30.06.2018
Land and buildings	10,712	—	—	—	(153)	—	—	10,559
Plant and machinery	1,851	662	—	(4)	(323)	—	—	2,186
Industrial and commercial equipment	726	151	—	3	(230)	—	—	650
Other tangible assets	1,312	132	—	4	(364)	—	5	1,089
Tangible assets in progress	58	—	—	(1)	—	—	—	57
Total	14,659	945	—	2	(1,070)	—	5	14,541

Annex 3

Schedule of changes in equity investments

(in thousands of Euros)

Historic cost	01.07.2017	Investments	(Disposals)	Other changes	(Write-downs) / Write-backs	Scope of consolidation	30.06.2018
Subsidiaries:							
- valued using the net equity method	—	—	—	—	—	—	—
- valued using the cost method	104	—	—	—	—	—	104
Associates:							
- valued using the net equity method	803	500	—	—	(218)	—	1,085
- valued using the cost method	—	—	—	—	—	—	—
Other companies:							
- valued using the net equity method	—	—	—	—	—	—	—
- valued using the cost method	—	—	—	—	—	—	—
Total	907	500	—	—	(218)	—	1,189

Write-down provision	01.07.2017	Investments	(Disposals)	Other changes	(Write-downs) / Write-backs	Scope of consolidation	30.06.2018
Subsidiaries:							
- valued using the net equity method	—	—	—	—	—	—	—
- valued using the cost method	—	—	—	—	—	—	—
Associates:							
- valued using the net equity method	—	—	—	—	—	—	—
- valued using the cost method	—	—	—	—	—	—	—
Other companies:							
- valued using the net equity method	—	—	—	—	—	—	—
- valued using the cost method	—	—	—	—	—	—	—
Total	—	—	—	—	—	—	—

Net value	01.07.2017	Investments	(Disposals)	Other changes	(Write-downs) / Write-backs	Scope of consolidation	30.06.2018
Subsidiaries:							
- valued using the net equity method	—	—	—	—	—	—	—
- valued using the cost method	104	—	—	—	—	—	104
Associates:							
- valued using the net equity method	803	500	—	—	(218)	—	1,085
- valued using the cost method	—	—	—	—	—	—	—
Other companies:							
- valued using the net equity method	—	—	—	—	—	—	—
- valued using the cost method	—	—	—	—	—	—	—
Total	907	500	—	—	(218)	—	1,189

Annex 4

Schedule of changes in shareholders' equity

(in thousands of Euros)

	Share capital	Share premium reserve	Legal reserve	Statutory reserves	Other reserves	Profit (loss) carried forward	Profit/(loss) for the year	Total Shareholders' Equity
Shareholders' Equity at 31/12/2016	24,960	—	124	—	16,547	(17,187)	(74,871)	(50,427)
Appropriation of profit for the year 2016	—	—	—	—	(74,871)	—	74,871	—
Increases in share capital	49,920	9,600	—	—	—	—	—	59,520
Capital contributions and/or contributions to cover losses	—	—	—	—	53,500	—	—	53,500
Covering of losses	—	—	—	—	—	—	—	—
Other changes	—	—	—	—	1	(1)	—	—
Result for the period	—	—	—	—	—	—	(32,624)	(32,624)
Shareholders' Equity at 30/06/2017	74,880	9,600	124	—	(4,823)	(17,188)	(32,624)	29,969
Appropriation of profit for the year 2017	—	—	—	—	(32,624)	—	32,624	—
Increases in share capital	38,563	21,420	—	—	—	—	—	59,983
Capital contributions and/or contributions to cover losses	—	—	—	—	—	—	—	—
Covering of losses	—	—	—	—	—	—	—	—
Other changes	—	—	—	—	24	—	—	24
Result for the period	—	—	—	—	—	—	(126,019)	(126,019)
Shareholders' Equity at 31/06/2018	113,443	31,020	124	—	(37,423)	(17,188)	(126,019)	(36,043)

Annex 5

Segment breakdown

(in thousands of Euros)

Balance Sheet	A.C. Milan S.p.A.	Milan Entertainment S.p.A.	Milan Real Estate S.p.A.	Red & Black Milan (Beijing) Sports Development Co. Ltd.	Adjustments	Milan Group Consolidated
Assets						
Receivables from shareholders	—	—	—	—	—	0
Fixed assets:						
- intangible	257,749	66,774	0	—	(65,719)	258,804
- tangible	1,377	456	20,458	5	(7,755)	14,541
- financial	197,770	—	—	—	(196,581)	1,189
Other long-term receivables	8,864	—	—	—	—	8,864
Total fixed assets	465,760	67,230	20,458	5	(270,055)	283,398
Working capital:						
- inventories	—	119	—	—	—	119
- receivables	101,088	9,098	193	28	10,863	121,270
- current financial assets	6,267	120,294	—	—	(124,064)	2,497
- cash and cash equivalents	22,414	2,071	125	166	—	24,776
Total working capital	129,769	131,582	318	194	(113,201)	148,662
Accruals and deferrals	2,311	81	718	—	(5)	3,105
Total assets	597,840	198,893	21,494	199	(383,261)	435,165
Shareholders' Equity and Liabilities						
Shareholders' Equity						
- share capital	113,443	20,000	5,000	350	(25,350)	113,443
- reserves	70,701	167,631	7,399	24	(252,034)	(6,279)
- profit/(loss) carried forward	(34,250)	0	1,268	—	15,794	(17,188)
- Profit/(Loss) for the period	(135,638)	2,123	537	(1,325)	8,284	(126,019)
Shareholders' Equity	14,256	189,754	14,204	(951)	(253,306)	(36,043)
Capital and reserves of minority shareholders	—	—	—	—	—	—
Total Shareholders' Equity	14,256	189,754	14,204	(951)	(253,306)	(36,043)
Provisions for risks and charges	20,567	282	—	423	-975	20,297
Employee leaving entitlements	891	824	30	—	0	1,745
Payables	537,131	6,822	7,252	727	(128,975)	422,957
Accruals and deferrals	24,995	1,211	8	—	(5)	26,209
Total liabilities and shareholders' equity	597,840	198,893	21,494	199	(383,261)	435,165

Annex 5

Segment breakdown

(in thousands of Euros)

Income Statement	A.C. Milan S.p.A.	Milan Entertainment S.p.A.	Milan Real Estate S.p.A.	Red & Black Milan (Beijing) Sports Development Co. Ltd.	Adjustments	Milan Group Consolidated
Value of production:						
- Revenues from sales and services	35,862	1,741	—	—	(2,265)	35,338
- changes in inventories of finished products, work in progress, increases in fixed assets for internal use	—	(125)	—	—	—	(125)
- Other revenues and income	200,481	39,906	6,342	606	(26,815)	220,520
Total value of production	236,343	41,522	6,342	606	(29,080)	255,733
Costs of production:						
- for raw materials, ancillary materials, consumables and goods	2,495	1,456	79	—	—	4,030
- for services	55,288	10,752	3,987	691	(22,905)	47,813
- of use of leased assets	9,291	4,429	246	616	(4,487)	10,095
- for personnel	142,812	7,167	223	195	—	150,397
- amortisation, depreciation and write-downs	109,294	9,841	520	1	(9,134)	110,522
- changes in inventories	—	—	—	—	—	—
- allocations and sundry management expenses	26,098	6,301	390	431	(1,689)	31,531
Total costs of production	345,278	39,946	5,445	1,934	(38,215)	354,388
Difference between value and costs of production	(108,935)	1,576	897	(1,328)	9,135	(98,655)
Financial Income and (Expenses)	(23,595)	1,348	(99)	3	—	(22,343)
Adjustments in value of financial assets	(1,543)	—	—	—	1,325	(218)
Result before tax	(134,073)	2,924	798	(1,325)	10,460	(121,216)
Income taxes for the period	(1,565)	(801)	(261)	—	(2,176)	(4,803)
(Profit) loss of minority shareholders	—	—	—	—	—	—
Group profit /(loss)	(135,638)	2,123	537	(1,325)	8,284	(126,019)

Annex 6

Reconciliation between the net equity and operating profit/loss for the year of A.C. Milan S.p.A. and the consolidated figures

(in thousands of Euros)

	30.06.2018		30.06.2017	
	Shareholders' Equity	Group Profit (Loss)	Shareholders' Equity	Group Profit (Loss)
Balance of statutory financial statements A.C. Milan S.p.A.	14,256	(135,638)	89,911	(27,521)
Surpluses in shareholders' equity including profit/loss for the period, compared to book value of the equity investments	7,402	2,660	4,718	(1,582)
Elimination of infragroup profits and losses	(57,702)	6,959	(64,660)	3,479
Other consolidation adjustments	0	0	0	(7,000)
Balance of consolidated financial statements	(36,043)	(126,019)	29,969	(32,624)

Annex 7

Related-party transactions

(in thousands of Euros)

Counterparty	Trade receivables and Other	Financial Receivables	Trade payables and Other	Financial Payables	Value of production	Costs of production	Financial Income (Expenses)
Rossoneri Sport Investment Luxembourg S.à r.l.	26	-	-	10,000	26	-	-
Total parent companies	26	0	0	10,000	26	0	0
Fondazione Milan - Onlus	2	-	-	-	95	-	-
Total subsidiaries	2	0	0	0	95	0	0
M-I Stadio S.r.l.	-	-	1,479	-	1,310	5,056	-
Total affiliates	0	0	1,479	0	1,310	5,056	0
Total associates	0	0	0	0	0	0	0
Total	28	0	1,479	10,000	1,431	5,056	0

Annex 8

List of equity investments in subsidiaries, associates and others

(*)	Name	Location	Currency	Share capital (in thousands of Euros)	% Ownership held by the Group
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Companies consolidated using the line-by-line method

Group Parent

	A.C. Milan S.p.A.	Milan	Euro	24,960	—
A	Milan Entertainment S.r.l.	Milan	Euro	20,000	100.00
A	Milan Real Estate S.p.A.	Carnago (VA)	Euro	5,000	100.00
A	Red & Black Milan (Beijing) Sports Development Co. Ltd.	Beijing (PRC)	Euro	350	100.00

Companies consolidated using the line-by-line method

B	M-I Stadio S.r.l.	Milan	Euro	1,000	50.00
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Companies consolidated using the cost method

A	Fondazione Milan - Onlus	Milan	Euro	104	100.00
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KEY

- (*) A=> subsidiaries
 B=> affiliates
 C=> others

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 (Translation from the original Italian text)

To the Shareholders of
A.C. Milan S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Milan Group (the Group), which comprise the balance sheet as at 30 June 2018, the income statement and consolidated statement of cash flows for the year then ended, and explanatory notes.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Italian regulations governing financial statements.

Basis for Opinion

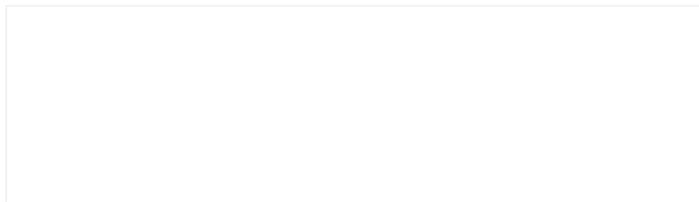
We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw the attention to the Note "Going Concern" (the "Note") of the explanatory notes and Report on Operations, that describes that the Group incurred in a consolidated loss for the period equal to Euro 126 million which determines a negative equity of Euro 36 million. The Directors underline the contributions made by the majority shareholder to the parent company A.C. Milan S.p.A. during the months of August and September 2018 and the financial support, for a period of not less than 12 months from the date of approval of the budget, guaranteed by the same shareholder of majority to the entities of the Group. Based on the assumptions outlined above, the Directors have prepared these consolidated financial statements under the going concern assumption. Our opinion is not modified in respect to this matter.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the Italian regulations governing financial statements, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the A.C. Milan S.p.A. or to cease operations, or have no realistic alternative but to do so.

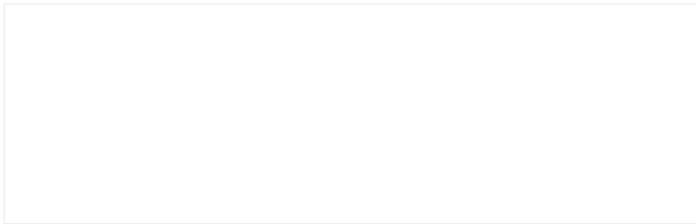
The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of A.C. Milan S.p.A. are responsible for the preparation of the Report on Operations of the Group as at 30 June 2018, including its consistency with the related consolidated financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the consolidated financial statements of the Group as at 30 June 2018 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the consolidated financial statements of the Group as at 30 June 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, October 08, 2018

EY S.p.A.
Signed by: Luca Pellizzoni, partner



This report has been translated into the English language solely for the convenience of international readers.

A.C. Milan

**Financial Statements
as at 30 June 2018**

A.C. MILAN S.p.A.

Registered office: Milan, via Aldo Rossi no. 8

Secondary offices: Carnago (VA), Via Milanello no. 25 –
Milan, Via dei Missaglia no. 17 – Rho (MI), Via dei Fontanili no. 61/63

Share Capital: Euro 113,443,200.00 fully subscribed and paid
comprising 218,160,000 shares, each with a nominal value of €0.52

Tax ID and Milan Companies' Registry Registration No. 01073200154

BOARD OF DIRECTORS' REPORT ON OPERATIONS TO 30 JUNE 2018

Sports results

The 2017/2018 football season ended with sixth place in the Italian Serie A championship, which allowed the club to enter the 2018/2019 edition of the Uefa Europa League.

On 9 May 2018 the team also played the final of the 2017/2018 TIM Cup in Rome, losing to Juventus F.C., after eliminating Hellas Verona F.C., F.C. Internazionale Milano and S.S. Lazio.

In the 2017/2018 Uefa Europa League, after coming through the preliminary rounds, the knockout stage and the round of sixteen, Milan played the quarter finals in March, losing to Arsenal F.C.

On 7 May 2018, U.E.F.A.'s first licence committee, having examined the documents filed in support of the application for the UEFA licence, granted the licence to the parent company A.C. Milan S.p.A. for the 2018/2019 season.

On 12 July 2018, Co.Vi.So.C./F.I.G.C., having examined the documents submitted by the parent company A.C. Milan S.p.A., found that the conditions required for the national licence for the 2018/2019 professional championship had

been met, in accordance with Title I) of Official Communication no. 26 of 13 April 2018.

Transfer Campaign

Sales and purchases of player rights

The operations completed in the 2017/2018 transfer campaign which as usual took place during the summer 2017 and winter 2018 transfer windows, led to an increase in invested capital of €108 million resulting from acquisitions and increases of €128.5 million, and sales of €20.5 million (net value of the rights sold).

The net gains generated by from sales amounted to €34.7 million.

The major new signings were Biglia Lucas Rodrigo, Bonucci Leonardo, Conti Andrea, Donnarumma Antonio and Kalinic Nicola, and Halilovic Alen, Reina Paez Josè Mauel and Strinic Ivan, who were bought on a free transfer, as their contracts expired on 30 June 2018.

The main sales were those of Beretta Giacomo, Crociata Giovanni, De Sciglio Mattia, Ely Rodrigo, Kucka Juraj, Lapadula Gianluca, Niang Mbaye, Pessina Matteo, Sosa Josè Ernesto, Vangioni Leonel Jesus, Vido Luca, Zanellato Niccolò and Zigoni Gianmarco.

Renewals of player contracts

During 2017/2018, several player contracts were renewed, including the following:

- Bonaventura Giacomo (until 30 June 2020);
- Calabria Davide (until 30 June 2022);
- Cutrone Patrick (until 30 June 2023);

- Donnarumma Gianluigi (until 30 June 2021);
- Fernandez Saenz de la Torre Jesus “Suso” (until 30 June 2022);
- Romagnoli Alessio (until 30 June 2022).

Terminations of player contracts

During 2017/2018, the contracts of the following players were terminated by mutual consent: Bernardes Soares Nathan, Cornaggia Mattia, Modic Andrej and Paletta Gabriel, whose residual net book value totalled Euro 0.2 million prior to the write-down made in 2017/2018.

Season Tickets Campaign

The 2017/2018 season pass campaign rose to 32,364 championship passes (16,450 passes for the 2016/2017 season) and 7,927 passes for the qualifying rounds of the Uefa Europa League.

The average number of paying spectators for 2017/2018 for the home championship matches was 52,676 (40,292 spectators in 2016/2017).

Financial position and operating performance

Introduction

On 13 April 2017 Fininvest S.p.A., the company which at the time held control of the club, completed the sale of its 99.93% shareholding in A. C. Milan S.p.A., to Rossoneri Sport Investment Luxembourg S.à r.l., the special-purpose company designated by the Chinese company Sino Europe Sport Investment Management

Changxing Co. Ltd. in execution of the sale agreement signed on 5 August 2016 and subsequently.

The current majority shareholder is Rossoneri Sport Investment Luxembourg S.à r.l., which holds 99.93% of the share capital of A.C. Milan S.p.A.

Currently, the share capital of Rossoneri Sport Investment Luxembourg S.à r.l. is held entirely by Project Redblack S.à r.l., whose share capital is in turn held by Blue Sky Financial Partners S.à r.l. and by several companies held indirectly by Elliott Associates L.P. and Elliott International Limited. On 10 July 2018 the shares representing the capital of Rossoneri Sport Investment Luxembourg S.à r.l. were transferred to Project Redblack S.à r.l. following the enforcement of a pledge placed on the shares, in favour of Project Redblack S.à r.l. by the previous shareholder of Rossoneri Sport Investment Luxembourg S.à r.l.

On 18 May 2017, following the transfer of the majority shareholding mentioned above, the Meeting of Shareholders of A.C Milan S.p.A. authorised a change of company year, effective from 1 July 2017, moving from the calendar year (01/01 – 31/12) to the football season (01/07 – 30/06). These financial statements thus relate to the 2017/2018 football season.

As a result, the individual income statement items for the year 2017/2018 are not directly comparable to the previous year, as the year 2017 only included 6 months between 1 January and 30 June 2017.

To provide a better understanding of the business performance for the period, the 2017/2018 football season has been compared against the 2016/2017 season, and the main differences are commented on below.

Net result for the year

The net result for 2017/2018 shows a loss of Euro 135.6 million, an increase of Euro 63.4 million compared to the consolidated loss for the previous year of Euro 72.2 million.

This change is mainly due to the higher write-downs of player registration rights of Euro 49.3 million, higher costs of registered (Euro 13.2 million) and non-registered (Euro 2.1 million) personnel costs, higher financial expenses of Euro 23.6 million, higher costs of services and use of leased assets of Euro 7.4 million, higher other operating costs of Euro 1.0 million, higher write-downs of current receivables of Euro 1.0 million, and a reduction of Euro 10.1 million in revenues from sponsorship, commercial income and royalties.

These increases were partly mitigated by higher net income from player management (Euro 36.6 million), higher gate receipts of Euro 13.7 million and higher income from the sale of broadcasting and media rights, of Euro 10.9 million.

Finally, there was a net increase in non-recurring costs and revenues of Euro 8.1 million and higher taxes of Euro 0.6 million.

Value of production

The value of production for 2017/2018 amounted to Euro 236.4 million, an increase of 17.8% compared to the Euro 194.4 million for the previous year, as follows:

	2017/2018		2016/2017		Changes
	Value	%	Value	%	
Broadcasting rights and media revenues	109.3	46.2%	98.4	50.6%	10.9
Match receipts	35.9	15.2%	22.2	11.4%	13.7
Income from management of player rights	42.1	17.8%	6.1	3.1%	36.0
Sponsorship revenues	31.5	13.3%	38.8	20.0%	- 7.3
Commercial revenues and royalties	6.5	2.7%	9.3	4.8%	- 2.8
Other revenues and income	11.1	4.7%	19.6	10.1%	- 8.5
Total	236.4	100%	194.4	100%	42.0

Revenues from the sale of broadcasting and media rights, of Euro 109.3 million (+10.0% on the previous year) have risen by Euro 14.3 million, mainly as a result of reaching the round of sixteen of the UEFA Europa League 2017/2018 (not played in 2016/2017 season). In the previous season, this item included Euro 2.0 million for filming and transmission rights (unencrypted and/or digital terrestrial/satellite with conditional access) for all Milan's friendly matches, and Euro 2.1 million in payments from Lega Calcio di Serie A for the Italian Super Cup Final match.

Match receipts amounted to Euro 35.9 million (an increase of +38.2% on the previous year). The increase was mainly thanks to higher ticketing revenues for the Uefa Europa League – 2017/2018 competition which was not played in the previous season (+ Euro 5,9 million), season passes (+ Euro 5,1 million), TIM Cup (+ Euro 3,2 million), the Championship (+ Euro 0.5 million). Some of these increases were partially offset by the smaller number of fixtures for friendly matches (- Euro 1.0 million).

Income from the management of player registration rights, of Euro 42.1 million rose by 36.0 million as a result of increased gains from the sale of players (+ Euro 31.7 million), increased revenues from temporary player loans (+ Euro 1.8 million) and higher income from player management (+ Euro 2.5 million) mainly thanks to bonuses paid by certain football clubs following specific performance targets achieved after the transfers of various players, and the fee paid to the club on the re-sale of one player.

Sponsorship revenues and Commercial revenues and royalties amounted to Euro 38.0 million which is Euro 10.1 million less than the previous year. This reduction was due to the fact that following the previous change in the shareholder body, the sponsor Adidas Italia S.p.A., which also owns the licensing and merchandising rights for Milan-branded products, initially exercised its contractual right to terminate the contract early on 30 June 2017, only to then renegotiate the contract for a lower price, for the 2017/2018 season only.

Other income and revenues amounted to Euro 11.1 million (Euro 19.6 million in the previous year). Euro 5.6 million (Euro 5.6 million in 2016/2017) refers to the income from the chargeback of costs made to players and third parties for their own expenses, Euro 1.3 million (Euro 1.3 million in 2016/2017) relates to payments from invoices issued to the affiliate M-I Stadio S.r.l. for the use of internal and external space at the San Siro stadium under a contract effective from 1 January 2012 until 30 June 2018, and which was recently renewed until 30 June 2019. This item also includes Euro 1.8 million (Euro 4.8 million in 2016/2017) for various uses of the provision for future charges, allocated on previous' years accounts, and Euro 2.2 million (Euro 7.3 million in 2016/2017) for contingent assets and other minor revenues and income, for which the reduction mainly relates to the fact that in the previous year the parent company A.C. Milan S.p.A. had obtained a Euro. 4.0 million

insurance payout following incidents occurring to several players during matches played with their national teams.

Costs of production

The costs of production for 2017/2018 amounted to Euro 345.3 million, an increase of 23.6% compared to the Euro 263.8 million for the previous year, as follows:

	2017/2018		2016/2017		Changes
	Value	%	Value	%	
Cost of personnel	142.8	41.4%	127.5	48.3%	15.3
Amortisation, depreciation and write-downs	109.3	31.7%	59.0	22.4%	50.3
Cost of services and use of leased assets	64.6	18.7%	57.1	21.6%	7.5
Income from management of player rights	2.7	0.8%	3.3	1.3%	- 0.6
Cost of purchasing raw materials and goods	2.5	0.7%	2.3	0.9%	0.2
Other costs and charges	23.4	6.8%	14.6	5.5%	8.8
Total	345.3	100%	263.8	100%	81.5

The Cost of personnel, of Euro 142.8 million, shows an increase of 10.7% (+ Euro 15.3 million compared to the previous year), mainly due to the effects of the important summer transfer season (+ Euro 13.3 million) and on the other hand, due to the hiring of new staff and top management following the change in the shareholder body that took place in April 2017 (+ Euro 2.0 million). However, a contra entry to this increase is the reduction in the fees to members of the Board of Directors (Euro 2.2 million), which falls under the item Costs of services.

Depreciation, amortisation, depreciation and write-downs amounted to Euro 109.3 million, an increase of Euro 50.3 million (+46.0% on the previous year) mainly as a result of the important 2017/2018 summer transfer season and following the write-downs of the rights to certain players after consensual terminations of

contract prior to the expiry date and/or losses on sales, during July and August 2018.

Costs of management of player rights amounted to Euro 2.7 million, Euro 0.6 million less than the previous year as a result of the reduced costs of buying players on temporary loan (- Euro 2.6 million), partly offset by the higher losses from the sale of player rights, and from higher costs of managing player rights. This was mainly attributable to costs payable to football clubs on the sales of certain players.

Costs of raw materials and goods when essentially in line with the previous year (+ Euro 0.2 million) and they essentially refer to the costs incurred in buying training kit, the official strips supplied by the technical sponsor, goods purchased for the Milan Store (Casa Milan) and costs of buying medical items.

The item Other costs and charges, of Euro 23.4 million (Euro 14.6 million in the previous year), mainly includes Euro 1.5 million (Euro 1.4 million in 2016/2017) being the costs of chargebacks made to Milan Entertainment S.r.l., Milan Real Estate S.p.A., Red & Black Milan (Beijing) Sports Developments Co. Ltd. and players and third parties, for their own expenses, Euro 1.0 million (Euro 45 thousand in 2016/2017) of receipts payable to visiting teams for the TIM Cup 2017/2018 matches, and Euro 3.4 million (Euro 2.4 million in 2016/2017) being contingent liabilities and other minor costs. This item also includes provisions for Other risks, of Euros 17.5 million (Euro 10.6 million in the previous year), relating in particular to the allocation of costs of restructuring personnel, future costs of “exempted” training staff who are still employed by the company, exit bonuses for players sold on a final transfer during the July/August 2018 season, and the prudential allocation to cover the risk of U.E.F.A. Imposing fines for violating the break even rule according to the *Financial Fair Play* standard, as described in Potential

liabilities and other information, to which please refer. In 2016/2017 this item had included Euro 5.5 million, relating to costs in settling the dispute with the Independent Trade Fair Foundation of Milan. The dispute arose in March 2017 in relation to a declaration of interest for redeveloping Pavilions 1 and 2 (Portello), in the Polo Urbano district of Fieramilanocity, concerning the plans to build Milan's new stadium.

Financial Income and Expenses

Financial income and expenses showed a negative balance of Euro 23.6 million compared to Euro 34 thousand (negative) in the year 2016/2017.

This significant change is mainly due to the following:

- Euro 12.8 million being interest payable on two non-convertible bonds with the objective of: (i) repaying all the company's debt towards the parent company Rossoneri Sport Investment Luxembourg S.à r.l.; (ii) funding the purchases of players; and (iii) meeting the company's cash flow requirements;
- Euro 2.0 million, being higher commission on guarantees issued by leading banks and/or insurance companies, mainly for the partial coverage of the 2017/2018 transfer season;
- Euro 3.8 million being the net effect of applying the amortised cost principle on receivables and payables relating to the player transfer season;
- Euro 1.6 million being the lower amount of interest payable to banks as a result of the current indebtedness being substituted with the medium-term debt represented by the above-mentioned bonds.

The financial charges also include interest of Euro 1.4 million payable to Milan Entertainment S.r.l. (Euro 1.3 million in 2016/2017).

The previous year included Euro 7,000 thousand of dividends paid out by Milan Entertainment S.r.l.

Adjustments in value of financial assets

These amount to Euro 1.5 million (Euro 1.8 million in 2016/2017), and Euro 0.2 million relates to the adjustment in the investment in M-I Stadio S.r.l. to reflect the share of net equity shown on the financial statements to 30 June 2018, and Euro 1.3 thousand (not included in the previous year) to the write-down in the Chinese company Red & Black Milan (Beijing) Sports Development Co. Ltd., owned entirely by A.C. Milan S.p.A., due to the losses shown in the financial situation ending 30 June 2018.

Income taxes for the year

The balance of taxes, which amounts to - Euro 1.6 million (- Euro 0.9 million in the previous year) mainly includes current taxes of Euro 2.4 million, being the I.R.A.P. liability, and fiscal income from consolidated taxation, from the settlement of relations in the sub-consolidation area of the Milan Group, of Euro 0.8 million.

Player registration rights

On 30 June 2018 the multi-year player registration rights totalled Euro 211.2 million compared to Euro 206.7 million in the previous year.

The net increase of Euro 4.5 million derives from the investments (+ Euro 128.5 million) and net disinvestments (- Euro 20.5 million), amortisation for the year

(- Euro 82.0 million) and the write-downs of player registration rights (- Euro 21.5 million).

For details of the players involved in these movements, please see the relevant section of the Notes.

Shareholders' Equity

Consolidated shareholders' equity on 30 June 2018 was Euro 14.3 million, a reduction compared to the balance of Euro 89.9 million on 30 June 2017 due to the loss for the year (- Euro 135.6 million) and the increases to the share capital and the share premium reserve made by the parent company A.C. Milan S.p.A. for a total of Euro 60.0 million.

On 30 June 2018, the club's net equity was made up of the share capital, fully subscribed and paid, of Euro 113,443,200.00, comprising 218,160,000 shares, each with a nominal value of Euro 0.52, the share premium reserve of Euro 31,020,000.00, fully subscribed and paid, the legal reserve of Euro 123,889.55, payments on account of future capital increases and/or to cover losses, of Euro 39,557,261.14 and losses carried forward of Euro 34,249,947.91.

The loss for the year has led to the situation governed by Article 2446 of the civil code.

However, as in August and September 2018 the majority shareholder made payments on account of the future capital increase, totalling Euro 170,461,054.22, the financial equilibrium of the club has been re-established.

Net Financial Position

On 30 June 2018 the consolidated net financial position of the Company showed net indebtedness of Euro 244.8 million, an improvement (+ Euro 1.6 million) compared to 2016/2017 (Euro 246.4 million).

For more details about the composition and movements in net financial position, please see the Notes to the financial statements.

Relations with subsidiaries, associates and parent companies

The company A.C. is not subject to direction and coordination by the controlling entity Rossoneri Sport Investment Luxembourg S.à r.l.

With regard to current relations with subsidiaries, associates and parent companies:

- the company has an agreement in place with the subsidiary Milan Real Estate S.p.A. regarding the use of the Milanello Sports Centre and a number of rental units, which also includes maintenance services, for an annual fee of Euro 5.9 million, net of any adjustments and the Italian National Statistics Institute (ISTAT) revaluation;
- the club has an agreement with its subsidiary Milan Entertainment S.r.l. for the provision of a whole series of services including commercial, marketing, sales, stadium and ticketing management, staff management and administration, fiscal and insurance services, financial and cash management, operations control and *internal auditing*, legal, *compliance* and security services, IT, *social* and *new media*, logistics and general services, as well as sports regulatory compliance, with a total annual value of Euro 13.8 million, not including the Istat revaluation;

- the club also has three subletting agreements for internal areas of “Casa Milan”, which are leased from Vittoria Assicurazioni S.p.A. with the subsidiaries Milan Entertainment S.r.l., Milan Real Estate S.p.A. and the Milan Foundation. The annual contract values are as follows: Euro 3.4 million, Euro 46 thousand and Euro 43 thousand, all subject to Istat revaluation;
- The parent company A.C. Milan S.p.A. and F.C. Internazionale Milano S.p.A. have a joint contract with M-I Stadio S.r.l. for the licensing for use of some of the internal and external facilities at the San Siro Stadium, under which the annual fee payable to the licensees is Euro 2.4 million (subject to Istat revaluation). The agreement was recently renewed until 30 June 2019 at an annual price of Euro 1.5 million;
- The company has a joint contract with F.C. Internazionale Milano S.p.A. with M-I Stadio S.r.l. to cover the operating costs of the San Siro Stadium, under which the annual fee payable to the licensees is Euro 7.0 million (subject to Istat revaluation plus any adjustments). The agreement was recently renewed until 30 June 2019 at an annual price of Euro 8.6 million;
- the company has an intercompany correspondence account, which is regulated at arm’s-length conditions;
- With effect from 1 January 2017 the parent company A.C. Milan S.p.A. exercised the option to join the fiscal consolidation scheme (Articles 117-129 of Presidential Decree 917/86), as the consolidating entity, jointly with Milan Entertainment S.r.l. and Milan Real Estate S.p.A. consolidated companies.

Details of all other intercompany relationships and the changes in equity investments are provided in the summary tables in the Notes.

Potential liabilities and other information

Financial Fair Play

As mentioned, in the 2017/2018 season A.C. Milan again played the UEFA Europa league competition. Participation in this competition is subject to compliance with the *U.E.F.A. Club Licensing and Financial Fair Play Regulations – Edition 2015*.

A.C. Milan S.p.A. has applied to the *Club Financial Control Body* (C.F.C.B.) for a *Voluntary Agreement* (V.A.), as permitted under the regulations, in order to take part in European competitions in accordance with the financial requirements, and specifically with the *Break-even rule*, which means that all its expenses (with the exception of certain types as specified in the UEFA regulations) have to be covered with its own income.

Following acceptance of this application by the C.F.C.B., during 2017/2018 the previous Management held a series of meetings in order to illustrate to the C.F.C.B. the club's compliance with the financial requirements laid down in the regulations, during the period between the 2017/2018 and 2020/2021 football seasons.

On 15 December 2017, the Investigation Chamber (IC) of the C.F.C.B. noted that some of the conditions for acceptance of the V.A. had not been met by AC Milan and referred the final decision to the Adjudication Chamber of the C.F.C.B., which ruled on 19 June 2018 that there had been a violation of the break-even rule according to the *Financial Fair Play* standard and ordered that the club be excluded from the UEFA competition for which it would otherwise have qualified for the subsequent two seasons (2018/2019 or 2019/2020), but would allow an appeal to the Sports Arbitration Tribunal of Lausanne (T.A.S.), under Article 34 (2) of the procedural regulations governing the C.F.C.B. and under Articles 62 and 63 of the

UEFA Bylaws.

On 4 July 2018, A.C. Milan S.p.A. lodged an appeal with the T.A.S. asking that the C.F.C.B.'s decision be annulled. – A.C.

On 20 July 2018 the T.A.S. partially accepted Milan's appeal, upholding the C.F.C.B.'s decision – of 19 June 2018 as to the part relating to AC Milan's failure to meet the break-even requirement, but reversing the body's decision to exclude the club from taking part in the next UEFA competition for which it would otherwise have qualified in the next two seasons (2018/2019 or 2019/2020), as it was disproportionate. The tribunal found in particular that some of the significant factors had not been adequately considered when the decision was made, including the changes in the club's financial situation, which significantly improved following the change of ownership in July 2018.

The tribunal then decided to refer the case to the C.F.C.B. – A.C. considering the request by A.C. Milan S.p.A., and in consideration of the fact that the body itself is in a better position than the sports tribunal to impose a disciplinary penalty that is proportionate to the club's current financial situation.

On the date of this management report was drafted, UEFA has not yet issued its decision on the nature of any penalty, or the amount that will be imposed on the club and has merely adopted certain temporary, precautionary measures, regarding the suspension of revenues due to the club for the 2018/2019 UEFA Europa League competition.

In view of these considerations, A.C. Milan S.p.A, partly on the basis of its advisors' opinions, has decided to make a prudential allocation on the financial statements to 30 June 2018 to cover the risk of any fines being imposed by UEFA.

Other information

With regard to relations with Management and the personnel of A.C. Milan S.p.A., in July and August 2018, A.C. Milan terminated, for good cause, its relations with the ex-CEO and director-general. Although, with the support of its advisers, AC Milan examined the arguments put forward by the ex-CEO and director-general in response to the complaints made against him, finding them to be groundless, it is still possible that following the termination the former CEO may take action against the club. In view of this, based on the information currently in its possession and as advised by its consultants, A.C. Milan S.p.A. considers that the various reasons that led to the termination of this relationship are well-founded, but there is still a possibility of future legal proceedings, of an amount that cannot yet be determined partly because of the current status of the arguments raised and the positions taken. Further investigations will be carried out as necessary.

Information on the environment and personnel

In accordance with Art. 2428 (2) civil code, the club performs its activity in full accordance with the health and safety obligations provided for in legislative decree 81/2008, with regard to stadium security, the prevention and repression of football-related violence as provided for by Law number 41 of 4 April 2007 and by the Pisanu and Amato decrees.

Details of the number and composition of personnel are provided in the Explanatory Notes.

Research and Development

The company did not carry out any research and development during 2017/2018.

Going concern

The loss of Euro 135.6 million for the year has led to the situation governed by Article 2446 of the civil code.

However, as the majority shareholder made payments totalling Euro 170.5 million in August and September 2018, and considering that A.C. Milan S.p.A. has discharged the bonds “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017–2018 – Serie 1” (ISIN Code IT005254435) and “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017–2019 – Serie 2” (ISIN Code IT0005254443), the capital and financial situation of the Group has been re-established, as of the date on which this consolidated report was drafted.

The majority shareholder Rossoneri Sport Investment Luxembourg S.à r.l. has guaranteed its commitment to provide financial support to the Milan Group companies for at least 12 months from the date of approval of the financial statements.

Based on these considerations, the directors have prepared these financial statements on a going concern basis.

Main risks and uncertainties, and business outlook

Due to the nature of the Milan Group's business, operational performance is exposed to the risks associated with sporting competitions, especially in terms of the sporting results of the first team and the consequent levels of revenues from competitions, and broadcasting and advertising rights.

The business performance of the next year will be influenced by the placing in the Serie A championship, in the UEFA Europa League and in the TIM Cup 2018/2019.

On 18 May 2017 the meeting of shareholders of the parent company A.C. Milan S.p.A. authorised a capital increase of Euro 49.9 million, for 96,000,000 shares, each with a nominal value of Euro 0.52, to be offered under option to all shareholders and paid in cash, with a premium of Euro 0.10 per share, giving a total premium of Euro 9.6 million. The Board of Directors was also authorised, under Article 2443 civil code, to increase the share capital by a total of Euro 60.0 million.

The capital increase of Euro 49.9 million authorised by the meeting of shareholders was fully subscribed and paid in multiple instalments, from July 2017 until March 2018.

On 13 March 2018, the Board of Directors exercised the authority granted to it by the meeting of shareholders of 18 May 2017, authorising a further increase totalling Euro 60.0 million, which was fully subscribed and paid in multiple instalments from March 2018 until June 2018.

The company also obtained consent from Project Redblack S.à r.l. to make part of the authorised capital increase in the name of the majority shareholder.

As the majority shareholder Rossoneri Sport Investment Luxembourg S.à r.l., after having previously paid the various instalments of the capital increase, did not pay the Euro 32.4 million payment by the deadline set by the Board of Directors, on 22 June 2018, Project Redblack S.à r.l. – following up on the availability previously declared to the club - exercised its option under the pledge agreement of 13 April 2017 between Rossoneri Sport Investment Luxembourg S.à r.l. as the pledgor, and Project Redblack S.à r.l. as the secured creditor, in relation to the shareholding of Rossoneri Sport Investment Luxembourg S.à r.l. in A.C. Milan S.p.A. and paid A.C. Milan S.p.A. Euro 32.4 million, in favour of the majority shareholder.

On 6 June 2018, A.C. Milan S.p.A., after agreement with Project Redblack S.à r.l. and BNP Paribas Securities Services Milan Branch, amended the terms of the

Guaranteed Bond “Associazione Calcio Milan S.p.A. 2017-2019 – Serie II (ISIN Code IT0005254443)” and included two repayment dates (15 October 2018 and 30 June 2019), postponing the final reimbursement to 30 June 2019.

On 30 June 2018, A.C. Milan S.p.A. also executed the partial early reimbursement of the Guaranteed Bond “Associazione Calcio Milan S.p.A. 2017-2019 – Serie II (ISIN Code IT0005254443)”, in the amount of Euro 21.1 million as provided for in the agreement amending the terms of the bond, signed on 6 June 2018, following payment of the corresponding share of the capital increase by Project Redblack S.à r.l. on behalf of Rossoneri Sport Investment Luxembourg S.à r.l..

On 10 July 2018, as a result of the enforcement of the pledge in its favour, on the whole of the share capital of Rossoneri Sport Investment Luxembourg S.à r.l., Project RedBlack S.à r.l. (held by the Elliott funds and Blue Skye Financial Partners S.à r.l.) acquired 100% of the share capital of Rossoneri Sport Investment Luxembourg S.à r.l. thereby acquiring indirect ownership of the controlling interest in A.C. Milan S.p.A..

On 21 July 2018, the ordinary meeting of the shareholders of A.C. Milan S.p.A., which was convened at the request of the majority shareholder, acknowledged the resignation of various directors and decided to revoke the mandates of the directors still in office on that date, also electing a new Board of Directors and a new Chairman.

As various disciplinary complaints had been made against the former director general, A.C. Milan S.p.A. then ordered his dismissal for good cause.

In July and August 2018 the officers of the subsidiaries Milan Entertainment S.r.l. and Milan Real Estate S.p.A. were also re-elected.

In August and September 2018, the new majority shareholder made additional capital contributions totalling Euro 170.5 million, of Euro 21.0 million, Euro 30.0 million and Euro 119.5 million respectively, with the aim of providing the parent company A.C. Milan S.p.A. with the funds needed for the early, full, voluntary reimbursement of the bond issued in 2017 originally maturing on 15 October 2018, as described in more detail in the “Bonds” paragraph of the Notes (to which please refer), the funds needed to meet cashflow requirements and to strengthen the capital of the Milan Group, and to meet the financial requirements imposed by the F.I.G.C. (Liquidity Indicator).

On 25 September 2018, A.C. Milan S.p.A. exercised its option to repay in advance all the bonds named “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 – 2018 – Serie 1” (ISIN Code IT005254435) and “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 – 2019 – Serie 2” (ISIN Code IT0005254443) issued by the parent company A.C. Milan S.p.A. and listed on the third Market of the Vienna Stock Exchange, indicating the date of repayment as 28 September 2018. On 28 September 2018, A.C. Milan S.p.A. repaid the above bonds in full.

Financial risk management objectives and policies

The Milan Group has put in place specific policies outlining its financial risk management guidelines and objectives, with the aim of reducing its exposure to the exchange, credit and liquidity risks connected to its core business.

The existing financial instruments (which do not include derivatives) such as bank and postal deposits, cash, cheques and other valuables and accounts receivable do not carry any type of financial risk. Finally, the trade receivables were

not considered to pose financial risks, as almost all of them have a maturity date of 18 months' maximum (apart from various accounts receivable from football clubs as a result of the various transfer campaigns) or because they are already covered by a specific provision.

The main financial risks that the company is exposed to are described below.

Exchange rate risk

Exposure to exchange risk derives almost entirely from the acquisition of player registration rights in currencies other than the Euro (generally US Dollars, Swiss Francs and Pound Sterling). However, the company carries out the majority of its transactions (both purchases and sales) in Euro, and accordingly there are no significant risks connected to exchange rate fluctuations.

Interest rate risk

The interest rate risk mainly derives from the variable-rate payables that expose the Group to variable cashflow.

Credit risk

The company does not have a significant concentration of credit risk and has suitable procedures in place to minimise exposure to that risk. In particular, receivables from domestic football clubs are guaranteed by the clearing house mechanism of the Lega Nazionale Professionisti. Receivables for fees resulting from the negotiation of contracts for television broadcasting rights are guaranteed by bank sureties issued by the clients. Lastly, receivables not backed by guarantees are regularly monitored to manage collection risk, with specific provisions for doubtful debts made where necessary.

Liquidity risk

Liquidity risk is linked to the difficulty in raising funds to meet commitments. As stated above, the shareholder Rossoneri Sport Investment Luxembourg, as part

of the acquisition, granted a loan of Euro 10.0 million, aimed at funding the club's core operations. The majority shareholder also completed a recapitalisation of Euro 120.0 million in 2017/2018.

On 26 May 2017, the club issued two non-convertible bonds which were fully subscribed by Project RedBlack S.à r.l., listed on the Third Market of the Vienna Stock Exchange at a fixed annual rate of 7.7%, specifically:

- “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 - 2018 — Serie I (ISIN Code IT005254435)”, issued with a nominal amount of Euro 73.7 million and maturing on 15 October 2018, intended to fully repay the club's debt to the parent company Rossoneri Sport Investment Luxembourg S.à r.l., which is subject to various financial covenants, which are tested periodically;
- “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 - 2019 — Serie II (ISIN Code IT0005254443)”, issued with a nominal amount of Euro 54.3 million and with an original maturity date of 15 October 2018, intended to fund the club's cashflow requirements, and which is subject to various financial covenants, which are tested periodically.

On 6 June 2018, A.C. Milan S.p.A., after agreement with Project Redblack S.à r.l. and BNP Paribas Securities Services Milan Branch, amended the terms of the Guaranteed Bond “Associazione Calcio Milan S.p.A. 2017-2019 — Serie II (ISIN Code IT0005254443)” and included two repayment dates (15 October 2018 and 30 June 2019), postponing the final reimbursement to 30 June 2019.

On 30 June 2018, A.C. Milan S.p.A. also executed the partial early reimbursement of the Guaranteed Bond “Associazione Calcio Milan S.p.A. 2017-2019 — Serie II (ISIN Code IT0005254443)”, in the amount of Euro 21.1 million as

provided for in the agreement amending the terms of the bond, signed on 6 June 2018, following payment of the corresponding share of the capital increase by Project Redblack S.à r.l. on behalf of Rossoneri Sport Investment Luxembourg S.à r.l.

On 25 September 2018, A.C. Milan S.p.A. exercised its option to repay in advance all the bonds named “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 – -2018 – Serie 1” (ISIN Code IT005254435) and “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 – -2019 – Serie 2” (ISIN Code IT0005254443), indicating the date of repayment as 28 September 2018. On 28 September 2018, A.C. Milan S.p.A. repaid the above bonds in full.

At the request of the same company, the controlling entity Rossoneri Sport Investment Luxembourg S.à r.l. made a payment of Euro 119.5 million on 24 September 2018, to be used to fully extinguish the above debt. This payment is added to those made in August and September 2018, totalling Euro 51.0 million.

The majority shareholder Rossoneri Sport Investment Luxembourg S.à r.l. has guaranteed its commitment to provide financial support to the Milan Group companies for at least 12 months from the date of approval of the financial statements.

Milan, 28 September 2018.

for the **Board of Directors**
Chairman
Paolo Scaroni

FINANCIAL STATEMENTS AS AT 30.06. 2018

(in Euros)

BALANCE SHEET

ASSETS

	30.06.2018	30.06.2017	Changes
A) RECEIVABLES FROM SHAREHOLDERS FOR PAYMENTS DUE	—	59,517,504	(59,517,504)
B) FIXED ASSETS			
I INTANGIBLE ASSETS			
4 Concessions, licences, trademarks and similar rights	28,123,398	29,695,836	(1,572,438)
6 Assets in progress and advances	—	82,715	(82,715)
7 player registration rights	211,165,363	206,662,903	4,502,460
8 Other	18,460,526	20,172,108	(1,711,582)
Total	257,749,287	256,613,562	1,135,725
II TANGIBLE ASSETS			
2 Plant and machinery	129,918	174,613	(44,695)
3 Industrial and commercial equipment	296,568	369,206	(72,638)
4 Other assets	893,612	1,157,246	(263,634)
5 Assets in progress and advances	57,311	57,311	—
Total	1,377,409	1,758,376	(380,967)
III FINANCIAL ASSETS			
1 equity investments in:			
a) Subsidiaries	196,685,017	196,685,017	—
b) associates	1,085,291	803,185	282,106
Total	197,770,308	197,488,202	282,106
2 receivables:			
e) debts due to others			
- within 12 months	14,846	—	14,846
- after 12 months	8,848,821	349,723	8,499,098
Total	8,863,667	349,723	8,513,944
Total	206,633,975	197,837,925	8,796,050
TOTAL FIXED ASSETS (B)	465,760,671	456,209,863	9,550,808

FINANCIAL STATEMENTS AS AT 30.06. 2018

(in Euros)

BALANCE SHEET

ASSETS

	30.06.2018	30.06.2017	Changes
C) WORKING CAPITAL:			
I INVENTORIES	—	—	—
Total	—	—	—
II RECEIVABLES			
1 trade	41,325,287	52,783,978	(11,458,691)
2 from subsidiaries	1,354,945	282,638	1,072,307
3 from associates	—	1,620,762	(1,620,762)
4 from parent companies	25,744	50,590	(24,846)
5 from companies subject to parent companies' control	—	—	—
5 bis tax receivables			
a) within 12 months	1,607,197	424,440	1,182,757
b) after 12 months	1,652,652	1,075,824	576,828
5 ter prepaid tax	1,232,916	1,180,660	52,256
5 quater others	880,462	1,997,972	(1,117,510)
6 receivables from institutions - specific sector			
a) within 12 months	36,080,790	8,075,331	28,005,459
b) after 12 months	16,928,491	4,753,425	12,175,066
Total	101,088,484	72,245,620	28,842,864
III FINANCIAL ASSETS (other than fixed assets)			
7 other receivables	17,551	—	17,551
8 financial assets for the centralised Treasury management	6,249,668	7,984,179	(1,734,511)
Total	6,267,219	7,984,179	(1,716,960)
IV CASH AND CASH EQUIVALENTS			
1 bank and postal deposits	22,386,455	9,105,406	13,281,049
3 cash in hand	27,699	28,322	(623)
Total	22,414,154	9,133,728	13,280,426
TOTAL WORKING CAPITAL (C)	129,769,857	89,363,527	40,406,330
D) ACCRUALS AND DEFERRALS			
1 accruals	—	—	—
2 deferrals	2,310,602	1,783,743	526,859
TOTAL ACCRUALS AND DEFERRALS (D)	2,310,602	1,783,743	526,859
TOTAL ASSETS	597,841,130	606,874,637	(9,033,507)

FINANCIAL STATEMENTS AS AT 30.06.2018

(in Euros)

BALANCE SHEET

LIABILITIES

	30.06.2018	30.06.2017	Changes
A) SHAREHOLDERS' EQUITY			
I CAPITAL	113,443,200	74,880,000	38,563,200
II SHARE PREMIUM RESERVE	31,020,000	9,600,000	21,420,000
III WRITE-BACKS RESERVE	—	—	—
IV LEGAL RESERVE	123,890	123,890	—
V STATUTORY RESERVES	—	—	—
VI OTHER RESERVES:			
a) capital contributions	39,557,261	67,078,248	(27,520,987)
VII RESERVE FOR HEDGING EXPECTED CASH FLOWS	—	—	—
VIII PROFIT (LOSS) CARRIED FORWARD	(34,249,948)	(34,249,948)	—
IX PROFIT (LOSS) FOR THE PERIOD	(135,638,499)	(27,520,987)	(108,117,512)
X NEGATIVE RESERVE FOR OWN SHARES IN PORTFOLIO	—	—	—
TOTAL SHAREHOLDERS' EQUITY (A)	14,255,904	89,911,203	(75,655,299)
B) PROVISIONS FOR RISKS AND CHARGES			
4 other	20,567,450	3,858,612	16,708,838
TOTAL PROVISIONS FOR RISKS AND CHARGES (B)	20,567,450	3,858,612	16,708,838
C) EMPLOYEE LEAVING ENTITLEMENTS	890,679	958,829	(68,150)
D) PAYABLES			
1 bonds			
a) within 12 months	116,519,959	—	116,519,959
b) after 12 months	—	74,345,802	(74,345,802)
3 payables to shareholders for loans			
a) within 12 months	—	—	—
b) after 12 months	10,000,000	10,000,000	—
4 bank payables	1,209,542	736	1,208,806
5 payables to other financial institutions			
a) within 12 months	22,541,228	30,583,487	(8,042,259)
b) after 12 months	14,000,000	37,869,160	(23,869,160)
7 payables to suppliers	54,103,593	46,621,563	7,482,030
9 payables to subsidiaries	120,635,071	115,041,849	5,593,222
10 payables to affiliates	1,396,167	1,056,141	340,026
11 payables to parent companies	—	—	—
11 bis payables to companies subject to parent companies' control	—	—	—
12 tax payables	11,509,942	12,213,756	(703,814)
13 payables to pension funds and social security agencies	391,393	221,068	170,325
14 other payables	12,795,987	9,961,060	2,834,927
15 Payables to institutions - specific sector			
a) within 12 months	83,250,496	39,457,286	43,793,210
b) after 12 months	88,778,101	103,212,458	(14,434,357)
TOTAL PAYABLES (D)	537,131,479	480,584,366	56,547,113
E) ACCRUALS AND DEFERRALS			
1 accruals	41,887	28,837	13,050
2 deferrals	24,953,731	31,532,790	(6,579,059)
TOTAL ACCRUALS AND DEFERRALS (E)	24,995,618	31,561,627	(6,566,009)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	597,841,130	606,874,637	(9,033,507)

FINANCIAL STATEMENTS AS AT 30.06. 2018

(in Euros)

INCOME STATEMENT

	FY 2017/2018	FY 2017	Changes
A) VALUE OF PRODUCTION			
1 Revenues from sales and services			
a) match revenues	23,198,573	5,665,270	17,533,303
b) season tickets	9,940,457	2,871,915	7,068,542
c) revenues from other competitions	2,723,390	—	2,723,390
Total	35,862,420	8,537,185	27,325,235
5 other revenues and income			
b) sponsorship revenues	31,512,075	19,147,291	12,364,784
d) commercial revenues and royalties	6,504,810	4,801,877	1,702,933
e) income from sale of broadcasting rights:			
- audiovisual income from participation in national competitions	86,259,874	44,376,575	41,883,299
- audiovisual income from participation in other competitions	14,318,221	—	14,318,221
f) miscellaneous income	8,926,582	4,502,883	4,423,699
g) revenues from player loans	2,453,836	537,500	1,916,336
h) gains from the sale of player registration rights	35,955,806	202,301	35,753,505
i) other income from player management	3,652,156	990,775	2,661,381
l) revenues and other income	10,897,888	11,566,542	(668,654)
Total	200,481,248	86,125,744	114,355,504
TOTAL VALUE OF PRODUCTION (A)	236,343,668	94,662,929	141,680,739
B) COSTS OF PRODUCTION			
6 for raw materials, ancillary materials, consumables and goods	2,494,864	1,184,486	1,310,378
7 for services	55,288,055	22,814,268	32,473,787
8 for use of third-party assets	9,291,337	4,299,728	4,991,609
Total	67,074,256	28,298,482	38,775,774
9 for personnel:			
a) wages and salaries	136,331,937	59,802,822	76,529,115
b) social security charges	5,128,703	2,885,340	2,243,363
c) employee leaving entitlements	1,186,289	529,317	656,972
e) other costs	165,439	91,343	74,096
Total	142,812,368	63,308,822	79,503,546
10 amortisation, depreciation and write-downs			
a) amortisation of intangible assets	85,783,647	22,213,184	63,570,463
b) depreciation of tangible assets	481,343	234,920	246,423
c) other write-downs of fixed assets	21,822,371	2,764,849	19,057,522
d) write-down of receivables included in working capital and in cash and cash ec	1,206,996	31,450	1,175,546
Total	109,294,357	25,244,403	84,049,954
12 provisions for risks	17,491,699	1,986,000	15,505,699
14 sundry management expenses			
a) various match organisation expenses	110,609	9,756	100,853
b) match registration costs	2,240	1,490	750
c) percentage of gate receipts paid to visiting teams	964,847	45,456	919,391
d) costs for acquisition of players on loan	107,500	2,200,000	(2,092,500)
e) loss from the sale of player registration rights	1,289,994	500,000	789,994
f) other expenses from player management	1,332,152	47,623	1,284,529
q) other management expenses	4,798,416	2,347,676	2,450,740
Total	8,605,758	5,152,001	3,453,757
TOTAL COSTS OF PRODUCTION (B)	345,278,438	123,989,708	221,288,730
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A - B)	(108,934,770)	(29,326,779)	(79,607,991)

FINANCIAL STATEMENTS AS AT 30.06. 2018

(in Euros)

INCOME STATEMENT

	FY 2017/2018	FY 2017	Changes
C) FINANCIAL INCOME AND (EXPENSES)			
15 income from equity investments			
a) subsidiaries	—	7,000,000	(7,000,000)
16 other financial income			
d) income different from the above:			
- other	1,627,506	137,798	1,489,708
Total	1,627,506	7,137,798	(5,510,292)
17 interest and other financial charges			
a) from subsidiaries	(1,354,508)	(627,952)	(726,556)
c) from parent companies	—	(735,778)	735,778
d) other financial expenses	(23,843,589)	(2,787,364)	(21,056,225)
Total	(25,198,097)	(4,151,094)	(21,047,003)
17 bis gains and losses on foreign exchange:			
a) exchange gains	25,610	23,446	2,164
b) exchange losses	(49,681)	(1,415)	(48,266)
Total	(24,071)	22,031	(46,102)
TOTAL FINANCIAL INCOME AND (EXPENSES) (C)	(23,594,662)	3,008,735	(26,603,397)
D) ADJUSTMENTS IN VALUE OF FINANCIAL ASSETS AND LIABILITIES			
19 write-downs			
a) of equity investments	(1,543,179)	—	(1,543,179)
Total	(1,543,179)	—	(1,543,179)
TOTAL ADJUSTMENTS IN VALUE OF FINANCIAL ASSETS AND LIABILITIES (D)	(1,543,179)	—	(1,543,179)
RESULT BEFORE TAX	(134,072,611)	(26,318,044)	(107,754,567)
22 income taxes for the year (current, deferred and prepaid)			
a) current taxes	(1,618,144)	(1,138,608)	(479,536)
b) deferred and prepaid taxes	52,256	(64,335)	116,591
Total	(1,565,888)	(1,202,943)	(362,945)
PROFIT/(LOSS) FOR THE YEAR	(135,638,499)	(27,520,987)	(108,117,512)

for the Board of Directors
Chairman
Paolo Scaroni

FINANCIAL STATEMENTS AS AT 30.06. 2018

(in thousands of Euros)

CASH FLOW STATEMENT	30.06.2018	30.06.2017
Profit/(loss) for the year	(135,638)	(27,521)
Amortisation, depreciation and write-downs	108,421	25,120
Changes in Employee leaving entitlements	(68)	(28)
Changes in Provisions for risks and charges	16,708	(6,705)
Self-financing	(10,577)	(9,134)
Changes in inventories	0	0
Changes in receivables	(27,031)	19,529
Change in tax receivables	(1,811)	157
Changes in accrued income and prepayments	(527)	1,404
Changes in payables	38,673	92,625
Change in tax payables	(704)	(846)
Changes in accrued charges and deferred income	(6,566)	(8,907)
Funds generated (used) by operating activities	(8,543)	94,828
Disposals of player registration rights	20,480	587
Disposals of other intangible assets	10	0
Disposals of tangible assets	0	1
Disposals of financial assets	76	0
Investments in player registration rights	(128,525)	(119,014)
Investments in other intangible assets	(473)	(281)
Investments in tangible assets	(100)	(79)
Investments in financial assets	(850)	(500)
Cash generated (used) by disposals and investments	(109,382)	(119,286)
Change in financial receivables/payables	11,706	(23,438)
Dividends paid	0	0
Other changes in equity	119,500	53,502
Funds generated (used) by financial activities	131,206	30,064
Change in cash and cash equivalents	13,281	5,606
Opening cash and cash equivalents	9,133	3,527
Closing cash and cash equivalents	22,414	9,133
Change in cash and cash equivalents	13,281	5,606

for the **Board of Directors**
Chairman
Paolo Scaroni

A.C. MILAN S.P.A.

Registered office: Via Aldo Rossi no. 8, Milan

Share Capital: Euro 113,443,200.00 fully subscribed and paid

Tax ID and Milan Companies' Registry Registration No. 01073200154

FINANCIAL STATEMENTS AS AT 30 JUNE 2018

EXPLANATORY NOTES

PREAMBLE

On 13 April 2017 Fininvest S.p.A., the company which at the time held control of the club, completed the sale of its 99.93% shareholding in A.C. Milan S.p.A., to Rossoneri Sport Investment Luxembourg S.à r.l., the special-purpose company designated by the Chinese company Sino Europe Sport Investment Management Changxing Co. Ltd. in execution of the sale agreement signed on 5 August 2016 and subsequently.

The current majority shareholder is Rossoneri Sport Investment Luxembourg S.à r.l., which holds 99.93% of the share capital of A.C. Milan S.p.A.

Currently, the share capital of Rossoneri Sport Investment Luxembourg S.à r.l. is held entirely by Project Redblack S.à r.l., whose share capital is in turn held by Blue Skye Financial Partners S.à r.l. and by several companies held indirectly by Elliott Associates L.P. and Elliott International Limited. On 10 July 2018 the shares representing the capital of Rossoneri Sport Investment Luxembourg S.à r.l. were transferred to Project Redblack S.à r.l. following the enforcement of a pledge placed on the shares, in favour of Project Redblack S.à r.l. by the previous shareholder of Rossoneri Sport Investment Luxembourg S.à r.l.

In July 2018, the ordinary meeting of the shareholders of A.C. Milan S.p.A., which was convened at the request of the majority shareholder, acknowledged the resignation of various directors and decided to revoke the mandates of the directors still in office on that date, also electing a new Board of Directors and a new Chairman.

In July and August 2018 the officers of the subsidiaries Milan Entertainment S.r.l. and Milan Real Estate S.p.A. were also re-elected.

On 18 May 2017, following the transfer of the majority shareholding mentioned above, the Meeting of Shareholders of A.C. Milan S.p.A. authorised a change of company year, effective from 1 July 2017, moving from the calendar year (01/01 – 31/12) to the football season (01/07 – 30/06). These financial statements thus relate to the 2017/2018 football season.

STRUCTURE AND CONTENT

These financial statements have been prepared in accordance with the provisions of the civil code as amended by legislative decree 139/2015 (the “Decree”), interpreted and amended by the Italian accounting standards as issued by the National Accounting Body (“OIC”) which were updated following the enactment into Italian law of Directive 2013/34/EU (the “Accounting Directive”).

The financial statements consist of the balance sheet (prepared in accordance with the model contained in Articles 2424 and 2424a of the civil code), the income statement (prepared in accordance with the model in Articles 2425 and 2425a civil code), these Notes (which provide the information required by Article 2427 civil code) and the Cash Flow Statement (the content of which, in accordance with Article 2425b civil code, has been presented in accordance with national accounting standard OIC 10), in correspondence with the model applicable to financial statements presented in the ordinary format.

In accordance with Article 2423 civil code, the general principles of clarity and truthful/accurate representation of the club’s financial situation and its results for the year, have been observed.

The recognition, valuation, presentation and information of these items may differ from the contents of the mandatory provisions, in cases in which failure to comply with those provisions would have a negligible effect on the truthful/accurate representation of the club’s financial situation and its results for the period. To this end, information is considered relevant, from a qualitative and/or quantitative viewpoint, when its omission or incorrect indication may reasonably influence the decisions made by users on the basis of the company’s Financial Statements. Further specific criteria used to explain the concept of non-materiality are detailed for individual financial statement items when they apply. The materiality of individual items is assessed in the context of other similar items.

Moreover, the principles provided for by Article 2423-bis of the Italian Civil Code were complied with as detailed below.

The valuation of the items was carried out in accordance with the general principles of prudence and the going concern assumption, as well as taking into account the economic substance of the transaction or arrangement. Therefore, the economic substance of each transaction or event and, in any case, of each company event, was identified - notwithstanding its origin - and the interdependency of several agreements that refer to complex transactions was assessed.

The profits indicated on the financial statements are only those earned on the closing date. Revenues and charges recorded refer to the financial year, notwithstanding their collection or payment date.

Consideration was given to the risks and losses pertaining to the year even if known after year-end.

Heterogeneous elements included in individual items were valued separately.

Additional information considered necessary to give a true and fair view has also been provided, even if not specifically required by law.

The numbering used in the models contained in Articles 2424 and 2425 civil code, has been faithfully reproduced. Consecutive numbering has not been used for items identified by Arabic numerals with no value. As a result, each individual item will always be allocated the same number, making it easy to compare the financial and income statement positions for different periods.

The Balance Sheet and Income Statement indicate the changes in the various items. The Explanatory Notes provide comments limited to the main items.

The “Annexes” section which forms an integral part of these Notes contains the schedules of the mandatory information required by the regulations, and other information considered useful in providing a clear, comprehensive picture of these financial statements.

MEASUREMENT CRITERIA AND ACCOUNTING PRINCIPLES

The consolidated accounts to 30 June 2018 were prepared on the basis of the principles of clarity, accurate and truthful representation of the financial situation of the company and of the profit or loss for the period, in accordance with Art. 2423(2) civil code.

The consolidated financial statements to 30 June 2018 were prepared in accordance with the general principles of prudence, accrual, and on a going-concern basis, and also took into account the economic function of the asset and liability items.

The valuation criteria of various financial statement items comply with the provisions of Article 2426 of the Italian Civil Code and the reference accounting principles. Budget assumptions include continuity with the previous financial year with respect to the application of the valuation criteria adopted to prepare the Financial Statements.

As also required by the first paragraph of Article 2423-ter Italian Civil Code, in view of the nature of the Parent Company A.C. Milan S.p.A's business, the instructions issued by the Italian Soccer Federation (FIGC) and the Committee for the Supervision of Italian Soccer Clubs (Co.Vi.So.C.) have also been taken into consideration.

There were no derogations (Art. 2423 (4) civil code) in the drafting of the consolidated financial statements to 30 June 2018.

The most significant valuation criteria and first-implementation rules adopted are detailed below.

Intangible fixed assets

Intangible assets are recognised as assets when they can be individually identified and their cost can be estimated in a sufficiently reliable way. They are recognised at purchase or production cost, including ancillary charges net of depreciation/amortisation and write-downs. Fixed assets are systematically depreciated on the basis of their estimated future life.

Multi-year charges were registered as assets because:

- their future useful life is demonstrated;
- there is an objective link with the relevant future benefits that the company shall enjoy;
- their recovery can be estimated with reasonable certainty.

Player registration rights

These are intangible assets with a defined useful life equal to the term of the sports contracts signed with players.

Multi-year players' registration rights are registered at their historic purchase price inclusive of any directly attributable ancillary charges and, where appropriate, time-discounted to take into account the deferral of payments over more than one financial period.

The amounts were stated net of amortisation charges, calculated on a straight-line basis in relation of the duration of the contracts signed with individual professional footballers.

With regard to the accounting treatment of fees for services rendered to the club by sports agents, in accordance with the industry regulations connected to the transfer of player rights or contract renewals:

- in the absence of conditions precedent (for example the player remaining registered with the club), these fees are capitalised because they constitute a transaction cost for the purchase of the registration rights;
- otherwise the fees are recognised each time in the income statement if they are conditional on the player remaining registered with the club or relate to services performed for the temporary acquisition or transfer (definitive or temporary) of the right.

Player registration rights are recognised on the date of stipulation of the contract, or on any date after the stipulation of the contract, as agreed between the parties, and in accordance with Art. 1360 civil code, the effect of the approval issued by Lega Nazionale Professionisti Serie A for national transfers, or the effect of the international transfer certificate (I.T.C. – “Transfer”) issued by the F.I.G.C. for international transfers, via F.I.F.A.'s “T.M.S.” system.

Amortisation starts from the year when the player is registered. For rights acquired during the year, amortisation starts from the date when the player is available, on a time accrual basis.

The original amortisation schedule is amended if a contract is extended due to its early renewal. The new amortisation schedule takes account, on a straight-line basis, of the net book value of the rights at the date of extension of the contract and of the new duration of that contract.

If there is no contractual provision about the effect of the Agreement, the time of recognition is the date of the approval issued by Lega Nazionale Professionisti Serie A for national transfers, or the effect of the international I.T.C. – “Transfer”) issued by the F.I.G.C. for international transfers, via F.I.F.A.’s “T.M.S.” system.

The item player registration rights also includes the costs incurred by the company for the registration of players from amateur soccer clubs, or foreign clubs that have contributed to the technical training of the players. In particular, the following are recognised:

- technical training and coaching bonuses, pursuant to Article 99 NOIF, paid to amateur soccer clubs following the signing of the first “professional” contract by players from those clubs. These costs are amortised on a straight-line basis over the duration of the contracts signed with the individual players;
- the training compensation and/or solidarity mechanism payments made, pursuant to FIFA regulations, to soccer clubs following definitive or temporary transfers of players registered with foreign clubs. These costs are amortised on a straight-line basis over the duration of the contracts signed with the individual players.

Concessions, licenses, trademarks and similar rights

Recognised at purchase cost, they relate to the rights to the profits of the company’s television archive, with a definite life, taking into account the archive’s economic life, and the costs of creating and registering the trademarks for the purchase of software licences, which are amortised on a straight-line basis based on their expected future utility.

Other intangible fixed assets

These specifically refer to leasehold improvements amortised over the term of the related contract.

Tangible fixed assets

They are recorded at the purchase cost effectively paid to acquire the asset and are recognised on the date on which the transfer of risks and benefits takes place, which usually coincides with the transfer of title. This cost includes the purchase cost, ancillary

purchase costs and all costs incurred to bring the asset to the location and in the conditions required for it to be a long-term asset for the companies belonging to the Milan Group.

Tangible fixed assets with a limited useful life are systematically depreciated on a straight-line basis based on their residual useful life.

The depreciation charge for each financial year refers to the distribution of the cost incurred over the entire duration of use.

For assets purchased during the financial year, the depreciation charge is reduced by 50%. The basis for depreciation, initially estimated upon drafting the depreciation schedule based on the prices achievable on the market through the disposal of similar assets both in terms of technical features and the type of use to which they have been subject, is periodically reviewed in order to verify that the initial estimate is still valid. This amount is considered net of presumable removal costs.

If the tangible asset includes components or accessories with a useful life other than that of the principal asset, the depreciation of such components is calculated separately from that of the principal asset, unless this is not material or feasible.

The annual depreciation rates used are shown in the table below:

Asset	Rate
Plant and machinery	7.5 % - 25.0% - 30.0%
Industrial and commercial equipment	15.5 %
Furniture and fittings	12.0 %
Electrical office equipment	20.0 %
Vehicles	25.0 %

Ordinary maintenance costs are charged in full to the income statement. Improvement-related maintenance costs are allocated to the related assets and depreciated over their remaining useful life.

Impairment losses for intangible and tangible assets

Impairment losses for intangible and tangible assets are posted pursuant to the provisions of the OIC 9 Accounting Principle.

The Company accesses at each financial statement date whether objective evidence exists that an asset has incurred an impairment loss. If such evidence exists, it estimates the recoverable value of the asset.

In particular, if the recoverable value of an asset (that is the greater out its use value and fair value) is lower than its book value, the asset is posted at such lower value. The difference is recognised in the income statement as an impairment loss under item B10c).

If, in the subsequent financial years, the reasons for the write-down no longer apply, the original value is restored, adjusted only for depreciation, and recognised in the income statement under item A5).

In absence of evidence of potential impairment losses, the recoverable amount is not determined.

The value is restored if the reasons for the impairment losses no longer exist and takes place to the extent of the value that the asset would have had, had the value adjustment not been performed. The impairment of goodwill cannot be restored.

With specific reference to player registration rights, if there are indications of value impairments (for example serious injuries or significant losses from post-year end sales, and contractual market conditions that prohibit the sales of players who are surplus to requirements (“*impairment*”) of the residual book value.

Financial fixed assets

Equity investments in subsidiaries, associates, parent companies and other companies

Equity investments are recognised as financial assets if they are expected to be part of the company’s long-term investment portfolio, otherwise they are recognised in Working capital.

Equity investments are recognised at purchase or establishment cost, including any ancillary costs. The cost incurred when purchasing an investment booked as a fixed asset is maintained in the financial statements of the subsequent financial years, unless an impairment loss occurs. The Company assesses at each financial statements date whether objective evidence exists that an asset has incurred an impairment loss. The impairment loss is determined by comparing the value the equity investment was recorded at in the financial statements with the relevant recoverable value, calculated on the basis of the future benefits expected for the investor. The impairment loss is not maintained if the reasons for the adjustment made no longer apply.

Receivables

Receivables are carried at the amortised costs, time-adjusted, to the extent of their expected realisable value and, therefore, they are shown in the income statement net of the relevant provisions for doubtful accounts deemed adequate to cover reasonably predictable losses due to uncollectability.

If the transaction’s interest rate is not markedly different from the market rate, the receivable is initially recognised at a value equal to the nominal value net of all premiums, discounts, allowances and inclusive of any costs directly attributable to the transaction that

generated the receivable. The aforementioned transaction costs, any commission income and expenses and any difference between the initial value and the nominal value at maturity are distributed along the life of the receivable using the effective interest method. When, on the other hand, the interest rate for the transaction that can be inferred from contractual conditions is markedly different from the market rate, the receivable (and the relevant income in the case of commercial transactions) is initially posted at a value equal to the present value of estimated future cash flows plus any transactions costs. The rate used to discount future cash flows is the market rate.

In the case of receivables from commercial transactions, the difference between the thus determined initial recognition value of the receivable and the value upon maturity is posted to the income statement as financial income throughout the life of the loan, using the effective interest rate method. In the case of financial receivables, the difference between the liquidity disbursed and the current value of future financial flows, always determined using the market interest rate, is recognised in financial expenses or income in the income statement upon their initial recognition, unless the substance of the transaction or of the agreement attributes a different nature to this component. Subsequently, the active interest accruing on the transaction is calculated at the effective interest rate and posted to the income statement with the value of the receivable as a contra-entry.

The value of the receivables is then subsequently reduced by the amounts received both as capital and as interest, as well as by any write-downs effected to readjust the receivables to their expected realisable value or due to losses.

The company assumes that effects resulting from the implementation of the amortised costs and the discounting are not material when receivables are due within 12 months, taking into account that all contractual and substantial considerations that apply upon recognition of the receivable, as well as all transaction costs and any difference between the initial value and the nominal value at maturity are also negligible. In this case, discounting can be omitted, the interest can be calculated on the capital and transaction costs registered as deferred expenses and amortised on a straight-line basis over the duration of the receivable to adjust nominal interest income.

It should be noted that the company took advantage of the option - provided for by Article 12 of Italian Legislative Decree 139 of 18 August 2015 - to apply the amortised cost only to receivables that have arisen after 1 January 2016.

Write-off of receivables

A receivable is written off from the Financial Statements when:

- the contractual rights on the financial flows arising from the receivable are extinguished; or
- the ownership of the contractual rights arising from the receivable is transferred and, with it, the risks linked to the receivable area also essentially transferred.

For the purposes of the valuation of the transfer of risks, all contractual clauses are taken into account, such as repurchase obligations at the occurrence of certain events or the presence of commissions, excesses or penalties due for non-payment.

When the receivable is written off from the financial statements as a result of a disposal transaction that entails the substantial transfer of all risks, the difference between the price and the value the receivable was recognised at the time of disposal is recognised as disposal loss to be posted under item B14) of the income statement, unless the contract does not allow the identification of other economic components of different nature, including financial.

When the sale agreement does not include the transfer of all risks (e.g. pro-solvendo agreements), the account receivable is kept on the financial statements. If part of the consideration agreed by the transferee is paid in advance, a financial receivable is recorded as counterparty of the advance received. Cost elements, such as interest and commission, to be paid to the transferee, are recorded in the income statement depending on their nature.

When, also by virtue of a disposal contract that can substantially transfer all risks linked to the receivable, minimal risks for the company can be identified, the presence of the conditions required to effect a relevant provision to the risk provision is assessed.

Cash and cash equivalents

Bank deposits, post office deposits, and cheques (current account, bank drafts and similar), and are measured according to the general principle of the estimated realisable value, unless the collection of such receivables is very doubtful.

Cash and revenue stamps, measured at their nominal amount.

Cash pooling, consisting in the centralised treasury management by one company within a Group, enables the optimisation of financial resources and is characterised by receivable and payable items towards the company managing the aforementioned *cash pooling*, respectively for collections from and deposits to the joint current account. Individual companies that participate in centralised treasury management recognise the receivables generated in the item “Financial assets for centralised treasury management” with an indication of the counterparty, which can be the subsidiary of the parent company, in Financial assets that do not constitute long-term investments. If the receivables are not due within one year, they are classified as financial fixed assets. Any such revaluations and write-downs are posted to the income statement under “Write-down of financial assets due to centralised treasury management” and “Revaluation of financial assets due to centralised treasury management”, indicating the counterparty. Any debt position arising from centralised treasury management shall be classified based on the provision of OIC 19 “Debts”.

Accruals and deferrals

The items include the portions of costs and revenues that are common to two or more financial years, based on the accruals principle. This principle provides that an accrual or a deferral is recognised when the following conditions are met:

- the contract starts in one financial year and ends in a subsequent one;
- the consideration for the services provided is contractually due in advance or in arrears compared to performance common to two or more subsequent financial years;
- the size of accruals and deferrals varies over time.

Accruals and deferrals do not include costs and revenues that accrued in full in the financial year to which the Financial Statements refer or in subsequent ones.

At the end of each financial year, the Company assesses whether the conditions that determined the initial recognition of the accrual or the deferral still apply; if necessary, the required value adjustments are effected. This assessment takes into account not only the passage of time, but also the estimated recoverability of the amount posted to the Financial Statements.

Shareholders' Equity and Treasury Shares

This item recognises all capital transactions effected between the company and the individuals who exercise their rights and duties as Shareholders. The share capital increase may only be recognised in the accounts after the transaction has been recorded in the companies' registry, as provided for by Article 2444, paragraph 2, of the Italian Civil Code. This condition entails, from an accounting viewpoint, the need to use a Shareholders' equity item other than "Equity" in order to recognise the capital contributions subscribed by the Shareholders, which are only reclassified under that item after the transaction has been registered in the companies registry.

Any decrease in the share capital due to the withdrawal of a Shareholder entails an obligation for the Company to purchase his/her shares in order to reimburse him/her, if they are not acquire by other Shareholders. From an accounting viewpoint, a negative provision is registered under the item AX) "Negative reserve for treasury shares in the portfolio". The difference between the reduction in Shareholders' equity and the payable towards the ceased Shareholder is channelled to a provision.

If a shareholder defaults, the share capital is reduced by an amount corresponding to the cancelled shares, which from an accounting point of view reverses the amount due from the outgoing shareholder (as to the tenths still payable by him), and the difference between the reduction in net equity and the claim against the outgoing shareholder is paid into a reserve.

Provisions for risks and charges

Provisions for risks are recognised for specific liabilities that are probable and whose values are estimated. Therefore, they are potential liabilities linked to conditions that already existed at the date of the Financial Statements, but that were characterised by a degree of uncertainty, whose outcome depends on the occurrence of one or more future events.

The provisions for costs are entered for liabilities that are known and determinate, estimated as to the amount or date, connected to obligations already accepted on the closing date, but which will be received in future years.

Provisions are quantified based on estimates that take into account all available information, in compliance with the principles of accruals and prudence. These elements can also include the time horizon when at the Financial Statements' date there is a known commitment, on the basis of a contractual or legal obligation, whose disbursement can be reliably estimated and whose occurrence can be reasonably determined, that is sufficiently distant in time so as to make its current value at the date of the Financial Statements significantly different from the one estimated at the time of disbursement.

No generic risk funds without economic justification were set up.

Potential liabilities, if any, are posted to the Financial Statements and registered in the provisions only if they are deemed probable and if the amount of the relevant expense can be reasonably estimated. As a result, remote risks were not taken into account, whereas for potential liabilities that are deemed possible, even if unlikely, information about the uncertainty situation, where relevant, that the loss would cause, as well as the estimated amount or the indication that such amount cannot be estimated, other possible effects, if not apparent, the indication of the management's opinion and that of its legal and other advisers, where available.

With respect to classification, the provisions to risks and charges are initially registered in the income statement items of the relevant classes Per (B, C or D), depending on their nature. If the link between the nature of the provision and one of the aforementioned classes is not immediately apparent, provisions for risks and charges are posted to items B12) and B13) of the income statement.

Employee leaving entitlements

Italian Law no. 296 of 27 December 2006, (2007 Finance Act) introduced new rules for employee leaving entitlements accruing from 1 January 2007. As a result of the Supplementary Pension Reform:

- employee leaving entitlements accrued up to 31/12/2006 remain in the company;
- employee leaving entitlements accruing from 1 January 2007, at the employee's discretion, either through explicit or tacit agreement, have been:
 - allocated to supplementary pension schemes;
 - remained with the company, which transferred the employee leaving entitlements to the I.N.P.S.'s Treasury Fund.

The amounts accrued from 1 January 2007 are still shown in the income statement item B9c) "Employee leaving entitlements". In the balance sheet, item C) "Employee leaving entitlements" represents the remainder of the provision outstanding as at 31 December 2006, item D13) "Amounts payable to social security and welfare institutions" includes the amount payable on 30 June 2018 in respect of post-employment benefits still to be paid to pension funds and welfare institutions.

Payables

Payables are recorded in the Financial Statements using the amortised cost method, on a time-adjusted basis.

If the transaction's interest rate is not markedly different from the market rate, the payable is initially recognised at a value equal to the nominal value net of all premiums, discounts, allowances and inclusive of any costs directly attributable to the transaction that generated the debt. The aforementioned transaction costs, such as accessory costs to obtain loans, any commission income and expenses and any difference between the initial value and the nominal value at maturity are distributed along the life of the payable using the effective interest method.

When, on the other hand, the interest rate for the transaction that can be inferred from contractual conditions is markedly different from the market rate, the payable (and the relevant cost in the case of commercial transactions) is initially posted at a value equal to the present value of estimated future cash flows plus and considering any transactions costs. The rate used to discount future cash flows is the market rate.

In the case of payables from commercial transactions, the difference between the thus determined initial recognition value of the payable and the value upon maturity is posted to the income statement as financial expense throughout the life of the loan, using the effective interest rate method. In the case of financial receivables, the difference between the liquidity disbursed and the current value of future financial flows, always determined using the market interest rate, is recognised in financial income or expenses in the income statement upon their initial recognition, unless the substance of the transaction or of the agreement attribute a different nature to this component. Subsequently, the interest expense accruing on the transaction is calculated at the effective interest rate and posted to the income statement with the value of the payable as a contra-entry.

The value of the payables is then subsequently reduced by the amounts paid both as capital and as interest, as well as by any write-downs effected to readjust the receivables to their expected realisable value or due to losses.

The company assumes that effects resulting from the implementation of the amortised costs and the discounting are not material when payables are due within 12 months, taking into account that all contractual and substantial considerations that apply upon recognition of the payable, as well as all transaction costs and any difference between the initial value and the nominal value at maturity are also negligible. In this case, discounted can be omitted, the interest can be calculated on the capital and transaction costs registered as deferred expenses and amortised on a straight-line basis over the duration of the receivable to adjust nominal interest expense.

Payables towards Group companies

Items D9), D10) e D11) include respectively payables towards subsidiaries, associates and parent companies, as defined by Article 2359 of the Italian Civil Code. These payables are shown separately in the income statement.

Item D11 bis) includes payables towards companies subject to parent companies' control.

Revenues

Match revenues are recognised at the actual time of performance (when each match is played). Season pass sales, if collected at the end of the previous soccer season, are recognised on an accrual basis using the same rule (i.e. when each match is played).

Revenues from sponsorship are allocated pro rata according to the related contracts, which are signed on the basis of the FIGC soccer seasons. Sponsor premiums are recognised in the income statement on an accruals basis, depending on when the sports event to which they refer takes place.

Revenues from broadcasting license rights and subsequent use of images relating to home league matches are recognised on an accrual basis according to the soccer season to which they relate.

Revenues from service provision and expenses for their purchase are recognised on the date on which provision ended, or, for those governed by contracts with periodical payments, on the date such payments are due.

The revenues from the sale are recognised net of returns, discounts, allowances and premiums, as well as any taxes directly linked to the sale of the products and the provision of the services, and any adjustments to the revenues accrued during the year directly reduce the item "Revenues".

The item “Other revenues and income” includes non-financial positive income components solely due to additional management. This item includes any grants related to income.

Cost

Acquisition costs are recognised on an accruals basis.

The costs for raw materials, ancillaries, consumables and goods are inclusive of ancillary purchase costs (transport, insurance, loading and downloading, etc.) if included by the supplier in the purchase price, otherwise they are separately posted to service costs depending on their nature.

The costs include not only those whose amount is certain, but also those that are not yet documented, which have been specifically recognised in the Financial Statements.

The costs for bonuses for footballers, managers and coaches for the achievement of pre-defined sports objectives.

Financial Income and Expenses

They include the positive and negative components of the economic result for the year linked to the company's financial activity, and are recognised based on the accruals principle.

All revenues, with suitable indication of the relevant sub-items, are recognised on an accruals basis.

Dividends

Dividends are recognised at the time when, as a result of the Resolution adopted by the Shareholder's Assembly of the subsidiary to distribute the profit, or the provisions, a collection right arises for the investor company. The dividend is recognised as financial income, independently from the nature of the reserves distributed. The investee company verifies that, following the distribution, the recoverable value of the equity investment has not diminished to such an extent as to require the recognition of an impairment loss.

Gains and losses

Gains and losses arising from the sale of player registration rights are classified under revenues and costs from the core business.

Gains and/or losses are calculated as the difference between the price agreed and the net carrying amount at the date of sale.

Current and deferred taxes and national tax consolidation

Taxes for the year are recognised in the Financial Statements in the item “Current income taxes”.

Direct taxes accrued for the year are recognised based on the estimate of taxable income, in line with legal provisions and current tax rates and considering any applicable exemptions.

Moreover, the analysis of the presence of any time difference between the asset and liability values and the corresponding values relevant for tax purposes and/or between the income components posted in the income statement and those taxable or deductible for the purposes of the calculation of tax for the financial year, as provided for by OIC 25.

In presence of taxable temporary differences, deferred tax liabilities are registered in the Financial Statements, with the exceptions detailed below and provided by OIC 25.

In presence of deductible timing differences, taxes are registered in the Financial Statements only if their future recoverability is reasonably certain.

If tax liabilities have occurred, deferred tax assets are calculated and registered against the future tax benefit linked to them and to the extent of the taxable result achievable in line with tax projections within a reasonable time scale.

Current and deferred taxes are calculated on the amount of all the timing differences for the financial year, applying the tax rates applicable during the financial year in which the timing differences will be taxed, as provided for by the tax regulations that apply at the date of the Financial Statements. If tax regulations do not set out the tax rates applicable to the year in which the timing differences shall be taxed, the company calculates deferred taxes based on the rates applicable at the date of the Financial Statements.

Assets for current taxes and liabilities for deferred taxes are not discounted.

For the purposes of classification in the Financial Statements, tax receivables and payables are offset against each other only if there is a legal right to pay the amounts recognised based on tax legislation and if there the intention to net financial receivables and payables with a single payment.

The remuneration of the tax losses of the companies in the consolidation area is recognised at the time that the losses are effectively utilised in the consolidation area (and are not subject to the taxation of future profits by the individual consolidated company), at the IRES rate applicable during the tax period in which the tax loss is carried forward to reduce the consolidated taxable income. The economic benefits arising from consolidation adjustments effected by the consolidating company, but relating to the consolidated company, are remunerated in favour of the aforementioned consolidated company.

The consolidation adjustments that generated benefits in the consolidated tax return are recognised on the income statement under “Fiscal income from consolidated taxation”, which is classified under “Current income taxes” with a contra-entry in the balance sheet, under “Receivables from subsidiaries”.

Change of accounting principles

Below is a description of the standards used when there are changes to voluntary accounting standards, and also to mandatory standards if different rules are not specifically required.

The change to an accounting principles is registered in the financial year in which it is adopted and the relevant events and transactions are treated in compliance with the new principle, which is applied with retroactive effect. This entails the accounting recognition of such effects on the opening balance of the Shareholders' equity for the year.

For comparison purposes only the opening balance of the Shareholders' equity of the previous year is adjusted and the comparative figures for the previous financial year are considered as if the new accounting principle had always been applied. However, when, after all reasonable efforts, it is not possible to determine the effect pertaining to the previous financial year, or when this calculation is excessively onerous, the company does not restate figures.

Ultimately, when it is not possible to calculate the cumulative effect of the change of accounting principle of such calculation is too onerous, the company applies the new accounting principle starting from the first feasible date. When this date coincides with the start of the current financial year, the new accounting principle is applied on a forward-looking basis.

The effects resulting from the adoption of new accounting principles on the balance sheet, income statement and cash flow statement, where available, have been highlighted and commented in these this supplementary notes in correspondence of the explanatory notes pertaining to the items in the Financial Statements that were impacted in a specific way.

This standard had no significant impact on the financial statements for the year ending 30 June 2018.

Error correction

An error is registered at the time in which an incorrect qualitative and/or quantitative representation of a Financial Statement figure and/or an information provided in an explanatory note and, at the same time, information and data for its correct management is available. Correction of relevant errors is performed by rectifying the balance sheet item that was affected by the error at the time, charging the error's correction to the opening statement of the Shareholders' equity of the financial year in which the error is identified.

For comparison purposes only, when feasible, the company corrects a material error for the previous year by restating comparable figures, whilst if an error relates to previous financial years, it is corrected by restating the opening balances of the previous financial year. When the cumulative effect of a material error cannot be restated for all previous financial years, the company must recalculated comparable figures to correct the material error starting from the first feasible date.

Non-material errors committed in previous years are recognised in the income statement of the financial year in which the error is detected.

This standard had no significant impact on the financial statements for the year ending 30 June 2018.

Conversion criteria for items in foreign currency

Pursuant to Article 2426, paragraph 1, no. 8 bis of the Italian Civil Code, monetary assets and liabilities in currencies other than the functional currency in which the Financial Statements are presented (the so-called "accounting currency"), subsequently to initial recognition, are recognised at the spot exchange on the date of the end of the financial year. The resulting exchange rate gains or losses are posted to the income statement at the items C17-bis) "Exchange rate gains and losses" and any net profit, which contributes to the result for the financial year, is allocated to the dedicated reserve that cannot be distributed until realisation.

Non-monetary assets and liabilities in currencies other than the accounting one are recognised at the exchange rate applicable at the time of their purchase. When the exchange rate at the closing date of the financial year is markedly different from that at the purchase date, the exchange rate variance is one of the elements considered in the assessment process to determine the value that can be recognised in the financial statements for individual non-monetary assets. In this case, therefore, any (positive or negative) exchange rate differences contribute to the calculation of the recoverable value.

Exchange rates

The exchange rates used to translate the main items in foreign currency are:

	Spot rate 30.06.2018 (*)	Average rate 2017/2018 (*)
U.S.dollar	1.1658	1.1678
Japanese Yen	129.0400	128.5290
GB Pound	0.8860	0.8789
Swiss franc	1.1569	1.1562
Chine Yuan	7.7170	7.5512

(*) Source European System of Central Banks.

OTHER INFORMATION

Tax consolidation

With effect from 1 January 2017 the parent company A.C. Milan S.p.A. exercised the option to join the fiscal consolidation scheme (Articles 117-129 of Presidential Decree 917/86), as the consolidating entity, jointly with Milan Entertainment S.r.l. and Milan Real Estate S.p.A. consolidated companies.

Consolidated Financial Statements

The company prepared the consolidated financial statements to 30 June 2018 in accordance with the legal requirements and the provisions of the U.E.F.A. Guidebook 2.3 art. 14.4.4, which requires football clubs that exercise control over one or more companies, as in the case of A.C. Milan S.p.A., to prepare consolidated financial statements which are then submitted for auditing.

Statutory audit of the accounts

The financial statements for the year ending 30 June 2018 were audited by EY S.p.A..

Statement of amounts

In accordance with Article 2423 (5) civil code, the financial statements to 30 June 2018 were prepared in Euros, with no decimal places, apart from these Notes which show the values and related comments in thousands of Euros, unless indicated otherwise. It should be noted, however, that the Report on Operations is prepared in millions of Euro with one decimal place shown.

Disclosure on commitments, guarantees and potential liabilities not included in the balance sheet

The explanatory note must detail the overall amount of the commitments, guarantees and potential liabilities not included in the balance sheet, specifying the nature of any collateral provided, itemised in:

- a. existing pension and similar commitments;
- b. commitments towards subsidiaries, associates, as well as parent companies and companies subject to the latter's control.

Going concern

The loss of Euro 135.6 million for the year has led to the situation governed by Article 2446 of the civil code.

However, as the majority shareholder made payments totalling Euro 170.5 million in August and September 2018, and considering that A.C. Milan S.p.A. has discharged the bonds “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017–2018 – Serie 1” (ISIN Code IT005254435) and “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017–2019 – Serie 2” (ISIN Code IT0005254443), the capital and financial situation of the Group has been re-established, as of the date on which this report was drafted.

The majority shareholder Rossoneri Sport Investment Luxembourg S.à r.l. has guaranteed its commitment to provide financial support to the Milan Group companies for at least 12 months from the date of approval of the financial statements.

Based on these considerations, the directors have prepared these financial statements on a going concern basis.

Significant events occurring after year end

On 18 May 2017 the meeting of shareholders of the parent company A.C. Milan S.p.A. authorised a capital increase of Euro 49.9 million, for 96,000,000 shares, each with a nominal value of Euro 0.52, to be offered under option to all shareholders and paid in cash, with a premium of Euro 0.10 per share, giving a total premium of Euro 9.6 million. The Board of Directors was also authorised, under Article 2443 civil code, to increase the share capital by a total of Euro 60.0 million.

The capital increase of Euro 49.9 million authorised by the meeting of shareholders was fully subscribed and paid in multiple instalments, from July 2017 until March 2018.

On 13 March 2018, the Board of Directors exercised the authority granted to it by the meeting of shareholders of 18 May 2017, authorising a further increase totalling Euro 60.0 million, which was fully subscribed and paid in multiple instalments from March 2018 until June 2018.

The company also obtained consent from Project Redblack S.à r.l. to make part of the authorised capital increase in the name of the majority shareholder.

As the majority shareholder Rossoneri Sport Investment Luxembourg S.à r.l., after having previously paid the various instalments of the capital increase, did not pay the Euro 32.4 million payment by the deadline set by the Board of Directors, on 22 June 2018 Project Redblack S.à r.l. – following up on the availability previously declared to the club - exercised its option under the pledge agreement of 13 April 2017 between Rossoneri Sport Investment Luxembourg S.à r.l. as the pledgor, and Project Redblack S.à r.l. as the secured

creditor, in relation to the shareholding of Rossoneri Sport Investment Luxembourg S.à r.l. in A.C. Milan S.p.A. and paid A.C. Milan S.p.A. Euro 32.4 million, in favour of the majority shareholder.

On 6 June 2018, A.C. Milan S.p.A., after agreement with Project Redblack S.à r.l. and BNP Paribas Securities Services Milan Branch, amended the terms of the Guaranteed Bond “Associazione Calcio Milan S.p.A. 2017-2019 – Serie II (ISIN Code IT0005254443)” and included two repayment dates (15 October 2018 and 30 June 2019), postponing the final reimbursement to 30 June 2019.

On 30 June 2018, A.C. Milan S.p.A. also executed the partial early reimbursement of the Guaranteed Bond “Associazione Calcio Milan S.p.A. 2017-2019 – Serie II (ISIN Code IT0005254443)”, in the amount of Euro 21.1 million as provided for in the agreement amending the terms of the bond, signed on 6 June 2018, following payment of the corresponding share of the capital increase by Project Redblack S.à r.l. on behalf of Rossoneri Sport Investment Luxembourg S.à r.l..

On 10 July 2018, as a result of the enforcement of the pledge in its favour, on the whole of the share capital of Rossoneri Sport Investment Luxembourg S.à r.l., Project RedBlack S.à r.l. (held by the Elliott funds and Blue Skye Financial Partners S.à r.l.) acquired 100% of the share capital of Rossoneri Sport Investment Luxembourg S.à r.l. thereby acquiring indirect ownership of the controlling interest in A.C. Milan S.p.A..

On 21 July 2018, the ordinary meeting of the shareholders of A.C. Milan S.p.A., which was convened at the request of the majority shareholder, acknowledged the resignation of various directors and decided to revoke the mandates of the directors still in office on that date, also electing a new Board of Directors and a new Chairman.

As various disciplinary complaints had been made against the former director general, A.C. Milan S.p.A. then ordered his dismissal for good cause.

In July and August 2018 the officers of the subsidiaries Milan Entertainment S.r.l. and Milan Real Estate S.p.A. were also re-elected.

In August and September 2018, the new majority shareholder made additional capital contributions totalling Euro 170.5 million, of Euro 21.0 million, Euro 30.0 million and Euro 119.5 million respectively, with the aim of providing the parent company A.C. Milan S.p.A. with the funds needed for the early, full, voluntary reimbursement of the bond issued in 2017 originally maturing on 15 October 2018, as described in more detail in the “Bonds” paragraph of the Notes (to which please refer), the funds needed to meet cashflow requirements and to strengthen the capital of the Milan Group, and to meet the financial requirements imposed by the F.I.G.C. (Liquidity Indicator).

On 25 September 2018, A.C. Milan S.p.A. exercised its option to repay in advance all the

bonds named “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 – 2018 – Serie 1” (ISIN Code IT005254435) and “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 – 2019 – Serie 2” (ISIN Code IT0005254443) issued by the parent company A.C. Milan S.p.A. and listed on the third Market of the Vienna Stock Exchange, indicating the date of repayment as 28 September 2018. On 28 September 2018, A.C. Milan S.p.A. repaid the above bonds in full.

With regard to player transfers, in July and August 2018, the following purchases were made, either permanent or temporary with the right to acquire full rights to the player: Bakayoko Tiémoué, Caldara Mattia, Castillejo Azuaga Samuel, Higuain Gonzalo Gerardo, Laxalt Suarez and Diego Sebastian.

Highlights of the definitive and/or temporary sales of player rights include: Antonelli Luca, Bacca Ahumada Carlos Arturo, Bargiel Przemyslaw, Bonucci Leonardo, Gomez Portillo Gustavo Raul, Kalinic Nikola, Locatelli Manuel, Valente Da Silva André Miguel, Vasconcelos Gabriel and Vergara Amu Jherson.

NOTES ON THE MAIN ASSET ITEMS

(in thousands of Euros)

RECEIVABLES FROM SHAREHOLDERS FOR PAYMENTS DUE

On 30 June 2018, these receivables were completely cancelled out following the execution of the resolutions concerning the various capital increases approved and paid prior to year-end.

FIXED ASSETS

Specific tables have been prepared for each class of fixed assets (intangible assets, tangible assets and financial fixed assets), shown in the attachments, which indicate for each item: the historical cost, the accumulated depreciation, any write-backs and write-downs, movements during the period and the final balance.

INTANGIBLE FIXED ASSETS

This item amounts to Euro 257,749 thousand (Euro 256,614 thousand on 30 June 2017). The breakdown is as follows:

	30.06.2018	30.06.2017	Change
Player registration rights	211,165	206,663	4,502
Concessions, licenses, trademarks and similar rights	28,123	29,696	(1,573)
Assets in progress and advances	—	83	(83)
Other intangible fixed assets	18,461	20,172	(1,711)
Total	257,749	256,614	1,135

The change in intangible fixed assets is shown in attachment 1, which is an integral part of these Explanatory Notes.

Player registration rights, of Euro 211,165 thousand (Euro 206,663 thousand on 30 June 2017), also includes the costs of direct allocation which are amortised according to the players' contract expiry dates, taking into account any contract extensions agreed before the financial statements are approved. The name changes resulting from investments and disposals during the period are detailed in attachment 2, which is an integral part of these Explanatory Notes.

The item Concessions, licences, trademarks and similar rights, of Euro 28,123 thousand (Euro 29,696 thousand on 30 June 2017) mainly includes the rights to use the television archive of the parent company A.C. Milan S.p.A. ("*Library Milan*") bought by R.A.I. and R.T.I. S.p.A. (Mediaset Group) for a total of Euro 26,653 thousand (Euro 27,892 thousand on 30 June 2017), in 2009. This archive is supposed to be self-sustaining over time depending on the matches played by the team from time to time. The value of the *libraries* is amortised on a straight-line basis over their expected future useful life.

Other intangible assets, amounting to Euro 18,461 thousand (Euro 20,172 thousand on 30 June 2017), relate in particular to the following:

- Euro 7,600 thousand (Euro 8,085 thousand on 30 June 2017) to the investments in the new "Casa Milan" headquarters, which were amortised according to the duration of the rental agreement for the technical and commercial areas;
- Euro 6,949 thousand (Euro 7,393 thousand on 30 June 2017), being the incremental costs incurred for the San Siro Stadium in Milan, amortised according to the duration of the agreement with the Municipality of Milan;
- Euro 3,912 thousand (Euro 4,694 thousand on 30 June 2017) relating to the acquisition of a 10-year ground lease (Article 952 (2) civil code) for the Vismara sports centre, home to the Milan youth team, owned by the Opera Diocesana per la Preservazione e la Diffusione della Fede. The ground lease includes improvements which are recognised at cost, less the related amortisation calculated on the duration of the ground lease itself.

Regarding the intangible assets, of Euro 257,749 thousand on 30 June 2018, write-downs of Euro 21,822 thousand were made to the item Player registration rights resulting from consensual contract terminations with various players prior to the contractual expiry date and/or from definitive sales in July and August 2018.

TANGIBLE FIXED ASSETS

This item amounts to Euro 1,377 thousand (Euro 1,758 thousand on 30 June 2017). The breakdown is as follows:

	30.06.2018	30.06.2017	Change
Plant and machinery	130	175	(45)
Industrial and commercial equipment	296	369	(72)
Other assets	894	1,157	(263)
Assets in progress and advances	57	57	0
Total	1,377	1,758	(380)

The change in tangible fixed assets is shown in attachment 3, which is an integral part of these Explanatory Notes.

FINANCIAL FIXED ASSETS

Equity investments

The breakdown of equity investments in subsidiaries, associates and other companies is as follows:

	30.06.2018	30.06.2017	Change
Subsidiaries	196,685	196,685	0
Associates	1,085	803	282
Other companies	—	—	0
Total	197,770	197,488	282

With regard to changes during the year relating to financial assets, please see Annex 4 (Schedule of changes in equity investments) and Annex 7 (List of equity investments in subsidiaries and affiliates (ex Art. 2427 (5) civil code), the latter gives a comparison of the book value and the corresponding share of net equity, and they form an integral part of these Notes.

Equity investments in subsidiaries

This item, equal to Euro 196,685 thousand (Euro 196,685 thousand on 30 June 2017) includes:

- Euro 183,756 thousand (unchanged compared to 30 June 2017), being 100% of the share capital of Milan Entertainment S.r.l., based in Milan, Via Aldo Rossi no. 8, whose main object is the management and commercial promotion of brands owned by or available to A.C. Milan S.p.A.;
- Euro 12,825 thousand (unchanged compared to 30 June 2017), being 100% of the share

capital of Milan Real Estate S.p.A., headquartered in Carnago (VA) – Via Milanello no. 25. The company's purpose is the development of projects in the real estate sector, in the area of sports facilities, through any activities or operations aimed at and connected to the construction or acquisition of property complexes and infrastructure;

- Euro 104 thousand (unchanged compared to 30 June 2017) relating to 100% of the share capital of the non-profit Milan Foundation, which was set up in 2003 with the aim of meeting basic individual needs and freedoms, of diffusing a culture of sport as a tool for mental and physical wellbeing, social integration, improving quality of life, and to support and organise charitable projects.

On 30 June 2018 the value of the investment in Red & Black Milan (Beijing) Sports Development Co. Ltd., based in Beijing (People's Republic of China), Chinese company whose aim is to develop the commercial operations of the Milan brand on the Asian market, and originally recognised at Euro 350 thousand, was completely written down due to the losses shown on the income statement to 30 June 2018, bringing the book value into line with the net equity of the subsidiary.

Equity investments in associates

They refer to the 50% equity investment in M-I Stadio S.r.l., established with F.C. Internazionale Milano S.p.A. for the technical and commercial management of the San Siro Stadium in Milan. In the year 2017/2018 there was an increase of Euro 500 thousand following payments made on account of a capital increase and/or for the future coverage of losses, involving the partial waiver of commercial claims against the affiliate company. There was also a decrease of Euro 218 thousand following a write-down of the investment as a result of the loss recorded on the financial statements to 30 June 2018, in order to bring the value of the investment into line with the corresponding share of net equity.

Long-term receivables

Other receivables

This item amounts to Euro 8,864 thousand (Euro 350 thousand on 30 June 2017). The most part, Euro 8,590 thousand, consists of receivables restricted by guarantees granted by a leading insurer, to partially cover the 2017/2018 transfer campaign, while Euro 354 thousand consists of security deposits. These receivables are due both from Italian entities and European Union Entities and are all short-term receivables, with the exception of Euro 8.849 thousand payable beyond the following financial year. There were no receivables with a remaining duration of more than five years.

WORKING CAPITAL

RECEIVABLES

	30.06.2018	30.06.2017	Change
Receivables from customers	41,325	52,784	(11,459)
Receivables from subsidiaries	1,356	283	1,073
Receivables from associates	—	1,621	(1,621)
Receivables from parent companies	26	50	(24)
Receivables from companies subject to parent companies' control	—	—	0
Tax receivables	3,260	1,500	1,760
Deferred tax assets	1,233	1,181	52
Other receivables	880	1,998	(1,118)
Receivables from institutions – specific sector	53,009	12,829	40,180
Total	101,089	72,246	28,843

Receivables due beyond the next financial year amounted to Euro 18,581 thousand. There were no receivables with a remaining duration of more than five years.

Receivables from customers

At the end of the period this item was composed as follows:

	30.06.2018	30.06.2017	Change
Receivables from customers	43,908	54,479	(10,571)
Provision for doubtful trade receivables	(2,583)	(1,695)	(888)
Net value	41,325	52,784	(11,459)

Trade receivables net of the provision for doubtful accounts, amount to Euro 41,325 thousand (Euro 52,784 thousand on 30 June 2017) and are commercial in nature. The decrease is mainly linked to the different invoicing times, for the previous technical sponsor Adidas Italia S.p.A.

The provision for doubtful debts shown above reflects the value adjustment to the receivables to align them to their estimated realisable value. During the year the provision for doubtful accounts was increased by Euro 973 thousand, as prudent provision was made for the risks of non-collection. Euro 85 thousand was utilised to cover receipts of previously written-down receivables, and also to cover certain claims that could no longer be collected.

Receivables from subsidiaries, associate, parent companies and companies subject to parent companies' control

The item was composed as follows:

	30.06.2018	30.06.2017	Change
Receivables from subsidiaries:			
• receivables from customers	542	190	351
• other receivables	814	93	721
Total receivables from subsidiaries	1,355	283	1,072
Receivables from associates:			
• receivables from customers	—	1,621	(1,620)
• other receivables	—	—	0
Total receivables from associates	1	1,621	(1,620)
Receivables from parent companies:			
• receivables from customers	26	50	(24)
• other receivables	—	—	0
Total receivables from parent companies	26	50	(24)
Total receivables from companies subject to parent companies' control:			
• receivables from customers	—	—	0
• other	—	—	0
Total receivables from companies subject to parent companies' control	0	0	0

Receivables from subsidiaries include, in particular, Euros 814 thousand (Euro 93 thousand on 30 June 2017) resulting from the execution of the “Agreement on the exercise of the option for the national tax consolidation scheme” and are claimed from Milan Entertainment S.r.l. and Milan Real Estate S.p.A.

Receivables from affiliates on 30 June 2017 related to the trade receivables from M-I Stadio S.r.l., for charges for using internal and external facilities at the San Siro stadium under an agreement between A.C. Milan S.p.A., F.C. Internazionale Milano S.p.A. and M-I Stadio S.r.l. for which the licensees pay an annual fee of Euro 2,400 thousand. The contract is subject to ISTAT revaluation and is valid until 30 June 2018. The contract was recently extended until 30 June 2019 with an annual fee of euro 1,507 thousand. The decrease in this balance is mainly due to the set-off carried out to cover the trade payables due from the affiliate company.

Receivables from parent companies, of Euro 26 thousand (Euro 50 thousand on 30 June 2017) are all trade-related.

Tax receivables

At end of the period this item was composed as follows:

	30.06.2018	30.06.2017	Change
Due from Treasury for tax consolidation	1	772	(771)
Due from Treasury for VAT	2,428	—	2,428
I.R.A.P. (Regional business tax) receivables	412	309	103
Other tax receivables	419	419	0
Total	3,260	1,500	1,760

Receivables from Treasury for tax consolidation, of Euro 1 thousand (Euro 772 thousand on 30 June 2017) relates to amounts due from the “Agreement on exercise of the option for the national tax consolidation scheme”. During the year, there was a prudential write-down of the items relating to claims for taxes paid abroad by the parent company A.C. Milan S.p.A. and by its subsidiaries, considering the fiscal result currently expected for the current year.

In the item Receivables from Treasury for VAT, of Euro 2,428 thousand (liability of Euro 2,903 thousand on 30 June 2017), it should be noted that Euro 1,947 thousand resulting from the 2018 VAT return (tax year 2017) has been requested as a rebate. This change mainly relates to the effects of the Italy 2017/2018 transfer season.

Receivables for I.R.A.P. consists only of the Economic Growth Aid surplus, which has been converted into a tax credit that can be used on a straight-line basis over five tax years.

Deferred tax assets

The amount of Euro 1,233 thousand (Euro 1,181 thousand on 30 June 2017) relates to the recognition of advance taxes on the provisions made in prior years, and in the current year to the provision for doubtful accounts, as to the non-tax-deductible part.

Other receivables

This item, equal to Euro 880 thousand (Euro 1,998 thousand on 30 June 2017) mainly includes:

- Euro 527 thousand (Euro 992 thousand on 30 June 2017), being advances to suppliers and consultants;
- Euro 353 thousand (Euro 999 thousand) to Fininvest S.p.A. from indemnities granted by the previous parent company following the sale of the majority holding to Rossoneri Sport Investment Luxembourg S.à r.l..

Receivables from institutions – specific sector

Net of the provision for doubtful accounts, this item amounts to Euro 53,009 thousand (Euro 12,829 thousand on 30 June 2017). The amount is due from various football clubs, for payments relating to the current and/or past transfer seasons, and in connection with international trips by teams taking part in the training of players sold by those clubs, in accordance with the F.I.F.A. Solidarity regulations.

Specifically, they consist of:

- Euro 41,168 thousand (Euro 12,278 thousand on 30 June 2017) being amounts due from the Lega Nazionale Professionisti, in respect of various transfer seasons;
- Euro 7,894 thousand (not present on 30 June 2017) being amounts due from the club Trabzonspor Kulübü for the definitive sale of Kucka Juraj and Sosa Josè Ernesto;
- Euro 1,900 thousand (not present on 30 June 2017) of bonuses receivable from Villarreal Club de Fútbol following the temporary loan of Bacca Ahumada Carlos Arturo;
- Euro 1,484 thousand (not present on 30 June 2017) being amounts due from the club Deportivo Alavés for the definitive sale of Ely Rodrigo;
- Euro 564 thousand (Euro 533 thousand on 30 June 2017) being amounts due from various football clubs under the “solidarity scheme”.

The amount due from Real Zaragoza S.A.D., for the sale of Ricardo De Oliveira, which was originally Euro 3,000 thousand, has been fully covered by the provision for doubtful accounts - professional bodies.

TOTAL FINANCIAL ASSETS OTHER THAN FIXED ASSETS

Other receivables, of Euro 18 thousand (not included on 30 June 2017), is the balance of current accounts that were frozen due to failure to meet various financial covenants of the non-convertible bonds issued on 26 May 2017, referred to in the section “Bonds”, to which please refer. On the date these notes were drafted, there was no longer any restriction on the club's accounts, thanks to the capital contributions made after the 2018 year-end.

Financial assets for centralised cash management, of Euro 6,250 thousand (Euro 7,984 thousand on 30 June 2017) relate to the cash management services performed by A.C. Milan S.p.A. for Milan Real Estate S.p.A., under an infra-group current account contract.

CASH AND CASH EQUIVALENTS

This item consists of the funds in the restricted and ordinary current accounts, totalling Euro 22,386 thousand (Euro 9,105 thousand on 30 June 2017).

Cash and valuables on hand amounted to Euro 28 thousand (Euro 28 thousand on 30 June 2017).

ACCRUED INCOME AND PREPAYMENTS

At end of the period this item was composed as follows:

	30.06.2018	30.06.2017	Change
Accrued income	—	—	0
Prepaid expenses:			
• prepaid insurance premiums	362	369	(7)
• prepaid sports consultancy	—	15	(15)
• prepaid technical equipment and clothing	—	1,161	(1,161)
• Other prepayments	1,949	239	1,710
Total prepaid expenses	2,311	1,784	527
Total accruals and deferrals	2,311	1,784	527

The item Other deferrals includes Euro 1,464 thousand which relates to commission on guarantees for the 2017/2018 summer transfer campaign, pertaining to future years.

NET FINANCIAL POSITION

As a supplement to the reporting of financial payables and financial receivables in the financial statements, the Net Financial Position is also provided in this section.

	30.06.2018	30.06.2017	Change
Non-current financial assets (<i>cash collateral</i>)	8,590	—	8,590
Financial assets other than fixed assets	6,267	7,984	(1,717)
Cash and cash equivalents	22,414	9,134	13,280
Total financial assets	37,271	17,118	20,153
Bonds	(116,520)	(74,346)	(42,174)
Payables to shareholders for loans	(10,000)	(10,000)	0
Financial payables	(1,210)	(1)	(1,209)
Payables to other financial institutions	(36,541)	(68,453)	31,912
Financial payables to subsidiaries, associates, parent companies and other financial liabilities	(117,815)	(110,707)	(7,108)
Total financial liabilities	(282,086)	(263,507)	(18,579)
Net financial position	(244,815)	(246,389)	1,574

A breakdown of changes in the individual items making up the net financial position is provided in the specific sections of these Explanatory Notes.

NOTES ON MAIN SHAREHOLDERS' EQUITY AND LIABILITY ITEMS

(in thousands of Euros)

SHAREHOLDERS' EQUITY

The changes in the items of shareholders' equity are provided in attachment 5.

Comments are provided on those changes below.

SHARE CAPITAL

The Share capital on 30 June 2018 amounted to Euro 113,443,200 (Euro 74,880,000 on 30 June 2017), fully subscribed and paid, comprising 218,160,000 ordinary shares, each with a nominal value of Euro 0.52, of which 74,160,000 were newly issued, with a nominal value of Euro 0.52 each, following:

- the Board of Directors' resolution of 13 March 2018, partially exercising the authority granted by the meeting of shareholders on 18 May 2017 which authorised a paid, divisible share capital increase up to a maximum nominal value of Euro 37,440,000 through the issue of 72,000,000 shares with a nominal value of Euro 0.52 each and with a premium of Euro 0.02 for each newly-issued share, giving a total share premium of Euro 1,440,000;
- the Board of Directors' resolution of 17 April 2018, partially exercising the authority granted by the meeting of shareholders on 18 May 2017 which authorised the paid, divisible share capital increase up to a maximum nominal value of Euro 1,123,200 through the issue of 2,160,000 shares with a nominal value of Euro 0.52 each and with a premium of Euro 9.25 for each newly-issued share, giving a total share premium of Euro 19,980,000.

SHARE PREMIUM RESERVE

On 30 June 2018, the Share premium reserve was Euro 31,020 thousand (Euro 9,600 thousand on 30 June 2017), fully subscribed and paid and relating to the premium paid to cover 170,160,000 shares following the execution of the Meeting resolution of 18 May 2017, and authorities to increase the share capital granted to the Board of Directors, as commented on in the paragraph "Share capital", above.

LEGAL RESERVE

On 30 June 2018 this amounted to Euro 124 thousand and was unchanged compared to the previous year.

OTHER RESERVES

The balance of Euro 39,557 thousand (Euro 67,078 thousand on 30 June 2017) relates to capital contributions and/or payments to cover losses. The change compared to 30 June 2017 is due to the use of these reserves to cover all of the loss on the previous financial statements, as per the Meeting resolution of 18 May 2017 approving the financial statements to 30 June 2017.

PROFIT (LOSS) CARRIED FORWARD

On 30 June 2018 this amounted to - Euro 34,250 thousand (no change compared to 30 June 2017) and it includes the effects of the changes of first adoption of the new OIC accounting standards.

PROFIT/(LOSS) FOR THE YEAR

The Profit/(loss) for the year shows a loss of Euro 135,638,498.93 (loss of Euro 27,520,986.79 for the year ending 30 June 2017).

PROVISIONS FOR RISKS AND CHARGES

Provisions estimated on the basis of specific losses that are certain or likely are detailed below.

	Balance as at 01.07.2017	Allocations	(Uses)	Other changes	Balance as at 30.06.2018
Provision for deferred tax liabilities	—	—	—	—	0
Other provisions for risks and charges	3,859	18,467	(1,759)	—	20,567
Total	3,859	18,467	(1,759)	0	20,567

Other provisions for risks and charges

On 30 June 2018 this item amounted to Euro 20,567 thousand (Euro 3,859 thousand on 30 June 2017). It relates to the allocation of future costs for the restructuring of registered footballers and non-registered personnel, the surplus in the provision for equity

investment write-downs relating to the subsidiary Red & Black Milan (Beijing) Sports Development Co. Ltd., compared to the value of the investment, a prudential allocation to cover the risk of potential fines being levied by UEFA due to violation of the break-even rule according to the *Financial Fair Play* standard, as described in more detail in the paragraph “Potential liabilities and other information”, to which please refer, while the residual part relates to other risks borne by the club.

These utilisations all relate to the settling of disputes arising in previous years, pertaining to footballers and non-footballing personnel.

EMPLOYEE LEAVING ENTITLEMENTS

The changes in this item are shown in the following table. The balance is fully sufficient to cover contractual and legal obligations.

	Employee leaving entitlements	End of career entitlements	Total
Balance as at 01.07.2017	908	51	959
Accruals	690	497	1,187
Uses for employment terminations/ prepayments	(204)	—	(204)
Transfers	51	—	51
Payments	—	(501)	(501)
Other changes	(601)	—	(601)
Balance as at 30.06.2018	844	47	891

The item Accruals includes revaluation of the pre-existing amount calculated in accordance with legal requirements and the “white semester” amount which represents (solely for the year 2007) the employee leaving entitlements accrued from 1 January 2007 up to the date of selection of allocation to the company supplementary pension fund (closed) or a contractual pension fund (open) or individual pension plan (IPP).

PAYABLES

	30.06.2018	30.06.2017	Change
Bonds	116,520	74,346	42,174
Payables to shareholders for loans	10,000	10,000	0
Financial payables	1,210	1	1,209
Payables to other financial institutions	36,541	68,453	(31,912)
Payables to suppliers	54,104	46,621	7,483
Payables to subsidiaries	120,635	115,042	5,593
Payables to affiliates	1,396	1,056	340
Payables to parent companies	—	—	0
Payables to companies subject to parent companies' control	—	—	0
Tax payables	11,509	12,214	(705)
Payables to pension funds and social security agencies	391	221	170
Payables to third parties	12,796	9,961	2,835
Payables to institutions – specific sector	172,029	142,670	29,359
Total	537,131	480,585	56,546

Payables due beyond the next financial year amounted to Euro 112,778 thousand. There were no payables with a remaining duration of more than five years.

Bonds

The balance, of Euro 116,520 thousand (Euro 74,346 thousand on 30 June 2017) relates to the issue of two non-convertible bonds, which were fully subscribed by Project RedBlack S.à r.l. on the Third Market of the Vienna Stock Exchange at a fixed annual rate of 7.7%, specifically:

- “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 -2018 – Serie I (ISIN Code IT005254435)”, issued with a nominal amount of Euro 73.7 million and maturing on 15 October 2018, intended to fully repay the club's debt to the parent company Rossoneri Sport Investment Luxembourg S.à r.l., which is subject to various financial covenants, which are tested periodically;
- “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 -2019 – Serie II (ISIN Code IT0005254443)”, issued with a nominal amount of Euro 54.3 million and with an original maturity date of 15 October 2018, intended to fund the club's cashflow requirements, and which is subject to various financial covenants, which are tested periodically.

On 6 June 2018, A.C. Milan S.p.A., after agreement with Project Redblack S.à r.l. and BNP Paribas Securities Services Milan Branch, amended the terms of the Guaranteed Bond “Associazione Calcio Milan S.p.A. 2017-2019 – Serie II (ISIN Code IT0005254443)” and included two repayment dates (15 October 2018 and 30 June 2019), postponing the final reimbursement to 30 June 2019.

On 30 June 2018, A.C. Milan S.p.A. also executed the partial early reimbursement of the Guaranteed Bond “Associazione Calcio Milan S.p.A. 2017-2019 – Serie II (ISIN Code IT0005254443)”, in the amount of Euro 21.1 million as provided for in the agreement amending the terms of the bond, signed on 6 June 2018, following payment of the corresponding share of the capital increase by Project Redblack S.à r.l. on behalf of Rossoneri Sport Investment Luxembourg S.à r.l..

On 25 September 2018, A.C. Milan S.p.A. exercised its option to repay in advance all the bonds named “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 – 2018 – Serie 1” (ISIN Code IT005254435) and “Prestito Obbligazionario Garantito Associazione Calcio Milan S.p.A. 2017 – 2019 – Serie 2” (ISIN Code IT0005254443), indicating the date of repayment as 28 September 2018. On 28 September 2018, A.C. Milan S.p.A. repaid the above bonds in full.

Payables to shareholders for loans

They amount to Euro 10,000 thousand (Euro 10,000 thousand on 30 June 2017) and relate to a non-interest-bearing loan granted by the controlling entity Rossoneri Sport Investment Luxembourg S.à r.l. to finance the club’s ordinary business.

Financial payables

The balance of Euro 1,209 thousand (Euro 1 thousand on 30 June 2017) relates to normal banking operations.

Payables to other financial institutions

This amount, of Euro 36,541 thousand (Euro 68,453 thousand on 30 June 2017) relates to amounts payable to factoring companies for advances on future accounts receivable, mainly in relation to commercial agreements.

Payables to suppliers

These are detailed in the table below.

	30.06.2018	30.06.2017	Change
Suppliers	29,369	27,001	2,368
Suppliers for invoices to be received	24,748	19,635	5,113
Credit notes to be received	(13)	(15)	2
Total	54,104	46,621	7,483

Payables to subsidiaries, associate, parent companies and companies subject to parent companies' control

The item was composed as follows:

	30.06.2018	30.06.2017	Change
Payables to subsidiaries:			
• trade and other payables	2,820	4,335	(1,515)
• financial payables	117,815	110,707	7,108
Total payables from subsidiaries	120,635	115,042	5,593
Payables to associates:			
• trade and other payables	1,396	1,056	340
• financial payables	—	—	0
Total payables to associates	1,396	1,056	340
Payables to parent companies:			
• trade and other payables	—	—	0
• financial payables	—	—	0
Total payables to parent companies	0	0	0
Payables to companies subject to parent companies' control:			
• trade and other payables	—	—	0
• financial payables	—	—	0
Total payables to companies subject to the control of parent companies	0	0	0

Trade and other payables to subsidiaries refer by Euro 2,793 thousand to the company Milan Entertainment S.r.l and by Euro 27 thousand to the company Milan Real Estate S.p.A.

Financial payables to subsidiaries, of Euro 117,815 thousand (Euro 110,707 thousand on 30 June 2017) relate exclusively to Milan Entertainment S.r.l. and derive from cash management services performed by the company under an infragroup current account agreement.

Amounts payable to affiliates relate to the company M-I Stadio S.r.l., to cover operating costs for the San Siro stadium, under an agreement between A.C. Milan S.p.A., F.C. Internazionale Milano S.p.A. and M-I Stadio S.r.l., under which the licensees pay an annual payment of Euro 7,000 thousand which is subject to ISTAT revaluation (plus adjustments). The agreement was recently renewed until 30 June 2019 and the annual charge is Euro 8,594 thousand.

Tax payables

	30.06.2018	30.06.2017	Change
Payables for current taxes	1,321	—	1,321
Payable to Treasury for VAT	—	2,903	(2,903)
Payables withholding tax on income from work:			
• registered players and employees	10,021	9,240	781
• freelance workers and consultants	167	71	96
Other tax payables and withholdings	—	—	0
Total	11,509	12,214	(705)

I Payables for current taxes pertain to the I.R.A.P. payable accrued, net of any accounts paid.

On 30 June 2018, the company's VAT position towards the Treasury was in credit, and the balance has thus been recognised under Assets.

Payables on withholdings on income from work related to the withholdings made on registered players, employees and freelance workers, and have been duly paid on the established deadlines.

Payables to pension funds and social security agencies

The amount of this item was broken down as follows:

	30.06.2018	30.06.2017	Change
Payables to I.N.P.S.	527	372	155
Payables/(Receivables) to/from other pension institutions	(136)	(151)	15
Total	391	221	170

The payables shown above have been duly paid on the established deadlines.

This item also includes the payables for contributions to supplementary pension funds and/or to the Treasury Fund at the I.N.P.S. The changes were in line with the trend in the cost of labour.

Other payables

These consisted of the following:

	30.06.2018	30.06.2017	Change
Payables to registered players and employees	12,498	9,701	2,797
Payables to directors, statutory auditors and the Supervisory Body	31	15	16
Other payables	267	245	22
Total	12,796	9,961	2,835

Payables to registered players and employees relate in particular to the additional month salaries and bonuses to registered players and employees, duly paid on the established deadlines.

Payables to institutions – specific sector

At end of the period this item was composed as follows:

	30.06.2018	30.06.2017	Change
Payables to the Lega Nazionale Professionisti	109,127	52,267	56,860
Payables to foreign and Italian soccer clubs	62,886	90,386	(27,500)
Payables to minor football clubs	16	17	(1)
Total	172,029	142,670	29,359

Payables to the Lega Nazionale Professionisti, of Euro 109,127 thousand (Euro 52,267 thousand of 30 June 2017) are the balance of the 2017/2018 transfer campaign and the residual amounts of the previous seasons.

Payables to national and foreign football clubs, of Euro 62,886 thousand (Euro 90,386 thousand on 30 June 2017) relate to:

- Euro 22,676 thousand (Euro 34,829 thousand on 30 June 2017) being the amount payable to F.C. do Porto for the definitive transfer of Silva Valente André Miguel;
- Euro 12,429 thousand (Euro 18,010 thousand on 30 June 2017) being the amount payable to Bayer 04 Leverkusen Fußball for the definitive transfer of Calhanoglu Hakan;
- Euro 9,347 thousand (Euro 13,756 thousand on 30 June 2017) being the amount payable to Verein für Leibesübungen Wolfsburg for the definitive transfer of Rodriguez Araya Ricardo Iván;
- Euro 10,532 thousand (Euro 15,488 thousand on 30 June 2017) being the amount

- payable to Villarreal Club de Fútbol for the definitive transfer of Musacchio Mateo Pablo;
- Euro 4,623 thousand (Euro 5,261 thousand on 30 June 2017) being the amount payable to Sunderland Association F.C. for the definitive transfer of Fabio Borini;
 - Euro 1,321 thousand (not present on 30 June 2017) to the amount due to Stade Malherbe Caen for the definitive sale by Milan, to Torino F.C. of the player Niang Mbaye;
 - Euro 323 thousand (Euro 970 thousand on 30 June 2017) to the amount payable to Real Madrid F.C. following the acquisition of Lopez Diego;
 - Euro 150 thousand (not present on 30 June 2017) being amounts due to the club Ruch Chorzów for the definitive purchase of Bargiel Przemyslaw;
 - Euro 1,485 thousand (Euro 2,072 thousand on 30 June 2017) to various clubs for the fees payable in connection with international transfers to the teams who contributed to the players' training, in accordance with the F.I.F.A. solidarity rules. Specifically, this derives from the purchases of Fabio Borini, Calhanoglu Hakan and Musacchio Mateo Pablo.

ACCRUED EXPENSES AND DEFERRED INCOME

At end of the period this item was composed as follows:

	30.06.2018	30.06.2017	Change
Accrued expenses	42	29	13
Deferred income:			
• deferred broadcasting rights	3,478	—	3,478
• deferred sponsorships	7,000	15,897	(8,897)
• deferred season tickets	—	—	0
• other prepayments	14,476	15,636	(1,160)
Total deferred income	24,954	31,533	(6,579)
Total accruals and deferrals	24,996	31,562	(6,566)

This item, equal to Euro 24,954 thousand (Euro 31,533 thousand on 30 June 2017) includes:

- Euro 3,478 thousand (not present on 30 June 2017) relating to early invoicing of the contracts with TV broadcasters for the 2018/2019 football season;
- Euro 7,000 thousand (Euro 15,897 thousand on 30 June 2017) relating to advance invoicing of the contracts with commercial partners for the 2018/2019 football season;
- Euro 10,836 thousand (Euro 11,220 thousand on 30 June 2017) relating to royalties from rights to use images of Milan's home games in specific seasons ("Library Milan");
- Euro 2,780 thousand (Euro 100 thousand on 30 June 2017), being payments received for friendly matches played during the summer, by Milan's first team in July and August 2018.

COMMITMENTS, RISKS AND POTENTIAL LIABILITIES

COMMITMENTS AND GUARANTEES

Bank guarantees, endorsements and other personal guarantees

These are guarantees issued by banks and/or insurers, totalling Euro 69,840 thousand (Euro 26,317 thousand on 30 June 2017), mainly in favour of:

- Lega Calcio, for the transfer season, in the amount of Euro 64,864 thousand (Euro 19,205 thousand on 30 June 2017);
- The Municipality of Milan, for the use of the San Siro Stadium, in the amount of Euro 2,284 thousand (Euro 2,284 thousand on 30 June 2017);
- Vittoria Assicurazioni S.p.A. in respect of one year's rent of the new "Casa Milan" headquarters, in the amount of Euro 2,125 thousand (Euro 2,125 thousand on 30 June 2017);
- M-I Stadio S.r.l., in the amount of Euro 567 thousand (Euro 2,703 thousand on 30 June 2017), to cover the affiliate company's credit lines.

POTENTIAL LIABILITIES AND OTHER INFORMATION

Financial Fair Play

As mentioned, in the 2017/2018 season A.C. Milan again played the UEFA Europa league competition. Participation in this competition is subject to compliance with the *U.E.F.A. Club Licensing and Financial Fair Play Regulations – Edition 2015*.

A.C. Milan S.p.A. has applied to the *Club Financial Control Body* (C.F.C.B.) for a Voluntary Agreement (V.A.), as permitted under the regulations, in order to take part in European competitions in accordance with the financial requirements, and specifically with the *Break-even rule*, which means that all its expenses (with the exception of certain types as specified in the UEFA regulations) have to be covered with its own income.

Following acceptance of this application by the C.F.C.B., during 2017/2018 the previous Management held a series of meetings in order to illustrate to the C.F.C.B. the club's compliance with the financial requirements laid down in the regulations, during the period between the 2017/2018 and 2020/2021 football seasons.

On 15 December 2017, the Investigation Chamber (IC) of the C.F.C.B. noted that some of the conditions for acceptance of the V.A. had not been met by A.C. Milan and referred the final

decision to the Adjudication Chamber of the C.F.C.B., which ruled on 19 June 2018 that there had been a violation of the break-even rule according to the *Financial Fair Play* standard and ordered that the club be excluded from the UEFA competition for which it would otherwise have qualified for the subsequent two seasons (2018/2019 or 2019/2020), but would allow an appeal to the Sports Arbitration Tribunal of Lausanne (T.A.S.), under Article 34 (2) of the procedural regulations governing the C.F.C.B. and under Articles 62 and 63 of the UEFA Bylaws.

On 4 July 2018, A.C. Milan S.p.A. lodged an appeal with the T.A.S. asking that the C.F.C.B.'s decision be annulled. – A.C.

On 20 July 2018 the T.A.S. partially accepted Milan's appeal, upholding the C.F.C.B.'s decision of 19 June 2018 as to the part relating to A.C. Milan's failure to meet the break-even requirement, but reversing the body's decision to exclude the club from taking part in the next UEFA competition for which it would otherwise have qualified in the next two seasons (2018/2019 or 2019/2020), as it was disproportionate. The tribunal found in particular that some of the significant factors had not been adequately considered when the decision was made, including the changes in the club's financial situation, which significantly improved following the change of ownership in July 2018.

The tribunal then decided to refer the case to the C.F.C.B. – A.C. considering the request by A.C. Milan S.p.A., and in consideration of the fact that the body itself is in a better position than the sports tribunal to impose a disciplinary penalty that is proportionate to the club's current financial situation.

On the date of this management report was drafted, UEFA has not yet issued its decision on the nature of any penalty, or the amount that will be imposed on the club and has merely adopted certain temporary, precautionary measures, regarding the suspension of revenues due to the club for the 2018/2019 UEFA Europa League competition.

In view of these considerations, A.C. Milan S.p.A., partly on the basis of its advisors' opinions, has decided to make a prudential allocation on the financial statements to 30 June 2018 to cover the risk of any fines being imposed by UEFA.

Other information

With regard to relations with Management and the personnel of AC Milan S.p.A., in July and August 2018, A.C. Milan terminated, for good cause, its relations with the ex-CEO and director-general. Although, with the support of its advisers, A.C. Milan examined the arguments put forward by the ex-CEO and director-general in response to the complaints made against him, finding them to be groundless, it is still possible that following the termination the former CEO may take action against the club. In view of this, based on the information currently in its possession and as advised by its consultants, A.C. Milan S.p.A.

considers that the various reasons that led to the termination of this relationship are well-founded, but there is still a possibility of future legal proceedings, of an amount that cannot yet be determined partly because of the current status of the arguments raised and the positions taken. Further investigations will be carried out as necessary.

NOTES ON THE MAIN ITEMS OF THE INCOME STATEMENT

(in thousands of Euros)

Introduction

Before analysing the individual items, we remind you that the comments on the general changes in costs and revenues are provided in the Report on Operations, as required by Article 2428 paragraph 1 of the Italian Civil Code. We also remind you that the income statement items have been classified according to the financial statement structure established for professional soccer clubs, in compliance with the provisions of the Italian Soccer Federation Official Notice no. 58, published on 5 September 2006.

In accordance with Article 2423 b (5), the individual income statement items for 2017/2018 are not directly comparable to the previous year, as the year 2017 only included 6 months between 1 January and 30 June 2017. To provide a better understanding of the business performance, the following table has been prepared, with indications and comments on any differences in the income statement items for the period 1 July 2016-30 June 2017, and thus comparing the 2017/2018 season against the 2016/2017 season.

(in thousands of Euros)

INCOME STATEMENT

	FY 2017/2018	FY 2016/2017	Changes
A) VALUE OF PRODUCTION			
1 Revenues from sales and services			
a) match revenues	23,198,573	13,637,724	9,560,849
b) season tickets	9,940,457	4,856,950	5,083,507
c) revenues from other competitions	2,723,390	3,748,786	(1,025,396)
Total	35,862,420	22,243,460	13,618,960
5 other revenues and income			
b) sponsorship revenues	31,512,075	38,771,200	(7,259,125)
d) commercial revenues and royalties	6,504,810	9,314,451	(2,809,641)
e) income from sale of broadcasting rights:			
- audiovisual income from participation in national competitions	86,259,874	89,801,415	(3,541,541)
- audiovisual income from participation in other competitions	14,318,221	—	14,318,221
f) miscellaneous income	8,926,582	9,204,827	(278,245)
g) revenues from player loans	2,453,836	625,395	1,828,441
h) gains from the sale of player registration rights	35,955,806	4,273,556	31,682,250
i) other income from player management	3,652,156	1,167,825	2,484,331
l) revenues and other income	10,897,888	18,964,799	(8,066,911)
Total	200,481,248	172,123,468	28,357,780
TOTAL VALUE OF PRODUCTION (A)	236,343,668	194,366,928	41,976,740
B) COSTS OF PRODUCTION			
6 for raw materials, ancillary materials, consumables and goods	2,494,864	2,322,702	172,162
7 for services	55,288,055	48,102,875	7,185,180
8 for use of third-party assets	9,291,337	9,022,075	269,262
Total	67,074,256	59,447,652	7,626,604
9 for personnel:			
a) wages and salaries	136,331,937	121,589,858	14,742,079
b) social security charges	5,128,703	4,653,053	475,650
c) employee leaving entitlements	1,186,289	1,040,019	146,270
e) other costs	165,439	186,379	(20,940)
Total	142,812,368	127,469,309	15,343,059
10 amortisation, depreciation and write-downs			
a) amortisation of intangible assets	85,783,647	45,733,221	40,050,426
b) depreciation of tangible assets	481,343	468,061	13,282
c) other write-downs of fixed assets	21,822,371	12,564,849	9,257,522
d) write-down of receivables included in working capital and in cash and cash equivalent	1,206,996	200,809	1,006,187
Total	109,294,357	58,966,940	50,327,417
12 provisions for risks	17,491,699	10,644,300	6,847,399
14 sundry management expenses			
a) various match organisation expenses	110,609	19,858	90,751
b) match registration costs	2,240	1,990	250
c) percentage of gate receipts paid to visiting teams	964,847	45,456	919,391
d) costs for acquisition of players on loan	107,500	2,750,000	(2,642,500)
e) gains from the sale of player registration rights	1,289,994	529,050	760,944
f) other expenses from player management	1,332,152	51,583	1,280,569
g) other management expenses	4,798,416	3,840,327	958,089
Total	8,605,758	7,238,264	1,367,494
TOTAL COSTS OF PRODUCTION (B)	345,278,438	263,766,465	81,511,973
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A - B)	(108,934,770)	(69,399,537)	(39,535,233)

(in Euros)

INCOME STATEMENT

	FY 2017/2018	FY 2016/2017	Changes
C) FINANCIAL INCOME AND (EXPENSES)			
15 income from equity investments			
a) subsidiaries	—	7.000.000	(7.000.000)
16 other financial income			
d) income different from the above:			
- other	1.627.506	208.220	1.419.286
Total	1.627.506	7.208.220	(5.580.714)
17 interest and other financial charges			
a) from subsidiaries	(1.354.508)	(1.258.132)	(96.376)
d) other financial expenses	(23.843.589)	(5.297.138)	(18.546.451)
Total	(25.198.097)	(7.291.048)	(17.907.049)
17 bis gains and losses on foreign exchange:			
a) exchange gains	25.610	57.889	(32.279)
b) exchange losses	(49.681)	(8.574)	(41.107)
Total	(24.071)	49.315	(73.386)
TOTAL FINANCIAL INCOME AND (EXPENSES) (C)	(23.594.662)	(33.513)	(23.561.149)
D) ADJUSTMENTS IN VALUE OF FINANCIAL ASSETS AND LIABILITIES			
19 write-downs			
a) of equity investments	(1.543.179)	(1.802.944)	259.765
Total	(1.543.179)	(1.802.944)	259.765
TOTAL ADJUSTMENTS IN VALUE OF FINANCIAL ASSETS AND LIABILITIES (D)	(1.543.179)	(1.802.944)	259.765
RESULT BEFORE TAX	(134.072.611)	(71.235.994)	(62.836.617)
22 income taxes for the year (current, deferred and prepaid)			
a) current taxes	(1.618.144)	(846.153)	(771.991)
b) deferred and prepaid taxes	52.256	(79.557)	131.813
Total	(1.565.888)	(925.710)	(640.178)
PROFIT/(LOSS) FOR THE YEAR	(135.638.499)	(72.161.704)	(63.476.795)

(* The income statement for the first half of 2016 / 2017 was adjusted to take into account the effects of changes deriving from the new IIC accounting standards, following the enactment into Italian law of Directive 2013/34/EU (the "Accounting Directive")

VALUE OF PRODUCTION

The total value of production for 2017/2018 is Euro 236,344 thousand (Euro 194,367 thousand in 2016/2017). The breakdown of this item is shown below.

Revenues from sales and services

These related to the sale of tickets and season passes to attend first team matches. They include, in particular:

	2017/2018	2016/2017	Change
Home match revenues:			
• Championship matches	13,718	13,259	459
• Tim Cup matches	2,142	98	2,044
• International Cup matches	5,937	—	5,937
• other matches	—	—	0
Away matches revenues:			
• Tim Cup matches	1,402	281	1,121
Season tickets:			
• Championship	9,526	4,857	4,669
• International Cups	414	—	414
Revenues from other competitions	2,723	3,749	(1,026)
Total	35,862	22,244	13,618

Revenues from Tim Cup home matches relate in particular to the gross receipts for the TIM Cup 2017/2018, which ended with the club playing in the final in Rome, in May 2018, against Juventus F.C. (Quarter finals of the TIM Cup 2016/2017).

Revenues from international cups relate to the matches played at home in the qualifying round, round of sixteen and quarter finals of the Uefa Europa League 2017/2018.

Revenues from season passes, of Euro 9,940 thousand (Euro 4,857 thousand in 2016/2017) relate to the Serie A championship for 2017/2018, with a total of 32,364 passes (16,450 season passes in 2016/2017), and to the qualifying round of the Uefa Europa League 2017/2018, with a total of 7,927 season passes.

The total Revenues from other competitions only relates to the national and international friendly matches played by the first team during the summer, in China (International Champions Cup 2017), Catania (Real Betis Balompié) and in Lugano (F.C. Lugano).

Other revenues and income

This income consisted of:

	2017/2018	2016/2017	Change
Sponsorship revenues	31,512	38,771	(7,259)
Commercial revenues and royalties	6,505	9,314	(2,809)
Income from the sale of broadcasting rights:			
• Broadcasting income	86,260	89,801	(3,541)
• Audiovisual income from participation in UEFA competitions.	14,318	—	14,318
Sundry income:			
• Income from archive rights licensing	8,744	8,634	110
• Publishing income	—	—	0
• Sundry income	182	571	(389)
Revenues from player loans	2,454	625	1,829
gains from the sale of player registration rights	35,956	4,274	31,682
Other income from player management	3,652	1,168	2,484
Other sundry revenues	10,898	18,965	(8,067)
Total	200,481	172,123	28,358

Sponsorship revenues, of Euro 31,512 thousand (Euro 38,771 thousand in the previous year) mainly relate to the following:

- Euro 15,800 thousand (Euro 14,480 thousand in 2016/2017), including Euro 1,800 thousand being bonuses collected for achieving contractual targets, and the payments received from the official sponsor, Emirates, under a contract expiring on 30 June 2020;
- Euro 11,422 thousand (Euro 19,357 thousand in 2016/2017) to the amounts paid by the technical sponsor Adidas Italia S.r.l., to acquire the right to display its logo on the club's official strips, under a contract that runs until 30 June 2018. This reduction was due to the fact that following the previous change in the shareholder body, the sponsor had initially exercised its contractual right to terminate the contract early on 30 June 2017, only to then renegotiate the contract for a lower price, for the 2017/2018 season only;
- Euro 4,190 thousand (Euro 4,743 thousand in 2016/2017) being payments from contracts with the corporate sponsors, official and technical suppliers, and commercial partners under which the club allows sponsors to use the titles of "Official Supplier", "Official Partner", "Institutional Sponsor" and "League Sponsor" for advertising and publicity.

Commercial revenues and royalties, of Euro 6,505 thousand (Euro 9,314 thousand in 2016/2017), mainly relate to revenues from merchandising and licensing, particularly the contract with Adidas Italia S.r.l., which was also renegotiated until 2018 at a lower price than for the previous season.

Audiovisual income of Euro 86,280 thousand (Euro 89,801 thousand in 2016/2017), derives from the centralised licence for broadcasting rights for the 2017/2018 season, in the various packages allocated to broadcasters including Sky Italia S.r.l. and Mediaset Premium S.p.A. (Mediaset Group). In the previous season, this item included Euro 2,000 thousand for filming and transmission rights (unencrypted and/or digital terrestrial/satellite with conditional access) for all Milan's friendly matches, and Euro 2,052 thousand in payments from Lega Calcio di Serie A for the Italian Super Cup Final.

Audiovisual income from participation in UEFA competitions, of Euro 14,318 thousand, is the amount paid to the club for the negotiation and use of TV and radio broadcasting rights for its participation in UEFA competitions; specifically, this refers to the preliminary and qualifying rounds, and to the round of 16 and quarter-finals of the Uefa Europa League 2017/2018.

Income from archive rights licensing of Euro 8,744 thousand (Euro 8,634 thousand in 2016/2017) relating to royalties from rights to use images of Milan's home games in specific seasons ("Library Milan").

Revenues from player loans, of Euro 2,454 thousand (Euro 625 thousand in 2016/2017) relates to Bacca Ahumada Carlos Arturo who was sold to Villarreal Club de Fútbol, and also includes variable sums linked to the transfer contract.

Gains from the sale of player registration rights, realised in the year 2017/2018, are listed below with details of the name of the player and the selling club:

Player	Selling club	Net carrying amount (*)	Sale amount	Gain
Crociata Giovanni	F.C. Crotone	82	300	218
De Sciglio Mattia	Juventus F.C.	—	12,000	12,000
Kucka Juraj	Trabzonspor Kulübü	2,474	5,000	2,526
Lapadula Gianluca	Genoa Cricket and F.C.	7,626	13,000	5,374
Niang M'Baye	Torino F.C.	834	14,000	13,166
Pessina Matteo	Atalanta Bergamasca Calcio	301	1,500	1,199
Vido Luca	Atalanta Bergamasca Calcio	131	1,000	869
Zanellato Niccolò	F.C. Crotone	100	300	200
Total		11,448	46,800	35,552
<i>Other (**)</i>				<i>404</i>
Gains				35,956

(*) Net of the effect of the implementation of the “amortised cost” method as provided for by Article 2426, paragraph 1, no. 8 of the Italian Civil Code.

(**) The amount refers to recording in 2017/2018 of the gain for the final sale with sharing agreement with registration rights deferred in previous years.

Other income from player management, of Euro 3,652 thousand (Euro 1,168 thousand in 2016) relates to:

- Euro 1,772 thousand (Euro 500 thousand in 2016/2017) relate to bonuses paid by certain clubs after transfer related player performance targets were met;
- Euro 1,350 thousand (not present in 2016/2017) being the amount paid by Empoli F.C. for the *sell on fee* to A.C.F. Fiorentina;
- Euro 530 thousand (Euro 668 thousand in 2016/2017) being the solidarity contribution paid by various clubs for the transfer of certain players who played for Milan aged between 12 and 23.

Other income and revenues amounted to Euro 10,898 thousand (Euro 18,965 thousand in the previous year). Euro 5,621 thousand (Euro 5,639 thousand in 2016/2017) refers to the income from the chargeback of costs to Milan Entertainment S.r.l., in particular for the use of internal areas at Casa Milan and San Siro, Milan Real Estate S.p.A., players and third parties for their own expenses, and Euro 1,269 thousand (Euro 1,258 thousand in 2016/2017) relates to payments from invoices issued to the affiliate M-I Stadio S.r.l. for the use of internal and external space at San Siro, under a contract effective from 1 January 2012 until 30 June 2018, and which was recently renewed until 30 June 2019. This item also includes Euro 1,783 thousand (Euro 4,797 thousand in 2016/2017) for various uses of the

provision for future charges, allocated on previous' years accounts, and Euro 2,225 thousand (Euro 7,272 thousand in 2016/2017) for contingent assets and other minor revenues and income, for which the reduction mainly relates to the fact that in the previous year the parent company A.C. Milan S.p.A. had obtained a Euro 3,957 thousand insurance payout following incidents occurring to several players during matches played with their national teams.

COST OF PRODUCTION

The total costs of production for 2017/2018 were Euro 345,278 thousand (Euro 263,766 thousand in 2016/2017).

Costs for the purchase of consumables and goods

Costs for the purchase of consumables and goods, of Euro 2,495 thousand (Euro 2,323 thousand in 2016/2017) essentially relate to the costs of purchasing sports kit for training, the official strips supplied by the Technical Sponsor, and medical supplies.

Cost for services

Were broken down as follows:

	2017/2018	2016/2017	Change
Costs for registered players	3,038	3,332	(294)
Costs for sporting activities	1,213	2,098	(885)
Specific technical costs	7,767	3,589	4,178
Lodging, accommodation, and match transport costs	3,096	2,589	507
Player insurance	2,395	1,022	1,373
Other consultancy and collaboration	7,137	3,114	4,023
Advertising expenses	740	263	477
Miscellaneous services from subsidiaries	19,331	19,790	(459)
Administrative and general expenses	10,571	12,306	(1,735)
Total	55,288	48,103	7,185

Costs for registered players, of Euro 3,038 thousand (Euro 3,332 thousand in 2016/2017), relates to the costs of medical and educational services, training and camps of the first team and youth team.

Costs of sporting activities of Euro 1,213 thousand (Euro 2,098 thousand in 2016/2017) are fees payable to medical and healthcare professionals, and other related costs.

Specific technical costs, of Euro 7,767 thousand (Euro 3,598 thousand in 2016/2017), mainly consist of player observation costs, of Euro 236 thousand (Euro 162 thousand in 2016/2017), technical and sports consultancy of Euro 265 thousand (Euro 270 thousand in 2016/2017), of Euro 6,495 thousand (Euro 2,726 thousand in 2016/2017) for which the increase is linked to the important summer transfer season in 2017/2018.

Costs of food, accommodation and travel to matches, of Euro 3,096 thousand (Euro 2,589 thousand in 2016/2017) are the costs of travel to away matches for the first and youth teams, for which the increase is mainly due to the cost of travelling to play in the Uefa Europa League 2017/2018.

Player insurance, of Euro 2,395 thousand (Euro 1,022 thousand in 2016/2017), relates to the premiums paid to insure the players of the first team and youth sector, and have increased as a result of further insurance items being included in the cover.

Advertising expenses, of Euro 740 thousand (Euro 263 thousand in 2016/2017), include gifts, entertainment expenses, and other costs of promotional activities.

Other consulting agreements, of Euro 7,137 thousand (Euro 3,082 thousand in 2016/2017) includes the amounts payable for management and strategic consulting, legal and notarial fees, administration, fiscal and management, commercial, communications, technical and other costs. The significant increase compared to the previous year is mainly due to management consulting, relating to the refinancing of the bond maturing in October 2018, legal fees, particularly in connection with the dispute with U.E.F.A. about a violation of the *break-even rule* under the *Financial Fair Play* standard, and commercial consulting in relation to developing the Milan brand on the Asian market.

Other services from subsidiaries, of Euro 19,331 thousand (Euro 19,790 thousand in 2016/2017) mainly relate to the following:

- Euro 13,881 thousand (Euro 13,940 thousand in 2016/2017), relate to the service agreement between A.C. Milan S.p.A. and Milan Entertainment S.r.l., under which A.C. Milan S.p.A. is provided with the commercial, marketing, sales, personnel management, stadium management, administration, IT, logistics and general services;
- Euro 5,450 thousand (Euro 5,850 thousand in 2016/2017) to the agreement renewed on 1 January 2018, under which the subsidiary Milan Real Estate S.p.A. provides A.C. Milan S.p.A. with a series of management services for the Milanello sports centre.

Administration and general expenses, of Euro 10,571 thousand (Euro 12,305 thousand in 2016/2017) mainly include directors' emoluments of Euro 200 thousand (Euro 2,471 thousand in 2016/2017), Euro 18 thousand of fees to statutory auditors (Euro 18 thousand in 2016/2017), and to the Supervisory Body of Euro 13 thousand (Euro 21 thousand in 2016/2017), maintenance of pitches and other facilities of Euro 617 thousand (Euro 1,633 thousand in 2016/2017), insurance of other risks of Euro 290 thousand (Euro 313 thousand in 2016/2017), other utilities of Euro 608 thousand (Euro 574 thousand in 2016/2017),

cleaning costs of Euro 287 thousand (Euro 269 thousand in 2016/2017), the costs of audiovisual production and distribution of Serie A matches (2017/2018), and of the Milan Library of Euro 1,702 thousand (Euro 1,398 thousand in 2016/2017), bank charges and commission, and the costs of selling tickets and/or season passes of Euro 242 thousand (Euro 195 thousand in 2016/2017), the costs of information systems of Euro 1,305 thousand (Euro 519 thousand in 2016/2017), and the costs of technical and maintenance, commercial, administrative and other costs for the San Siro stadium, which are charged by M-I Stadio S.r.l. under an agreement that runs until 30 June 2019, with a value of Euro 4,272 thousand (Euro 4,430 thousand in 2016/2017).

Leases and rentals

This item amounts to Euro 9,291 thousand (Euro 9,022 thousand in 2016/2017). The breakdown is as follows:

- Euro 4,611 thousand (Euro 4,568 thousand in 2016/2017) being the costs of using the San Siro stadium under the agreement between the Municipality of Milan and A.C. Milan S.p.A., which provides for joint management with F.C. Internazionale Milano S.p.A. from 1 July 2000 until 30 June 2030, of which Euro 1,067 thousand (Euro 1,599 thousand in 2016/2017) will be “deducted” from the rent once the annual modernisation works are completed;
- costs of leasing, including service charges, for the new headquarters “Casa Milan” of Euro 2,420 thousand (Euro 2,440 thousand in 2016/2017);
- the costs of property rentals and service charges of Euro 515 thousand (Euro 750 thousand in 2016/2017) relating to an agreement with Milan Real Estate S.p.A., concerning the provision by that company, to A.C. Milan S.p.A. of real estate services consisting of the provision of various types of property;
- the hiring of corporate transport and other equipment, of Euro 1,745 thousand (Euro 1,264 thousand in 2016/2017).

Personnel costs

Personnel costs were broken down as follows:

	2017/2018			2016/2017		
	Registered players	Other employees	Total	Registered players	Other employees	Total
Wages and salaries	129,863	6,469	136,332	116,835	4,755	121,590
Social security charges	3,561	1,568	5,129	3,399	1,254	4,653
End of career entitlements/Employee leaving entitlements	816	370	1,186	757	283	1,040
Other costs	111	54	165	108	78	186
Total	134,351	8,461	142,812	121,099	6,370	127,469

The item employee leaving entitlements consists of Euro 123 thousand for the allocation of employee leaving entitlements, including substitute tax, and Euro 567 thousand for the employee leaving entitlements that, in accordance with the pensions reform, have been allocated to the supplementary pensions schemes of transferred to the Treasury fund established at the Italian National Social Security Institute (INPS).

The item Other personnel costs includes the contributions to supplementary pension funds paid by the Company as well as education subsidies for young players in the youth sector of A.C. Milan.

The cost for registered personnel is broken down as follows:

	2017/2018	2016/2017	Change
Players contractual remuneration	111,458	101,104	10,354
Variable remuneration linked to sports results	3,919	2,903	1,016
Coaches contractual remuneration	8,124	6,495	1,629
Variable remuneration linked to sports results	—	95	(95)
Contractual remuneration for instructors, technicians and others	5,279	5,382	(103)
Variable remuneration linked to sports results	—	—	0
Contractual payments to medical staff	1,083	856	227
Variable remuneration linked to sports results	—	—	0
Total	129,863	116,835	13,028

Details of the average numbers of personnel employed by the club in the year 2017/2018 are provided below:

	2017/2018	2016/2017	Change
Players	55.3	56.8	(1.5)
Coaches / Other technical personnel	139.3	132.1	7.2
Directors	7.4	3.8	3.6
Journalists	2.5	2.8	(0.3)
Office workers and middle managers	42.6	38.1	4.5
Workers	1.0	1.0	0.0
Total	248.1	234.6	13.5

Amortisation, depreciation and write-downs

Amortisation of intangible assets, of Euro 85,784 thousand (Euro 45,733 thousand in 2016/2017) is as follows:

- Euro 81,954 thousand (Euro 41,946 thousand in 2016/2017) being the amortisation of player registration rights, calculated in proportion to the duration of their contracts, the increase of which is linked to the important summer transfer season in 2017/2018;
- Europe 3,830 thousand (Euro 3,787 thousand in 2016/2017) being the amortisation of other intangible assets as listed below:

	2017/2018	2016/2017	Change
Software	366	363	3
Trademarks	128	137	(9)
Television images historical archive (<i>Library Milan</i>)	1,264	1,264	0
Vismara Sports Centre long-term lease and related improvements	783	781	2
Improvement San Siro Stadium in Milan	576	562	14
Leasehold improvements	713	680	33
Total	3,830	3,787	43

Amortisation of intangible assets, of Euro 481 thousand (Euro 468 thousand in 2016/2017) is as follows:

- Euro 59 thousand (Euro 49 thousand in 2016/2017) for plant and machinery;
- Euro 122 thousand (Euro 123 thousand in 2016/2017) for equipment;
- Euro 300 thousand (Euro 297 thousand in 2016/2017) for other tangible assets.

Depreciation, amortisation, depreciation and write-downs amounted to Euro 21,822 thousand, (Euro 12,565 thousand in 2016/2017) and relates to the write-downs of rights to

certain players after consensual terminations of contract prior to the expiry date and/or losses on sales, during July and August 2018.

Write-downs of receivables held as current assets and liquid assets, of Euro 1,207 thousand (Euro 201 thousand in 2016/2017), relates to the allocation to the provisions for doubtful accounts and amounts that potentially cannot be collected from customers or football clubs.

Provisions for risks

This item amounts to Euro 17,492 thousand (Euro 10,644 thousand in the previous year), relating in particular to the allocation of costs of restructuring personnel, future costs of “exempted” training staff who are still employed by the company, exit bonuses for players sold on a final transfer during the July/August 2018 season, and the prudential allocation to cover the risk of U.E.F.A. imposing fines for violating the break even rule according to the *Financial Fair Play* standard, as described in Potential liabilities and other information, to which please refer. In 2016/2017 this item had included Euro 5,500 thousand, relating to costs in settling the dispute with the Independent Trade Fair Foundation of Milan. The dispute arose in March 2017 in relation to a declaration of interest for redeveloping Pavilions 1 and 2 (Portello), in the Polo Urbano district of Fieramilanocity, concerning the plans to build Milan’s new stadium.

Sundry management expenses

Sundry management expenses consisted of:

	2017/2018	2016/2017	Change
Various match organisation expenses	111	20	91
Match subscription taxes	2	2	0
Percentage paid to visiting teams	965	45	920
Costs for acquisition of players services on loan	107	2,750	(2,643)
Losses from the sale of player registration rights	1,290	529	761
Other expenses from player management:			
• Solidarity mechanism	12	52	(40)
• Training indemnity and valorisation costs	1,321	—	0
Other management expenses:			
• Contributions to L.N.P. / other bodies	1,584	1,046	538
• Match penalties and fines	72	34	38
• Losses on receivables	18	40	(22)
• Other duties and taxes	277	505	(228)
• other	2,847	2,215	632
Total	8,606	7,238	47

Costs for acquisition of players on loan, of Euro 107 thousand (Euro 2,750 thousand in 2016/2017), relate to the following players, bought by the club:

Player	Selling club	Amount
Cultraro Giovanni	Calcio Catania	7
Larsen Jørgen Strand	Sarpsborg 08 FF	100
Total		107

Losses from the sale of player registration rights, of Euro 1,290 thousand (Euro 529 thousand in 2016/2017) during 2017/2018, relate to the following players:

Player	Selling club	Net carrying amount	Sale amount (*)	Loss
Beretta Giacomo	Foggia Calcio	800	—	(800)
Ely Rodrigo	Deportivo Alavés	2,968	2,775	(193)
Sosa José Ernesto	Trabzonspor Kulübü	4,357	4,106	(251)
Zigoni Gianmarco	Venezia F.C.	446	400	(46)
Total		8,571	7,281	(1,290)

(*) Net of the effect of the implementation of the “amortised cost” method as provided for by Article 2426, paragraph 1, no. 8 of the Italian Civil Code.

Other expenses from player management, of Euro 1,333 thousand (Euro 52 thousand in 2016/2017), include Euro 1,321 thousand paid to Stade Malherbe Caen in relation to the amount due for the sell-on by Milan of Niang Mbaye, to Torino F.C.

Other management expenses, of Euro 2,847 thousand (Euro 2,215 thousand in 2016/2017), relates mainly, as to Euro 1,548 thousand (Euro 1,446 thousand in 2016/2017) to costs deriving from chargebacks against Milan Entertainment S.r.l., Milan Real Estate S.p.A., Red & Black Milan (Beijing) Sports Developments Co. Ltd. and players and third parties, for their own expenses.

This item also includes contingent liabilities and other residual costs totalling Euro 1,299 thousand (Euro 769 thousand in 2016/2017).

FINANCIAL INCOME AND EXPENSES

Financial income and expenses showed a negative balance of Euro 23,595 thousand compared to costs of Euro 33 thousand in the year 2016/2017. The details are given below.

	2017/2018	2016/2017	Change
Income from equity investments from subsidiaries	—	7,000	(7,000)
Total income from equity investments	0	7,000	(7,000)
Bank interest income	0	2	(2)
Interest income from subsidiaries	99	109	(10)
Interest from other receivables	1,528	97	1,431
Total financial income	1,627	208	1,419
Interest payable on bonds	(9,881)	(557)	(9,324)
Bank interest expenses	(9)	(1,605)	1,596
Interest expense on other debt	(2,236)	(2,068)	(168)
Interest expense from subsidiaries	(1,354)	(1,258)	(96)
Interest payable to parent companies	—	(736)	736
Interest expense on other debt	(1)	(0)	(1)
Other interest and financial charges	(11,717)	(1,066)	(10,651)
Total financial expenses	(25,198)	(7,290)	(17,908)
Exchange rate gains	26	58	(26,492)
Exchange rate losses	(50)	(9)	(41)
Total exchange rate gains (losses)	(24)	49	(73)
Total	(23,595)	(33)	(23,562)

The item Other interest and financial charges includes Euro 2,215 thousand (Euro 237 thousand in 2016/2017) being the commission payable on guarantees issued by banks and/or insurers, mainly used as partial coverage for the 2017/2018 transfer season, and Euro 9,502 thousand (Euro 714 thousand in 2016/2017), being the effects of applying the amortised cost principle to the bonds and liabilities arising from the player transfers.

The item Interest on other receivables also includes the positive impact of Euro 1,528 thousand (Euro 97 thousand in 2016/2017), deriving from application of the amortised cost principle to the receivables relating to the player transfer season.

VALUE ADJUSTMENTS OF FINANCIAL ASSETS

Write-downs

This item amounts to Euro 1,543 thousand (Euro 1,803 thousand in 2016/2017), and Euro 218 thousand relates to the adjustment in the investment in M-I Stadio S.r.l. to reflect the share of net equity shown on the financial statements to 30 June 2018, and Euro 1,325 thousand (not included in the previous year) to the write-down in the Chinese company Red & Black Milan (Beijing) Sports Development Co. Ltd., owned entirely by A.C. Milan S.p.A., due to the losses shown in the financial situation ending 30 June 2018.

INCOME TAXES FOR THE PERIOD

Current taxes

	2017/2018	2016/2017	Change
I.R.A.P.	(2,432)	(2,560)	128
Tax income from tax consolidation	814	1,714	(900)
Direct taxes from previous financial years	—	—	0
Total	(1,618)	(846)	(772)

Tax income from tax consolidation represents, in 2017/2018, the income from the tax benefits from the adjustment of relations exclusively within the sub-consolidation area of the Milan Group, in application of the “Agreement on the exercise of the option for the national tax consolidation scheme” agreed with Milan Entertainment S.r.l. and Milan Real Estate S.p.A.

Deferred and prepaid taxes

The item Deferred and prepaid taxes has a positive balance of Euro 52 thousand (Euro 80 thousand negative in 2016/2017).

PROFIT (LOSS) FOR THE PERIOD

The period 2017/2018 resulted in a loss of Euro 135,638,498.93 (loss of Euro 72,161,704 in 2016/2017).

Remuneration of the Directors, Statutory Auditors and the Supervisory and Control Body

Details are provided below of the remuneration for the year 2017/2018 due to the Directors, Statutory Auditors and the Supervisory and Control Body for the positions held in the Company and in its subsidiaries.

	A.C. Milan S.p.A.	Milan Entertainment S.r.l.	Milan Real Estate S.p.A.
Board of Directors	200	—	—
Board of Statutory Auditors	18	18	18
Supervisory and control body	13	13	13
Total	231	31	31

Board of Directors' proposal to the Shareholders' Meeting

Shareholders,

Your company's financial statements for the year ending 30 June 2018 closed with a loss of Euro 135,638,498.93 against share capital of Euro 113,443,200.00, fully subscribed and paid, the share premium reserve of Euro 31,020,000, fully subscribed and paid, the legal reserve of Euro 123,889.55, payments on account of future capital increases and/or to cover losses, of Euro 39,557,261.14 and losses carried forward of Euro 34,249,947.91.

The loss for the year has led to the situation governed by Article 2446 of the civil code. However, considering that in August and September 2018, payments totalling Euro 170,461,054.22 were made, we propose that the loss for the period of Euro 135,638,498.93 be balanced as follows:

- as to Euro 39,557,261.14 by fully utilising the capital contributions and/or payments made to cover losses in previous years;
- as to Euro 96,081,237.79 by using the payments already made, mentioned above, up to this amount.

We trust that you approve the structure and principles used in drafting the financial statements for the year ending 30 June 2018 which we now ask you to approve.

Milan, 28 September 2018.

for the **Board of Directors**

Chairman

Paolo Scaroni

ATTACHMENTS

These attachments contain additional information to that reported in the Explanatory Notes, of which they are an integral part.

This information is contained in the following attachments:

- statement of changes in intangible fixed assets;
- statement of changes in player registration rights;
- statement of changes in tangible fixed assets;
- statement of changes in equity investments;
- statement of changes in shareholders' equity;
- breakdown statement of Shareholders' equity reserves;
- List of equity investments and key figures from the latest financial statements of subsidiaries and associates Art. 2427 (5) of the Italian Civil Code.

Annex 1

Schedule of changes in intangible assets

(in thousands of Euros)

Historic cost	01.07.2017	Investments	(Disposals)	Other changes	(Amortisation)	(Write-downs) / Write-backs	30.06.2018
Start-up and expansion costs	—	—	—	—	—	—	—
Industrial patent rights and use of intellectual property	—	—	—	—	—	—	—
Concessions, licences, trademarks and similar rights	43,982	185	—	—	—	—	44,167
Assets in progress and advances	83	—	—	(83)	—	—	—
Player registration rights	329,624	128,525	(55,295)	—	—	—	402,854
Other intangible assets	34,339	288	(10)	83	—	—	34,700
Total	408,028	128,998	(55,305)	—	—	—	481,721

Accumulated Depreciation and Provision for Doubtful Debts	01.07.2017	Investments	(Disposals)	Other changes	(Amortisation)	(Write-downs) / Write-backs	30.06.2018
Start-up and expansion costs	—	—	—	—	—	—	—
Industrial patent rights and use of intellectual property	—	—	—	—	—	—	—
Concessions, licences, trademarks and similar rights	(14,287)	—	—	—	(1,757)	—	(16,044)
Player registration rights	(122,961)	—	34,815	—	(81,954)	(21,589)	(191,689)
Other intangible assets	(14,166)	—	—	—	(2,073)	—	(16,239)
Total	(151,414)	—	34,815	—	(85,784)	(21,589)	(223,972)

Net value	01.07.2017	Investments	(Disposals)	Other changes	(Amortisation)	(Write-downs) / Write-backs	30.06.2018
Start-up and expansion costs	—	—	—	—	—	—	—
Industrial patent rights and use of intellectual property	—	—	—	—	—	—	—
Concessions, licences, trademarks and similar rights	29,695	185	—	—	(1,757)	—	28,123
Goodwill and consolidation difference	—	—	—	—	—	—	—
Assets in progress and advances	83	—	—	(83)	—	—	—
Player registration rights	206,663	128,525	(20,480)	—	(81,954)	(21,589)	211,165
Other intangible assets	20,173	288	(10)	83	(2,073)	—	18,461
Total	256,614	128,998	(20,490)	—	(85,784)	(21,589)	257,749

Annex 2

Schedule of changes in player registration rights

(in Euros)

1st team Italian	Origin		Destination		Historic cost		
	Date of purchase	Club	Date of sale	Club	01.07.2017	Increases	Decreases
Abate Ignazio	30/06/2009	Torino F.C.			5,475,000		
Antonelli Luca	02/02/2015	Genoa Cricket and F.C.			4,550,000		
Bertolacci Andrea	01/07/2015	A.S. Roma			21,040,000		
Bonaventura Giacomo	01/09/2014	Atalanta B.C.			5,300,000		
Bonucci Leonardo	20/07/2017	Juventus F.C.			0	44,080,000	
Borini Fabio	30/06/2017	Sunderland A.F.C.			5,524,411		
Calabria Davide		Youth sector			101,600		
Conti Andrea	07/07/2017	Atalanta B.C.			0	24,200,000	
Cutrone Patrick		Youth sector			0	3,000	
De Sciglio Mattia		Youth sector	2/7/2017	F.C. Juventus	4,500		(4,500)
Donnarumma Antonio		Asteras Tripolis F.C.			0	978,947	
Donnarumma Gianluigi		Youth sector			1,111,000		
Ely Rodrigo		Player released	31/07/2017	Deportivo Alaves SAD	8,000,000		(8,000,000)
Lapadula Gianluca	26/06/2016	Delfino Pescara 1936	01/08/2017	Genoa Cricket and F.C.	9,532,512		(9,532,512)
Locatelli Manuel		Youth sector			275,000		
Montolivo Riccardo		Player released			200,000		
Paletta Gabriel	02/02/2015	Parma F.C.	30/01/2018	Released	1,500,000		(1,500,000)
Poli Andrea	12/07/2013	U.C. Sampdoria	01/07/2017	Bologna F.C. 1909	6,000,000		(6,000,000)
Romagnoli Alessio	11/08/2015	A.S. Roma			25,250,000		
Storari Marco	10/01/2017	Player released			0	0	
Total 1st team Italian					93,864,023	69,261,947	(25,037,012)

1st team foreign	Origin		Destination		Historic cost		
	Date of purchase	Club	Date of sale	Club	01.07.2017	Increases	Decreases
Bacca Ahumada Carlos Arturo	02/07/2015	Sevilla F.C.			33,286,521		
Biglia Lucas Rodrigo	17/07/2017	S.S. Lazio			0	19,200,000	
Calhanoglu Hakan	30/06/2017	Bayer 04 Leverkusen			20,311,885	1,000,000	
Fernandez Saenz de la Torre Jesus	19/07/2015	Liverpool F.C.			2,040,000		
Gustavo Gomez Portillo	08/08/2016	Club Atletico Lanus			9,556,950		
Halilovic Alen	28/06/2018	HSV Fußball			0	20,000	
Kalinic Nikola	21/08/2017	ACF Fiorentina			0	27,000,000	
Kessie Franck	02/06/2017	Atalanta B.C.			26,146,458	5,853,542	
Kucka Juraj	28/08/2015	Genoa Cricket and F.C.	06/07/2017	Trabzonspor	4,000,000		(4,000,000)
Mauri Jose Augustin	06/07/2015	Player released			4,000,000		
Musacchio Mateo Pablo	02/05/2017	Villarreal C.F.			17,719,534		
Niang Mbaye	27/08/2012	Stade Malherbe Caen	31/08/2017	Torino F.C.	3,333,500		(3,333,500)
Reina Paez José Manuel	16/03/2018	Player released			0	3,000,000	
Rodriguez Araya Ricardo Ivan	13/06/2017	VfL Wolfsburg			14,189,736		
Silva André Miguel Valente	13/06/2017	F.C. Porto			34,666,753		
Sosa José Ernesto	19/08/2016	Besiktas Futbol	01/09/2017	Trabzonspor	8,715,000		(8,715,000)
Strinic Ivan	02/03/2018	Player released			0	2,000,000	
Vangioni Rangel Leonel Jesus	23/03/2016	Player released	19/07/2017	C.F. Monterrey	800,000		(800,000)
Vasconcelos Ferreira "Gabriel"	06/07/2012	Cruzeiro Esporte Clube			1,170,000		
Vergara Jherson Amù	15/07/2013	Universitario Popayán			2,425,000		
Zapata Cristian Eduardo	23/05/2013	Villarreal C.F.			10,310,800		
Total 1st team foreign					192,672,137	58,073,542	(16,848,500)

Total Other professionals and Youth sector					43,087,614	1,192,217	(13,412,089)
Total Option rights					0		
Total player registration rights					329,623,774	128,527,706	(55,297,601)

30.06.2018	Depreciation and Provision for Doubtful Debts				Net value 3/6/2018	Economic effects on 3/6/2018				Various		Net value 30.06.2018 Football agents
	01.07.2017	Increases	Decreases	30.06.2018		Amortisation	Write-down	Loss	Gain	Age	Ctr. rmng years	
5,475,000	4,905,909	284,545		5,190,454	284,546	284,545				32	1,0	68,182
4,550,000	2,692,857	1,857,143		4,550,000	0	928,572	928,571			31	1,0	10,204
21,040,000	10,517,143	5,261,429		15,778,572	5,261,428	5,261,429				27	1,0	261,429
5,300,000	2,766,666	844,444		3,611,110	1,688,890	844,444				29	2,0	133,333
44,080,000	0	9,080,000		9,080,000	35,000,000	8,816,000	264,000			31	4,0	1,664,000
5,524,411	0	1,841,470		1,841,470	3,682,941	1,841,470				27	2,0	0
101,600	58,744	8,571		67,315	34,285	8,571				22	4,0	34,286
24,200,000	0	4,840,000		4,840,000	19,360,000	4,840,000				24	4,0	960,000
3,000	0	3,000		3,000	0	3,000				20	5,0	0
(0)	4,091		(4,091)	0	(0)	0		11,999,591		26	0,0	0
978,947	0	244,737		244,737	734,210	244,737				28	3,0	0
1,111,000	629,499	120,375		749,874	361,126	120,375				19	3,0	334,226
0	5,032,500		(5,032,500)	0	0	0		192,647		25	1,0	0
0	1,906,502		(1,906,502)	0	0	0			5,373,990	28	3,0	0
275,000	153,571	40,476		194,047	80,953	40,476				20	2,0	80,952
200,000	85,715	57,143		142,858	57,142	57,143				33	1,0	57,143
0	1,071,428	428,572	(1,500,000)	0	0	214,286				32	0,0	0
0	6,000,000		(6,000,000)	0	0	0				29	-	0
25,250,000	10,100,000	5,050,000		15,150,000	10,100,000	5,050,000				23	4,0	100,000
0	0			0	0	0				41	0,0	0
138,088,958	45,924,625	29,961,905	(14,443,093)	61,443,437	76,645,521	28,555,048	1,192,571	192,647	17,373,581			3,703,755

30.06.2018	Depreciation and Provision for Doubtful Debts				Net value 3/6/2018	Economic effects on 3/6/2018				Various		Net value 30.06.2018 Football agents
	01.07.2017	Increases	Decreases	30.06.2018		Amortisation	Write-down	Loss	Gain	Age	Ctr. rmng years	
33,286,521	13,314,608	18,021,912		31,336,520	1,950,001	6,657,304	11,364,608			32	2,0	720,000
19,200,000	0	6,333,333		6,333,333	12,866,667	6,333,333				32	2,0	800,000
21,311,885	0	5,327,970		5,327,970	15,983,915	5,327,970				24	3,0	1,015,595
2,040,000	1,044,445	199,112		1,243,557	796,443	199,112				25	4,0	355,555
9,556,950	1,906,328	1,912,656		3,818,984	5,737,966	1,912,656				25	3,0	600,000
20,000	0			0	20,000	0				22	3,0	0
27,000,000	0	15,315,000		15,315,000	11,685,000	6,750,000	8,565,000			30	3,0	1,500,000
32,000,000	0	6,400,000		6,400,000	25,600,000	6,400,000				22	4,0	1,394,478
0	2,000,000		(2,000,000)	0	0	0		2,525,944		31	1,0	0
4,000,000	2,000,000	1,000,000		3,000,000	1,000,000	1,000,000				22	1,0	1,000,000
17,719,534	0	4,429,884		4,429,884	13,289,650	4,429,884				28	3,0	1,208,150
0	2,499,389		(2,499,389)	0	0	0		13,165,889		24	1,0	0
3,000,000	0			0	3,000,000	0				36	3,0	3,000,000
14,189,736	0	3,547,434		3,547,434	10,642,302	3,547,434				26	3,0	371,494
34,666,753	0	6,933,350		6,933,350	27,733,403	6,933,350				23	4,0	0
0	4,357,500		(4,357,500)	0	0	0		250,913		33	0,0	0
2,000,000	0			0	2,000,000	0				31	3,0	2,000,000
0	200,000		(200,000)	0	0	0				31	2,0	0
1,170,000	914,671	255,329		1,170,000	0	127,665	127,664			26	1,0	25,623
2,425,000	1,860,714	564,286		2,425,000	0	282,143	282,143			24	1,0	67,857
10,310,800	8,138,343	1,086,228		9,224,571	1,086,229	1,086,228				32	1,0	738,095
233,897,179	38,235,998	71,326,494	(9,056,889)	100,505,603	133,391,576	50,987,079	20,339,415	250,913	15,691,833			14,796,847

30,867,742	38,800,248	2,491,674	(11,552,446)	29,739,476	1,128,266	2,411,575	57,266	846,434	2,890,392			385,898
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402,853,879	122,960,871	103,780,073	(35,052,428)	191,688,516	211,165,363	81,953,702	21,589,252	1,289,994	35,955,806			18,886,500
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Annex 3

Schedule of changes in tangible assets

(in thousands of Euros)

Historic cost	01.07.2017	Investments	(Disposals)	Other changes	(Amortisation)	(Write-downs) / Write-backs	30.06.2018
Land and buildings	34	—	—	—	—	—	34
Plant and machinery	306	14	—	—	—	—	320
Industrial and commercial equipmen	2,114	49	—	—	—	—	2,163
Other tangible assets	2,478	37	—	—	—	—	2,515
Tangible assets in progress	57	—	—	—	—	—	57
Total	4,989	100	—	—	—	—	5,089

Accumulated Depreciation and Provision for Doubtful Debts	01.07.2017	Investments	(Disposals)	Other changes	(Amortisation)	(Write-downs) / Write-backs	30.06.2018
Land and buildings	(34)	—	—	—	—	—	(34)
Plant and machinery	(131)	—	—	—	(59)	—	(190)
Industrial and commercial equipmen	(1,745)	—	—	—	(122)	—	(1,867)
Other tangible assets	(1,321)	—	—	—	(300)	—	(1,621)
Total	(3,231)	—	—	—	(481)	—	(3,712)

Net value	01.07.2017	Investments	(Disposals)	Other changes	(Amortisation)	(Write-downs) / Write-backs	30.06.2018
Land and buildings	—	—	—	—	—	—	—
Plant and machinery	175	14	—	—	(59)	—	130
Industrial and commercial equipmen	369	49	—	—	(122)	—	296
Other tangible assets	1,157	37	—	—	(300)	—	894
Tangible assets in progress	57	—	—	—	—	—	57
Total	1,758	100	—	—	(481)	—	1,377

Annex 4

Schedule of changes in equity investments

(in thousands of Euros)

Historic cost	01.07.2017	Investments	(Disposals)	Other changes	(Write-downs) / Write-backs	30.06.2018
Subsidiaries:						
Milan Entertainment S.r.l.	183,756	—	—	—	—	183,756
- Milan Real Estate S.p.A.	12,825	—	—	—	—	12,825
- Red & Black Milan (Beijing) Sports Development Co. Ltd.	—	350	—	—	(350)	—
- Fondazione Milan - Onlus	104	—	—	—	—	104
Associates:						
- M-I Stadio S.r.l.	803	500	—	—	(218)	1,085
Total	197,488	850	—	—	(568)	197,770

Write-down provision	01.07.2017	Investments	(Disposals)	Other changes	(Write-downs) / Write-backs	30.06.2018
Subsidiaries:						
Milan Entertainment S.r.l.	—	—	—	—	—	—
- Milan Real Estate S.p.A.	—	—	—	—	—	—
- Red & Black Milan (Beijing) Sports Development Co. Ltd.	—	—	—	—	—	—
- Fondazione Milan - Onlus	—	—	—	—	—	—
Associates:						
- M-I Stadio S.r.l.	—	—	—	—	—	—
Total	—	—	—	—	—	—

Net value	01.07.2017	Investments	(Disposals)	Other changes	(Write-downs) / Write-backs	30.06.2018
Subsidiaries:						
Milan Entertainment S.r.l.	183,756	—	—	—	—	183,756
- Milan Real Estate S.p.A.	12,825	—	—	—	—	12,825
- Red & Black Milan (Beijing) Sports Development Co. Ltd.	—	350	—	—	(350)	—
- Fondazione Milan - Onlus	104	—	—	—	—	104
Associates:						
- M-I Stadio S.r.l.	803	500	—	—	(218)	1,085
Total	197,488	850	—	—	(568)	197,770

Annex 5

Schedule of changes in shareholders' equity

(in thousands of Euros)

Changes in shareholders' equity	Share capital	Share premium reserve	Legal reserve	Statutory reserves	Other reserves	Profits (Losses) carried forward	Profit (Loss) for the period	Total Shareholders' Equity
Balance as at 31.12.2016	24,960	0	124	0	85,498	(34,250)	(71,920)	4,412
Resolution of 18.05.2017:								
- covering of losses					(71,920)		71,920	0
- capital increase	49,920	9,600						59,520
Capital contributions and/or contributions to cover losses					53,500			53,500
Other								0
Result for the period							(27,521)	(27,521)
Balance as at 30.06.2017	74,880	9,600	124	0	67,078	(34,250)	(27,521)	89,911
Resolution of 13.11.2017:								
- covering of losses					(27,521)		27,521	0
- capital increase	38,563	21,420						59,983
Capital contributions and/or contributions to cover losses								0
Other								0
Result for the period							(135,638)	(135,638)
Balance as at 30.06.2018	113,443	31,020	124	0	39,557	(34,250)	(135,638)	14,256

Annex 6

Analysis of net equity reserves

(in thousands of Euros)

Nature/Description	Amount	Possible use	Available amount	Summary of uses in the three previous years	
				to cover losses	for other reasons
Share capital	113,443				
Share capital reserves:					
Capital contributions	39,557	Λ, B, C	39,557	192,907	
Share premium reserve	31,020	Λ, B	31,020		
Earnings reserve:					
Legal reserve	124	B	124		
Statutory reserves	0	Λ, B, C	0		
Profits carried forward	(34,250)	Λ, B, C	0		
Total	36,451		70,701		
Non-distributable amount			70,701		
Remaining distributable amount			0		

Key

Λ: for capital increases

B: to cover losses

C: for distribution to shareholders

Annex 7

List of equity investments in subsidiaries and associates (Art. 2427 no. 5 Civil Code)

(in thousands of Euros)

Name of the Company Share capital	Headquarters:	Share held on 30.06.2018	Result for the period	Shareholders' Equity at 30/6/2018		Book value on 30.06.2018
				Amount total	Amount pro-quota	
Subsidiaries						
Milan Entertainment S.r.l. Share Capital: €20,000,000	Milan Via Aldo Rossi no. 8	100%	2,123	189,755	189,755	183,756
Milan Real Estate S.p.A. Share Capital: €5,000,000	Carnago (VA) Via Milanello no. 25	100%	537	14,205	14,205	12,825
Red & Black Milan (Beijing) Sports Development Co. Ltd. Share Capital: €350,000	Beijing (PRC) Unit 5, 34th Floor, Bld. 5 Middle Road of East 3rd Ring - CN - Chaoyang District	100%	(1,325)	(951)	(951)	0
Fondazione Milan - Onlus Endowment fund: €104,000	Milan Via Aldo Rossi no. 8	100%	0	104	104	104
Associates						
M-I Stadio S.r.l. Share Capital: €1,000,000	Milan Via Piccolomini no. 25	50%	(213)	2,170	1,085	1,085

Note: The net equity and results shown above were taken from the financial statements for the year ending 30 June 2018 approved by the Boards of Directors of the investee companies, except for the Milan Foundation, whose figures relate to the financial statements for the year ending 31 December 2017.

The book values to 30 June 2018 are shown net of any write-downs made during the period.

A.C. MILAN S.p.A.

Head office: Via Aldo Rossi, 8 – 20149 Milan

Authorised, subscribed and paid share capital: 113,443,200

Tax ID and Milan Companies' Registry Registration No. 01073200154

**REPORT OF STATUTORY AUDITORS ON THE MEETING OF SHAREHOLDERS
(ART. 2429 (2) CIVIL CODE)**

To the Meeting of Shareholders
of A.C. Milan S.p.A.

Shareholders,

This report has been approved collectively, following receipt of the consolidated draft financial statements for the year ending 30 June 2018, and of the report by the auditing firm in this regard.

The Board of Statutory Auditors has the control functions prescribed by Article 2403 et seq of the civil code. The external audit of the accounts is entrusted to the auditing firm EY S.p.A.

The structure of this report is based on the provisions of law and of Standard 7.1. of the “Rules of conduct of the Board of Statutory Auditors – Conduct of the Boards of Statutory Auditors of Unlisted Companies” issued by CNDCEC and in force since 30 September 2015.

Knowledge of the company, risk assessment and report on the appointments

We have investigated the activities performed by A.C. Milan S.p.A. (the “Company”), based on information obtained in April 2017, with regard to:

- the type of activity carried out;
- its organizational and accounting structure;

Also taking into account the size and problems facing the company, please note that the “planning” stage of the supervisory activity – which includes an assessment of the intrinsic risks and critical issues regarding the above two factors – was carried out by obtaining matches to what was already known, based on the information in our possession.

In relation to the above, we can confirm that:

- the Company’s core business has not changed during the current year, and reflects the contents of the company object.
- with regard to the IT equipment, the Company has completed the process of transferring the server from the previous controlling entity, Fininvest.

- during the year 30/6/2017-30/6/2018 changes were made to personnel and to the business structure, following the change in the shareholder body of April 2017.

This report therefore summarises our activities with regard to the information provided for in Article 249 (2) civil code, and specifically:

- on the operating results of the financial year;
- on the activity carried out in fulfilling the duties required by legal provisions;
- on the comments and proposals concerning the financial statements, particularly with regard to the administrative body possibly using the exemption set forth in Art. 2423 of the Italian Civil Code;
- the receipt of any complaints from the shareholders as set forth in Art. 2408 of the Italian Civil Code.

In any event, we remain fully available to delve deeper into any further issues during the Shareholders' Meeting.

The work done by the Board of Statutory Auditors related to the entire year. During the period, the meetings referred to in art. 2404 of the Italian Civil Code were duly held and specific minutes of such meetings were drawn up and duly signed.

Activity performed

The Board has familiarise itself with the Company's operations and its organisational and functional structure and has taken note of any changes compared to the minimum requirements imposed by the business performance. Based on the information in our possession, this structure appears to be adequate.

As part of our coordination with the other control bodies, we met with the managers of the auditing firm and of the Supervisory Body.

The relationships with the people working in the Company have been based on mutual collaboration while respecting the roles assigned to each one, having clarified those of the Board of Statutory Auditors.

There were no findings to show any irregularities regarding the capacity of the internal administration staff, who are responsible for recording the Company's events, and the administration staff appear to have sufficient knowledge of the issues facing the Company.

Based on the information learned, it is noted that:

- the decisions taken by the Meeting of Shareholders and by the Board of Directors conform to the law and to the company bylaws, and have not been manifestly imprudent or such that would definitively compromise the integrity of the company's assets;

- information has been obtained about the significant transactions carried out by the Company;
- there are no specific observations regarding the adequacy of the Company's organisational structure nor pertaining to the adequacy of its administration and accounting system, nor pertaining to the capacity of that system to present a proper representation of the management events;
- during our supervisory activity, as outlined above, no further significant facts emerged such as to require inclusion in this report;
- no intervention was required during the year 2017/2018 as a result of omissions by the Board of Directors (Article 2406 civil code);
- no complaints were received pursuant to art. 2408 of the Italian Civil Code;
- no complaints were received pursuant to art. 2409 (7) of the Italian Civil Code;
- during the year, the Board of Statutory Auditors did not issue any legal opinions.

Subsequent events

On 9 July 2018 the controlling entity of AC Milan S.p.A. received a notice of call to the Meeting of Shareholders (Article 2367 civil code). After the Board of Directors failed to act (which was due to failure to reach the quorum required for a valid meeting of the Board called to fulfil the mandatory requirements, connected to the request by the controlling shareholder), and also considering the urgency of the request and the current situation of the company, with the need to take important decisions including decisions about the football transfer market, taking into account the Tribunal hearing that the appeal against the decision by UEFA to exclude the club from European competitions, the media impact and the implications for the Club's image, the Board of Statutory Auditors called a meeting of Shareholders in accordance with Art. 2367(2) civil code. On 21 July 2018, the Meeting, having acknowledged the resignations of three directors, then revoked the mandates of the directors still in office and elected a new Board of Directors.

The Group's organisational chart was then redrawn, to include the elections of the new directors.

Relations with the previous CEO and director-general Marco Fassone have been interrupted, and it is not currently possible to rule out the possibility of legal proceedings.

The Company has obtained a national licence for the 2018/2019 championship and a UEFA licence for the 2018/2019 season. On 20 July 2018, the sports tribunal accepted part of the Company's appeal against the CFCB's decision to exclude the club from taking part in the UEFA competition. The tribunal then decided to refer the case back to the CFCB for the imposition of a penalty. On the date of this report, the CFCB has not yet ruled on the nature or amount of any such penalty. The Company has set aside a provision in this respect, based on its advisers' best

estimates.

Comments and proposals on the financial statements and their approval

The draft financial statements for the year ending 30 June 2018 were approved by the Board of Directors on 28 September 2018. They consist of the balance sheet, the income statement, the cash flow statement and the Notes.

In addition:

- the executive body has also prepared the management report referred to in Art. 2428 of the Italian Civil Code;
- the executive body has prepared consolidated accounts which were prepared on the basis of the national accounting standards, the provisions of law, and the current UEFA regulations, and they show a Group loss of Euro 126,019,000, with a negative Group shareholders' equity of Euro 36,043,000;
- the legal audit was entrusted to the auditing firm EY S.p.A. which prepared its report in accordance with Article 14 of legislative decree no. 39 of 27 January 2010, on the financial statements for the year ending 30 June 2018. That report was submitted on 8 October 2018 and does not contain any findings in respect of significant deviations, negative judgements, or inability to express an opinion. The report does contain a reference to the continuity of the business, to which please refer.
- EY S.p.A. submitted its report on the financial statements for the year ending 30 June 2018 on 8 October 2018 and it does not contain any findings in respect of significant deviations, negative judgements, or inability to express an opinion. The report does contain a reference to the continuity of the business, to which please refer.

The directors consider that the going concern requirements have been met, based on the following factors: a) payments totalling Euro 170.5 million made by the controlling shareholder, b) discharge of the bonds, which were reimbursed on 28 September 2018, c) a letter sent by the controlling entity on 25 September 2018 confirming its financial support for the Milan Group for at least 12 months from the date of approval of the financial statements.

The draft financial statements were examined, and the following additional information has been provided:

- the valuation criteria are not substantially different from those adopted in the previous year and comply with the amendments introduced in art. 2426 of the Italian Civil Code by Legislative Decree no. 139/2015 and the updating of the OIC accounting standards;
- as we were not required to provide a detailed check of the contents of the financial statements, attention has been given to the approach of the draft financial statements, their

general compliance with the law with regard to their drafting and structure, and in this respect there are no comments that require highlighting in this report;

- as far as the Board is aware, in preparing the financial statements the executive body did not vary the provisions of law (Article 2423 civil code);

- as also required by the first paragraph of Article 2423-ter Italian Civil Code, in view of the nature of the Parent Company A.C. Milan S.p.A.'s business, the instructions issued by the Italian Soccer Federation (FIGC) and the Committee for the Supervision of Italian Soccer Clubs (Co.Vi.So.C.) have also been taken into consideration.

- the provisions of law pertaining to the preparation of management reports have also been observed, and we do not have any observations to make in this regard;

- we have checked that the financial statements reflect the information we were provided with at the meetings, and in this regard we do not have any further observations to make;

- the information in relation to the commitments, risks and potential liabilities not included on the balance sheet appears to have been presented adequately in the Notes;

- the extent of relations during the period with parent companies, subsidiaries and affiliates has been presented in the Notes and in the management report;

- the structure of the Consolidated financial statements can be considered technically correct and, overall, it conforms to the specific legal requirements. The Shareholders' Meeting must take into account the consolidated financial statements and annexes only for information purposes, as they are documents not subject to approval;

- the Company has adopted an Organizational and Management Model under Italian Legislative Decree 231/2001 and established the related Supervisory Body. The Model is currently being updated, as we have been informed by the Supervisory Body;

- With regard to the Board of Directors' proposal concerning the appropriation of the result for the year, as was entered in the Notes, we have no observations to make in this regard, as this decision falls to the Meeting of Shareholders.

Result for the year

The net result as verified by the Board of Directors for the year ending 30 June 2018 is negative, at Euro 135,638,498.93 which places the Company in the conditions indicated in Article 2446 civil code. The conditions for continuation of the business are considered to be met by the Directors, in view of the following events: a) payments made by the controlling shareholder, b) discharge of the bonds, c) letter of commitment guaranteeing financial support for at least 12 months, from the majority shareholder.

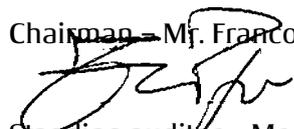
Conclusions

Based on the above, and as far as the Board of Statutory Auditors is aware, we consider that there are no reasons that would impede your approval of the draft financial statements for the year ending 30 June 2018 as drafted, and as proposed by the Board of Directors.

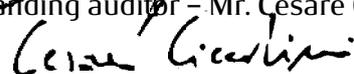
Milan, 08 October 2018

Board of Statutory Auditors

Chairman – Mr. Franco Carlo PAPA



Standing auditor – Mr. Cesare CICCOLINI



Standing auditor – Mr. Alberto DELLO STROLOGO



Independent auditor's report pursuant to article 14 of Legislative
Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of
A.C. Milan S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of A.C. Milan S.p.A. (the Company), which comprise the balance sheet as at 30 June 2018, the income statement and statement of cash flows for the year then ended, and explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Italian regulations governing financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

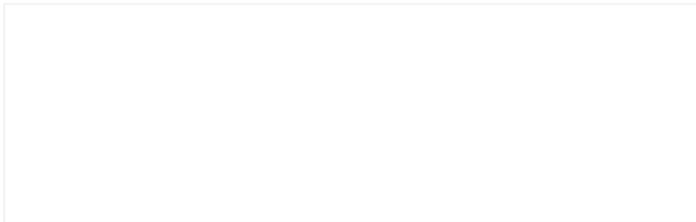
We draw the attention to the Note "Going Concern" (the "Note") of the explanatory notes and Report on Operations, that describes that the Company incurred in a loss for the period equal to Euro 136,6 million which determines the case referred to article 2446 of the Civil Code. The Directors underline the contributions made by the majority shareholder during the months of August and September 2018 and the financial support, for a period of not less than 12 months from the date of approval of the financial statements, guaranteed by the majority shareholder.

Based on the assumptions outlined above, the Directors have prepared these financial statements under the going concern assumption. Our opinion is not modified in respect to this matter.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with the Italian regulations governing financial statements, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption,



and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

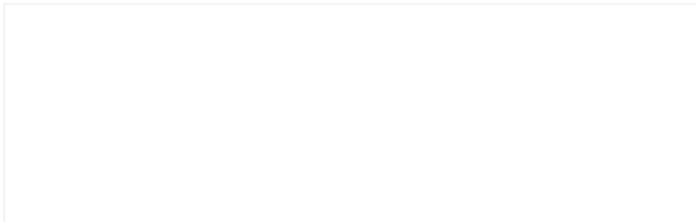
Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

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

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of A.C. Milan S.p.A. are responsible for the preparation of the Report on Operations of A.C. Milan S.p.A. as at 30 June 2018, including its consistency with the related financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the financial statements of A.C. Milan S.p.A. as at 30 June 2018 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the financial statements of A.C. Milan S.p.A. as at 30 June 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, October 08, 2018

EY S.p.A.
Signed by: Luca Pellizzoni, partner



This report has been translated into the English language solely for the convenience of international readers.

Resolutions of the Shareholder's Meeting

The Ordinary Shareholder's Meeting held on 25 October 2018 at 11:00 in Milan, Via Aldo Rossi no. 8, resolved:

1. To approve the Boards of Directors' Report on Operations, the Financial Statements at 30 June 2018 composed by Balance Sheet, Profit and Loss and Explanatory Notes related to the company A.C. Milan S.p.A., that shows a loss for the period of Euro 135,638,498.93;
2. To balance the loss of the period of Euro 135,638,498.93 by using an equal amount of capital contributions and/or loss coverage as follow:
 - o by Euro 39,557,261.14 using the whole amount of capital contributions and/or loss coverage related to previous financial years;
 - o by Euro 96,081,237.79 using an equal amount of capital contributions and/or loss coverage done during the months of August and September 2018.
3. To take note of the company's Consolidated Financial Statements at 30 June 2018, as well as the Boards of Directors' Report on Operations and the Auditing Firm's Report.

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