

Ladies and Gentlemen,

I am talking to you as the CFO of the Deutsche Fußball Liga GmbH, shortly "DFL". Holding this job since 2001 I am also responsible for the Bundesliga Licencing System.

The German Football association, the DFB, counts 6,7 million members in more than 26,000 registered clubs (Vereine) with approximately 180,000 teams. Football is by far the number one sport in our country.

The League association consists of the 36 licenced clubs in the Bundesliga and Second Bundesliga. And the operational unit of the League Association is the DFL, organising and marketing the two professional leagues.

When I prepared this presentation I was wondering what makes a professional football league appealing and successful?

Is it a matter of maximizing the total of goals scored? (*see chart 2*)

See our surprising finding for last season. But seriously:

Is it the number of clubs winning the Champions League or making it to the quarterfinals?

You notice, no new chart!

Is it the UEFA ranking of the respective league which determines the number of participating clubs of a league in UEFA club competitions?

We all know that success breeds success in professional football and this has become a significant issue at least since 1992 due to the immense revenues distributed in European club competitions.

Coming back to the success criteria for leagues:

Is it the sporting merit of the national team of the respective country?

Linked to that, it could be the percentage of home grown players on the pitch or in the squads of the leagues' clubs. See the spreading requirements to operate a youth academy being implemented currently in the licencing rules overall in Europe. And see the respective efforts done by our clubs over the last years. (*see chart 3*)

Supporters and Economists care about the competitive balance within in a league and advocate for more movement and alternation in the league tables and competitions. Here it is all about the institutional framework of the league, namely its rules and agreements to redistribute money from the sale of – hopefully centrally marketed - TV and marketing rights, which should be properly designed to keep the spread of clubs revenues within an appropriate and fitting range.

And not to forget the desire for utmost integrity of the game, being reflected in questions like do the referees perform well, are there any doubts caused by betting activities or are there specific means to influence the outcome of matches? It is not only about matters of facts. Any appearance of such activities is detrimental since it can seriously harm the game and its reputation and marketability if the integrity is only perceived to be affected in the public opinion.

Or is the success of a league mainly to be measured in commercial figures?

Obviously important is the amount of total revenues of all clubs. In the 2007/2008 season, the German professional football generated total revenues of approximately €2bn. (*see chart 4*)

Is success primarily being reflected by the amount of domestic pay-TV subscribers or by the international TV audience and its related revenues including merchandising income from abroad? Here we can learn a lot from England.

Is it all about attendances in the stadia? Or the standard, convenience and equipment of the stadia which German clubs surely owe to a great extent to heavy investment stimulated by the World Cup 2006. You see here our tremendous row of new records. *(see chart 5)*

No one amongst you will disagree if I assume that being successful on all mentioned levels is not realistic and that there are conflicting objectives for running professional leagues and clubs. Each well performing football team becomes quickly costly but not every expensive team performs well.

This takes us to the topic of this session - financial discipline – what is indeed from our perspective not only one but the crucial success factor for professional leagues. And accordingly it is the key element of the German licencing system.

We learn by experience that all over the world most of Club executives tend to operate riskily, tend to overestimate their chances in the championship. This may result in disproportionate spending relative to the income some clubs generate. And delays in honouring debts occur frequently in many leagues.

Hence, and hopefully you agree upon that, club executives have somehow to be protected against themselves. And we recommend to achieve this by an appropriate licencing system.

My purpose here is to outline the strong link between financial health as a key factor of success of a league and a strict and elaborate licencing system, constantly subject to continuous improvement. *(see chart 6)*

I will give you some recent statistical proof of financial health of our clubs. And I express the conviction that this is mainly due to our licencing system which works as a widely accepted disciplinary instrument since more than thirty years. And it is not only about preventing clubs from spending money. Our licencing regulation is perceived to serve as a strong incentive and catalyst for continuous improvement of professionals' managerial skills.

And it is fully accepted by those who are affected. We know this from our regularly carried out feed back procedures.

Financial stability of the Bundesliga arises in

- rising revenues, see the triplefold of revenues of the six biggest clubs compared to the twelve others (*see chart 7*)
- reasonable spending on players' salaries where we consider the 40 percent ratio as a benchmark for excellence and continuing financial health (*see chart 8*)
- sustainable profits (*see chart 9*)
- cutback of debt
- and increasing equity which is not injected by investors but earned through the club operations itself.

The financial criteria which have to be fulfilled in order to be granted a licence basically look forward to the future. Only if a positive liquidity, and this is our key and unique principle to our knowledge not applied elsewhere in Europe, is reasonably forecasted for the last day of the season to be licenced, this means 15 months after the submission of the

application on 15th of march, we admit the club to the Bundesliga. And we require the clubs to behave as a prudent or careful businessman, in German as a “vorsichtiger Kaufmann”. We often reduce revenues the club executives and their auditors put into their next season forecast (projected profit and loss statement) or we enhance their projected expenditures, namely their pay-roll. And you may imagine our tough and exciting discussions with the club executives concerning that.

This often ends up in an assumed negative liquidity at the end of next season. In this case we are able to force – and we do so - the club to fulfil so-called “conditions” until early in June. This is the time line of last season, unfortunately we haven’t enough time to explain our procedures in detail.

By the way, the same principle with regard to positive liquidity applies to the Third League run by the DFB and even the fourth leagues, the so-called Regionalligen.

The second basic principle is that we don’t accept clubs with persistent negative equity. By enforcing so called obligations the club has to disclose a profit after the next season in order to avoid a sanction

beginning with a financial penalty and ending up with point deduction after three years of enduring losses.

And the third main principle is that we call for submittance of all important contracts. So we are able to cross-check all figures in the financial forecast and we can detect any possible gateway to distortions of the integrity of the competition. *(see chart 10)*

Summarizing all that, we can exhibit with empirical evidence the standard business model of Bundesliga clubs:

- Expenditure strictly in line with carefully calculated revenues
- Existing, but limited possibilities to bring in capital instead of revenues in order to spend it on the player market
- Looking at the figures and not only at the league tables in order to build up equity internally

Our clubs identified the licencing systems being supportive and beneficial to identify and minimize financial risks, to increase transparency and to develop best practises.

And now, coming to a conclusion with a brief view to the financial fair play concept of UEFA:

We emphasize the coherence of financial soundness and a strict and carefully enforced licencing system. It is designed and established for the clubs benefit even if they don't recognize that at once or at all times.

And, my dear colleague Javed from the Premier League, I was a bit disappointed when I read yesterday that the CEO of the Premier League doesn't expect his principals, the executives of the English Clubs, to agree on linking spend to income. That seems to me being the decisive detail in UEFA's fair play concept. And Mr Scudamore's belief that enforcing UEFA's concept would simply mean that smaller clubs are unable to catch up the top teams is not correct. Better management tools or ideas will always help clubs to compensate for less ability to hire the best players. But fair play means to me that nobody can buy success only through his deep pockets. Only if the substitution of revenues - which precisely reflect the drawing potential of a club and thus its history - is strictly regulated, and these respective rules are interpreted as a purely sporting rule what they really are, the leagues and other governing bodies like UEFA can control the immense cash injections and heavy borrowing which bring all the trouble and financial disaster to the industry.

Therefore we strongly recommend to support UEFA's idea to ban club policies or business plans in which revenues are continuously replaced by cash injections from investors or banks.

Please let me repeat this important idea: Assessing the sustainable ability of the participants of the UEFA competitions to finance their transfers and salaries, we have to distinguish between revenues and capital streams which only affect the balance sheet but not the profit and loss-statement. Investments in clubs should be warmly welcome for improving stadia facilities, training grounds or other fixed assets. But abusing it for heavy spending on players will often not result in sporting success for the respective club but it will fuel the tendency to overinvestment in the whole league and thus will make football more expensive, but not better.

Thank you very much for your attention.