

Registration number: 04174493

Formula One World Championship Limited

Strategic Report, Directors' Report and Financial Statements

for the Year Ended 31 December 2019

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Formula One World Championship Limited

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Formula One World Championship Limited

Glossary of abbreviated terms

The following abbreviated terms are used in the Strategic Report, Directors' Report and the Financial Statements:

(i) Abbreviations of the names of parent and subsidiary entities

"Delta Topco"	Delta Topco Limited (parent company of Formula 1)
"FOA"	Formula One Administration Limited (a Formula 1 subsidiary)
"FOM"	Formula One Management Limited (a Formula 1 subsidiary)
"Formula 1" or "Group"	Delta Topco and its subsidiaries
"FOWC"	Formula One World Championship Limited (the company)
"Liberty"	Liberty Media Corporation (the ultimate parent undertaking of Formula 1)
"SLEC"	SLEC Holdings Limited (a Formula 1 subsidiary)

(ii) Other abbreviations used

"the Championship"	FIA Formula One World Championship®
"CRH"	Commercial Rights Holder
"EU"	European Union
"FIA"	Fédération Internationale de l'Automobile
"FRS 101"	Financial Reporting Standard 101 'Reduced Disclosure Framework'
"GAAP"	Generally Accepted Accounting Principles
"IAS"	International Accounting Standard
"IFRS"	International Financial Reporting Standard

Formula One World Championship Limited

Company Information

Directors	Mr D Llowarch Ms S Woodward Hill
Registered office	No. 2 St. James's Market London SW1Y 4AH
Auditor	KPMG LLP Chartered Accountants 15 Canada Square London E14 5GL

Formula One World Championship Limited

Strategic Report for the Year Ended 31 December 2019

The directors present their Strategic Report, Directors' Report and Financial Statements for the year ended 31 December 2019.

Abbreviations used in the Strategic Report, Directors' Report and the Financial Statements are defined in the Glossary of abbreviated terms (see page 1).

Principal activity

The company's principal activity during the year remained the exploitation of the commercial rights to the FIA Formula One World Championship® ("the Championship") under long term agreements with the Fédération Internationale de l'Automobile ("the FIA").

Parent company

On 23 January 2017 the company's then ultimate parent undertaking Delta Topco Limited ("Delta Topco") was acquired by Liberty Media Corporation ("Liberty"). Delta Topco and its subsidiaries will collectively be referred to herein as "Formula 1" or the "Group".

Review of the business

The company's key trading performance indicators during the year are shown below:

	2019 \$ m	2018 \$ m	Change \$ m	Change %
Turnover (see note 7)	1,603.4	1,455.7	147.8	10%
FOM services costs	(275.0)	(246.1)	(28.9)	12%
Other operating costs excluding team payments, foreign exchange, amortisation and share-based compensation	(67.3)	(79.0)	11.8	(15%)
Foreign exchange gains/(losses)	5.3	(7.6)	12.9	(170%)
EBITDA pre share-based compensation and team payments	1,266.5	1,123.0	143.6	13%
Team payments	(1,031.9)	(944.4)	(87.5)	9%
EBITDA pre share-based compensation (see note 10)	234.6	178.6	56.0	31%
Events on Championship calendar	21	21	-	-%
Average EBITDA pre share-based compensation and team payments per race	60.3	53.5	6.8	13%

The 2019 Championship calendar consisted of the same 21 Events as in 2018.

During the year revenues increased by \$147.8m (10%) to \$1,603.4m (2018-\$1,455.7m). The significant increase in revenue was principally driven by growth in broadcasting revenues due to contractual increases and despite the adverse impact of weaker prevailing foreign currency exchange rates used to translate a small number of Great British Pound and Euro-denominated contracts into US Dollars.

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Strategic Report for the Year Ended 31 December 2019

Under an agreement with its wholly-owned subsidiary FOM, FOM continued to provide services to the company, including technical support and broadcast services at all the races on the 2019 Championship calendar, in return for fees paid by the company to cover FOM's net operating costs. During 2019 the company paid fees to FOM totalling \$275.0m, \$28.9m (12%) higher than in the prior year (2018-\$246.1m). The higher fees were principally as a result of higher technical, travel and personnel costs.

The company's other operating costs, excluding foreign exchange, depreciation, amortisation and share-based compensation charges, decreased by \$11.8m to \$67.3m in the year (2018-\$79.0m). The costs incurred principally relate to the costs of the company's Formula One World Travel business, annual regulatory fees payable to the FIA, commissions, other event expenses and doubtful debt provisions. The year on year variance was primarily attributable to lower doubtful debt provision costs.

During the year the company benefited from a net foreign exchange gain of \$5.3m, which compared to the \$7.6m loss suffered in the prior year.

The company reported strongly growing EBITDA pre-share-based compensation and team payments at \$1,266.5m (2018-\$1,123.0m), \$143.6m (13%) higher than the prior year.

Total team prize fund payments, based on the terms for the calculation of the prize fund under the ongoing agreements with the Championship's participating teams, increased by \$87.5m (9%) to \$1,031.9m (2018-\$944.4m).

Having taken account of the team payment charges, the company reported EBITDA pre-share-based compensation charges \$56.0m or 31% higher at \$234.6m (2018-\$178.6m).

	2019 \$ m	2018 \$ m	Change \$ m	Change %
EBITDA pre share-based compensation charges (see note 10)	234.6	178.6	56.0	31%
Share-based compensation charges (see note 9)	(24.5)	(15.9)	(8.6)	54%
EBITDA (see note 10)	210.1	162.7	47.4	29%

Application of IFRS 2 Share-based Payments requires certain share-based compensation costs accrued under the Liberty Incentive Plan (see notes 5 and 26) to be recognised by the company. In 2019 \$24.5m of charges were booked (2018-\$15.9m).

After taking account of the share-based compensation charges, the company generated EBITDA for the year of \$210.1m (2018-\$162.7m), \$47.4m or 29% higher than the prior year.

Other key financial performance indicators are detailed in the table below:

	2019 \$ m	2018 \$ m	Change \$ m	Change %
Net interest receivable (see note 11)	5.2	2.0	3.2	160%
Profit for the year	173.0	154.6	18.4	12%

Higher cash balances during the year led to net interest receivable to be reported at \$5.2m, \$3.2m higher than prior year (2018-\$2.0m). The only remaining intra-group loan to which the company is a party is a loan to Delta Topco, on which no interest is charged. Following a capital repayment of \$2.4m in 2019 the loan balance at 31 December 2019 had reduced to \$200.6m (2018-\$203.0m).

The directors consider the performance of the company during the year to be satisfactory and in line with expectations.

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Strategic Report for the Year Ended 31 December 2019

Principal risks and uncertainties

The review of risks and uncertainties contains certain forward-looking statements. These statements have been made by the directors in good faith based on the information available to them at the time of their approval of this report. They should be treated with caution due to the inherent uncertainties arising, which relate to events, and depend on circumstances, that may or may not occur in the future.

Business risk

The company's future performance will be supported by its status as the CRH to the Championship, with its principal business risk being any threat to its ability to effectively exploit the commercial rights for the term of its agreement with the FIA.

In 2001 SLEC, a fellow Group company, entered into and funded a series of agreements, the counterparties to which were itself, other Group companies and the FIA, and under which the FIA continues to provide regulatory services and the company became the CRH to the Championship for a period of 100 years commencing from 1 January 2011.

Since the expiry of the 2009 Concorde Agreement at the end of 2012, the Championship has operated under the terms of additional agreements between the company, the participating teams and the FIA, and pursuant to which the teams have continued to participate in the Championship. With the approaching expiry of the team agreements at the end of 2020, the Group continues discussions with the teams aimed at agreeing terms for their continued participation in the Championship in 2021 and beyond. The Group is confident that terms will be agreed in due course.

In assessing risk, and given Formula 1 has a number of UK-based subsidiaries that operate significant elements of its business, we continue to assess the potential impact of the UK's exit from the EU. The UK's decision to exit the EU and the ongoing negotiations as to the terms of the future relationship lead to a continuing degree of uncertainty as to its potential impact on both markets generally and Formula 1's business. Amongst its risks, Brexit could impact the general economic climate and increase volatility; lead to continued foreign exchange risk; create logistical challenges for UK businesses with operations in the EU; create uncertainty as to the right of employees who are EU nationals to continue to reside and work in the UK, and result in changes in the framework of taxation that may apply to transactions.

The Group has continued to monitor developments with Brexit, actively considering related risks and mitigation strategies as they emerge, and will develop contingency plans as required to address any potentially adverse consequences that could arise. Whilst uncertainty remains as to the final impact of Brexit, Formula 1's business has certain characteristics that the directors believe should significantly mitigate risk in the areas highlighted above. These include the global nature of Formula 1, as a result of which the business has a globally diverse portfolio of contracts, customers and activities, and the fact that the majority of its business is transacted in US dollars. At this time Formula 1 does not anticipate that Brexit will have a material adverse effect on its business, albeit possible future logistical challenges could arise in moving staff and equipment to and from European-based races which take place during the course of a Championship season.

COVID-19 and risks for the company

At the time of approving these financial statements members of the Group's senior management, including the directors, are actively monitoring the ongoing spread of the coronavirus and the related COVID-19 outbreak, addressing the consequences, and assessing other potential risks arising and how their impact on the Group can be mitigated. Given the unpredictability of the length and outcome of the COVID-19 outbreak and how it will ultimately impact the business, the Group is seeking to mitigate the risks associated where possible, liaising closely and communicating actively with its employees, the FIA, the teams, race promoters, government authorities in race jurisdictions, commercial partners and other stakeholders. The Group continues to closely monitor applicable travel and public health restrictions as well as health and safety, travel and other advice and guidance issued by the UK Government, other national and civil governments, and will take necessary decisions with those other stakeholders to continue to adjust its plans as required to address the risks and opportunities that arise.

Following the initial outbreak of COVID-19 in China, its subsequent spread around the world and the cancellation, on the eve of the event, of the Australian GP, which was due to be the opening round of the 2020 F1 season, a further nine rounds of the 2020 race calendar have been postponed or cancelled, all of which were scheduled to take place before the end of June, as efforts continue around the world to contain and overcome the impact of the virus. It is possible that, in addition to the first ten events, other events on the 2020 calendar may also need to be cancelled or postponed from their original race dates in due course, but the intention is to reschedule as many of the postponed races as possible for later in 2020.

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Strategic Report for the Year Ended 31 December 2019

In the expectation that later in 2020 the operational restrictions imposed as a result of COVID-19 will be eased, the Group is working with the FIA, the competing teams, race promoters and other stakeholders to build a revised 2020 race calendar, so as to allow as many races as possible to take place once conditions allow. For that to happen, it is likely that some races will need to take place under conditions that would restrict the full scope of the Group and the company's normal business activities, for example if the event were to take place as a closed event without spectators.

At the time of approving these financial statements, and dependent on appropriate prevailing conditions, with the support of the other stakeholders the Group aims to be able to start racing in July and is looking at different options for creating a new 15 to 18 race calendar for the 2020 Championship. Under these plans racing would potentially start in July, most likely with a series of behind closed doors races at European circuits to be followed by a series of flyaway races moving through countries in Asia, the Americas and/or the Middle East as conditions allow. In order to build such a calendar, the Group is considering the possibility to hold more than one race at certain circuits if required.

As addressed in note 5 to these financial statements, the company generates its revenues from a range of activities in association with the Championship and its events, with individual revenues relating either to (i) rights associated with an entire Championship season, (ii) rights related to a specific Championship event, (iii) rights related to a specific period, typically a calendar year, or (iv) the sale of other rights or services with more ad hoc performance obligations. If events are cancelled and cannot be rescheduled there will be an adverse impact on the company's revenues, and even if most events can take place, it may be on a closed (i.e. no public) basis in which case the associated commercial terms may be less favourable to the company than originally contracted and certain event-derived revenues may be reduced or eliminated, either because the venue is closed to spectators, guests and other members of the public or because fans and commercial partners are prevented from or choose to not travel to or attend major events in countries and regions perceived to be higher risk.

Considering the impact on expected 2020 revenue generation of event cancellation or restrictions placed on public access to venues, certain revenues specific to rights for, or services delivered by the company or the Group at, a cancelled or scaled-back event would most likely not be earned, and revenues from fixed fees arising from rights related to the 2020 Championship season could be subject to pro-rata or other negotiated reduction if the number of Championship events that ultimately take place in 2020 falls below the varying level of minimum event numbers specified by certain applicable contracts. It is also likely that the sale of other rights or services by both the company and the Group will be compromised to some degree given the 2020 Championship is likely to consist of fewer events than originally scheduled, and in the event of events being scaled back. However, lost revenues would be offset to some degree by cost savings, as cancellation of events or scaling back of activities would result in certain event-focused costs falling or not being incurred at all, and the variable elements of the Prize Fund payments made by the company to the competing teams would reduce. Following the delay in starting the season in Australia, the Group and the company have also taken immediate measures to reduce operating costs through deferral of more discretionary expenditure, seeking to renegotiate supplier commitments for services that can be deferred or potentially will not be delivered in 2020, the furloughing of significant numbers of staff under the UK Government's coronavirus job retention scheme and voluntary pay cuts from senior management.

At this time, there remains uncertainty as to the time period over which COVID-19 will impact both the Group and the company, and there are a wide range of theoretical scenarios and outcomes that are possible, featuring varying numbers of events and race locations, and different assumptions about the scope of revenue and cost generating activities. However, it is the directors' current expectation that the current outbreak of COVID-19 and the related consequences will be controlled in due course, and longer term will ultimately be eliminated through new treatments and/or vaccination, and that therefore the disruption from the effects of COVID-19 will prove temporary. As a result, the Group and the company is focused on what are considered to be the more realistic scenarios for 2020, reflecting a delayed start to the 2020 season and the running of a revised calendar in the second half of the year as discussed above, and is working with its partners to find flexible solutions to the challenges created.

At the time of their approval, in the directors' judgement the outbreak of COVID-19 has not required any post-balance sheet adjustment to be made to, or specific disclosure of the potential impact of the virus to be provided in respect of, any of the company's balance sheet assets and liabilities reported as at 31 December 2019.

The directors believe the developments identified will help the company to mitigate its principal business risks for the immediate and foreseeable future and at least the next 12 months.

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Strategic Report for the Year Ended 31 December 2019

Financial instrument risks

Objectives and policies

The company has procedures in place which aim to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risk at a business unit level.

Use of derivatives

The company occasionally uses forward foreign currency contracts to reduce exposure to the variability of foreign exchange rates by fixing the rate of certain material receipts in a foreign currency.

Credit risk, liquidity risk and cash flow risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The company is exposed to credit risk from its operating activities (primarily from trade receivables) and from its financing activities, including deposits held with banks and financial institutions. The majority of the company's trade receivables are due from large national or multinational companies, or are government backed where the risk of default is considered low and are often backed by letters of credit. Credit risk from balances with banks and financial institutions, and on liquid funds and derivative financial instruments is considered limited because the counterparties are banks and financial institutions with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company aims to mitigate liquidity risk by managing cash generation, ensuring the adherence of counterparties to the company's terms of trade, and applying cash collection targets. The company is also able to manage liquidity risk via use of the Group's RCF, when and if required.

Furthermore as discussed above, the company has received confirmation of the intention of its parent Delta Topco to provide financial support should it be needed, for a period of at least 12 months from the date of approval of these financial statements, Delta Topco itself having received a similar confirmation of intent from Liberty.

Other risks

Other risks and uncertainties are regularly monitored by the directors and no significant change is expected to this activity during the forthcoming year.

Statement by the directors in performance of their statutory duties in accordance with section 172(1) of the Companies Act 2006

The company's directors consider, both individually and together, that they have acted in the way which they consider, in good faith, would be most likely to promote the success of the company for the benefit of its sole shareholder, SLEC (see note 29). They have also considered the company's other stakeholders and matters set out in section 172(1)(a) to (f) of the Companies Act 2006 in the decisions taken during the financial year ended 31 December 2019.

Long term strategy and decision making

The directors of the company recognise the importance of taking decisions for the long term and analysing the likely consequence of each key decision. In taking decisions the directors seek to apply and maintain highest standards of business conduct, and given the company has a single shareholder, the directors are not at risk of acting unfairly between its members when making them.

As noted, the company is part of the Group and with all companies within the Group wholly owned, long term strategy is determined at the Group level with decisions and activities then delegated to its individual companies. Whilst the main objectives of the company and certain strategic decisions will be set/taken at a Group level, consideration does still need to be given to the individual interests of the company. Given that in addition to being directors of the company, Mr Llowarch and Ms Woodward Hill are also members of the Group's executive management, being respectively its Chief Financial Officer and its General Counsel, they are able to consider any decisions to be taken both in the context of the interests of the wider Group and its detailed strategy, and in the interests of the company.

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Strategic Report for the Year Ended 31 December 2019

The Group's strategy, which is published and is available on the Group's corporate website (<https://corp.formula1.com>), sets out to deliver long-term value to its ultimate owner Liberty, and to other stakeholders including the company. The strategy also promotes the Group's other aims, which include to grow the sport and its fan base, and to ensure the Championship's long-term sustainability, and is built around six strategic priorities:

- Race: Increase competitiveness and unpredictability on track;
- Engage: Produce world-class spectacles for fans on and off track;
- Perform: Drive value for our stakeholders;
- Sustain: Deliver sustainable and efficient operations;
- Collaborate: Create win-win relationships with our partners; and
- Empower: Build an engaged, high-performing workforce.

Maintaining a reputation for high standards of business conduct

The Group seeks to maintain high business standards, ensuring that wherever its subsidiaries are operating in the world, their business is conducted with integrity, and in compliance with the law and the Formula 1 Code of Conduct. The code, which includes the Group's anti-bribery and corruption policy, has been adopted by each Formula 1 subsidiary, including the company, and applies to every officer and employee of the Group.

In addition to the requirements of its subsidiaries, officers and employees, the Group also expects third parties who perform services for Formula 1 to apply or adopt internal policies that are consistent with this Code. In that regard the Group's compliance team conduct KYC checks and other due diligence work on any potential partners the company considers doing business with.

As the subsidiary of a US public company, Liberty, the company and the wider Group are also required to comply with additional requirements, including the Foreign Account Tax Compliance Act (FATCA) and certain aspects of the 2002 Sarbanes-Oxley Act (SOX). SOX requires the Group to establish and maintain robust internal control structures and procedures for financial reporting, to report on their effectiveness, and have that effectiveness tested and assessed annually by its external auditors. The conclusions of the work on SOX for the 2019 year are that the Group continues to operate a robust and effective control environment.

Engagement with key stakeholders

In addition to the company's parent and other fellow subsidiary companies of Formula 1, the directors consider the company's key stakeholders to be the Championship's fans; the FIA and the F1 teams; the Championship's race promoters and broadcasters; Liberty; and the Group's external lenders.

Engaging and building relationships with F1 fans globally continues to be a key priority. Several engagement initiatives have been introduced, designed to gather proactive feedback, including Fan Voice, social sentiment/listening, race spectator surveys and a dedicated customer call centre. Feedback received includes topics such as the quality and location of races, F1 and driver social media engagement, attendance at F1 festivals, and F1 technical product performance. Fan Voice ensures that feedback from core fans is tracked and digested regularly. A dedicated customer call centre ensures that product concerns and performance are monitored, addressed and improved.

The directors, together with the Group's other senior management, ensure continued close collaboration with the FIA and F1's competing Teams. This collaboration includes regular meetings of the F1 Strategy Group; other technical, sporting, commercial and financial consultation meetings between the Group, the FIA and each of the F1 Teams (both individually and together); and frequent ad hoc meetings between the Group's executive leadership and other senior members of the FIA and the Teams. Matters discussed included the regulatory, commercial and governance framework for the Championship, together with other ongoing sporting matters. Following their unanimous approval after a lengthy consultation process, in October 2019 the FIA passed into regulation for the 2021 Championship a series of revised technical, sporting and financial regulations. The Group considers this to be a positive development for the future of the sport.

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Strategic Report for the Year Ended 31 December 2019

The Group's senior management maintain regular ongoing engagement throughout the year with the various promoters who stage the Championship's events. The Group uses engagement activities including an annual general meeting at the start of the year, and twice yearly marketing and commercial workshops to discuss its strategy, operational plans, branding and event related collaboration opportunities with the promoters and uses an end of season satisfaction questionnaire to assess progress made in the year. Promoters are actively engaged with Formula 1's sustainability plan, community projects such as F1 in Schools, and also pursue their own corporate social responsibility initiatives locally. The company is required to periodically renew each race promotion agreement, and with expiry dates not all coterminous, in any year a number of circuit rights' agreements will come up for renewal. During 2019 the company was successful in renewing a number of race contracts on satisfactory terms and, after signing a contract in 2018 for a new event for the 2020 season to take place in Vietnam, also agreed terms for a second new race for 2020 to take place in the Netherlands although at the date on which these accounts are approved, the risks arising from the global Covid-19 pandemic have disrupted the 2020 F1 race calendar (see note 30). The company decided not to renew its contract for the German race, which expired after the 2019 race.

Throughout the year the Group's senior management maintain regular contact with broadcasters who carry F1 on their channels, and the Group meets with broadcasters at every event through the season and also conducts a comprehensive pre-season broadcaster workshop to discuss developments and the plans for the year ahead. Detailed questionnaires are used to assess both broadcaster satisfaction and views on the quality of the Group's TV production both in the middle, and at the end, of each season, with actions taken by the Group to address any concerns. The company is required to periodically contract the arrangements covering each of the near 200 territories in which F1 is broadcast, and with contract expiry dates not all coterminous, in any year a number of arrangements will come up for negotiation. As per normal practice during 2019 the company contracted a small number of arrangements which were required to be in place prior to the start of the season and also agreed terms for a number of contracts in territories where existing rights expired at the end of the season.

The directors, together with the Group's other senior management, regularly discuss material strategic and operational matters with senior Liberty executives, some of whom sit on the boards of certain Group companies, including Delta Topco. As a US listed company, Liberty has significant public reporting obligations, and given Formula 1 is a material subsidiary, the Group is required to fulfil significant reporting requirements to Liberty on a quarterly and annual basis. These include the requirement for the Group to be compliant with, and report to it on, certain SOX requirements as discussed above. The Group also assists Liberty with investor relations activities, contributing to Liberty's quarterly earnings calls and annual investor day.

The company has a number of trading relationships with other subsidiary companies of Formula 1, including sub-licensing arrangements, the receipt of intra-group services for which it pays fees, various intra-group loans and other trading balances. Formula 1's subsidiaries work together to pursue and deliver the Group's strategy and targets and ensure that any intra-group arrangements are in the interests of both parties. This often requires day to day management co-operation and operational liaison to ensure the terms of any trading arrangements and the terms of any agreements relating to intra-group loans and trading balances are followed and that any required support is provided.

The company, together with several other Group companies, is party to and guarantees the Group's external borrowing arrangements. The Group provides quarterly management reports and compliance certificates to external lenders, holds periodic update calls and liaises on a regular basis with the agent who oversees the facilities on behalf of lenders. The Group also meets on a regular basis with the rating agencies to update them on its progress and expectations for the future.

Other stakeholder considerations

The directors recognise the importance of certain other stakeholders in the success of both the company and the Group as a whole, including the Group's employees, the Group's other suppliers and the Championship's third-party sponsors. The Group's wider engagement with such stakeholders is discussed in the financial statements of the Group companies primarily responsible for overseeing the relevant relationships, and the section 172 (1) statements required of any of its subsidiaries are published on the Group's corporate website.

The community and the environment

During 2019 the Group announced an ambitious environmental sustainability plan for F1, and in January 2020 has signed up to the United Nations' Sports for Climate Action Framework, underlining its commitment to becoming more environmentally conscious in the future.

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Strategic Report for the Year Ended 31 December 2019


The sustainability plan targets the Championship to have a net-zero carbon footprint by 2030, with related initiatives addressing both the cars and on-track activity, and the other race operations, including logistics and travel, of both the Group and other stakeholders in the sport. In addition, the Group aims to ensure all Formula 1 races are sustainable by 2025 through the use of appropriate materials at all events, the elimination of single-use plastics and ensuring all waste is reused, recycled or composted. Additional incentives and tools will be offered to every fan to find a greener way to reach the race, and focus will be placed on ensuring circuits and facilities enhance both fan wellbeing and nature, also providing opportunities for local people, businesses and causes to get more involved in the race weekend.

The directors fully subscribe to the aims of the plan, details of which are available from the Group's corporate website, and the company will pursue any required actions to contribute to its successful delivery.

The Group continues to support F1 in Schools, a global social enterprise working with committed industry partners to provide an exciting educational experience through the magnetic appeal of Formula 1, with the key objective of changing children's perceptions of the STEM subjects - science, technology, engineering and maths.

The Group takes steps to support communities in the countries in which it operates. For example, in January 2020 the Group organised an auction of F1 valuable memorabilia and experiences in order to raise money to help those affected by the Australian bushfires.

Approved by the Board on 28 April 2020 and signed on its behalf by:



.....
Mr D Llowarch
Director

Formula One World Championship Limited

Directors' Report for the Year Ended 31 December 2019

The directors present their Report and the Financial Statements for the year ended 31 December 2019.

Results and dividends

The results for the year are shown in the Profit and Loss Account on page 17. The company declared and paid dividends totalling \$140.3m (2018-\$540.3m) (see note 25).

Matters required to be reported under section 416(4) of the Companies Act 2006

The company has chosen, as permitted under section 414C(11) of the Companies Act 2006, to discuss matters related to its key business relationships within its Strategic Report rather than the Directors' Report, as they are considered of strategic importance.

Future developments

Given the long term rights held by the company to exploit the commercial rights related to the Championship and its events, and taking into account the other developments detailed in the Strategic Report above, the directors consider the company is well positioned to perform satisfactorily in the future.

Going concern

The company's business activities, together with the factors likely to affect its future development, its financial position and its risk exposures, are described in the Strategic Report above, noting the importance of the activities of the wider Group in supporting the company's own business. The relative uncertainty of the COVID-19 outbreak and its exact impact has therefore had to be considered both from the point of view of its anticipated effect on the company and the Group when adopting the going concern basis in these financial statements.

To date the first ten events of the season have been cancelled or postponed, and whilst it is the Group's intention to try to reschedule as many events as possible, there is a risk that a number of the 2020 Championship events do not take place, as discussed. Given the season is not likely to start until July, at earliest, and, with the likelihood that the scope of the Group and the company's activities will be somewhat compromised, it is expected that the Group and the company's 2020 financial results will be impacted.

Forecasts and projections have been prepared for 2020 and 2021 looking at a range of what are considered possible outcomes in the Group's trading performance and cash flow, including a severe but plausible one addressing what is currently considered to be the remote circumstance of no races being staged in 2020. In this most severe outcome the forecasts indicate that additional funding may be needed in addition to that expected to be available to the Group and the company through existing facilities. Notwithstanding this, the company is supported by Delta Topco's confirmation that, during the period, it intends to provide additional financial support to the company and its fellow subsidiaries should it be required. This intention to provide financial support is also supported by similar assurances Delta Topco itself has received from the company's ultimate parent, Liberty, and as such the company believes it will have access to sufficient liquidity, including any additional funding as may be needed, to be able to meet its liabilities for a period of at least 12 months from the date of approval of these financial statements.

As one of the key trading subsidiaries of the Group, the revenues and returns generated by the company contribute towards the servicing, and compliance with the terms, of the Group's external financing arrangements. As part of these, certain of the Group's subsidiaries, including the company, have access to borrow a \$500m revolving credit facility ("RCF"), which is available to provide additional liquidity if/when it is so required. As a result, in adopting the going concern basis of preparation, consideration has been given by the directors to the ability of the Group as a whole to both continue to comply with the terms of its existing financing arrangements, and to access sufficient additional or alternative sources of liquidity if they are required.

The company is an obligor under the Group's \$2.9bn Senior Loan facilities and these facilities are secured by fixed and floating charges over the present and future assets of the Group's main operating companies, which include the company. The terms of the facilities see no covenants required to be tested in respect of the Senior Loans and no impending maturities, as the loans are not repayable until February 2024.

Formula One World Championship Limited

Directors' Report for the Year Ended 31 December 2019

In addition to the Senior Loan facilities, as noted the Group and company also have access to the \$500m RCF, which was undrawn at 31 December 2019. Following the onset of the COVID-19 pandemic, in March 2020 the Group took the precautionary measure of drawing \$475m of the facility, with the cash remaining on the company balance sheet as at the date of the approval of these financial statements. This facility is subject to a single net debt leverage ratio which is tested quarterly. Given that it is now expected that the 2020 season will not start before July at the earliest, it is likely that the RCF leverage covenant will be breached when tested at 30 June 2020, as the absence of races in the first half of the year will materially impact the recognition of the Group's revenues and therefore reported EBITDA for the rolling 12 month period used for covenant testing purposes. Given that such a breach would most likely continue through the period until the number of races held within a preceding 12 month period returned to more normal levels, the Group has initiated actions to address the anticipated breach.

The Group is in discussions to seek the agreement of the nine banks who are the lenders of the RCF ("the RCF Lenders") for a temporary waiver of the existing covenant test requirement. Under the terms of the RCF this requires consent to be given by sufficient RCF Lenders to represent, by cumulative addition of their individual commitments, a simple majority of the total \$500m facility. Since the outbreak of COVID-19, the Group has received expressions of support from the RCF Lenders and has provided projections that indicate the financial impact of COVID-19 on the Group will be temporary. The Group is therefore confident that consent for the covenant test waiver will be provided in due course.

In what the directors believe would be the unlikely event that the Group is unable to generate sufficient support from the RCF Lenders for the request, alternative actions would be available to it. The leverage covenant is only tested if the RCF remains in place, so its repayment would eliminate the test requirement completely and make the question of breach academic. In addition, even if the covenant test waiver is obtained, in the most severe of the outcomes considered, the Group's forecasts indicate that additional funding may be required over and above available facilities. Whilst the directors believe the Group would be able to access additional 3rd party financing if preferred, as discussed above the Group has received, from its parents Delta Topco and Liberty, confirmation that they intend to provide financial support to the Group if required. This support has been underlined by an exercise performed by Liberty to reattribute certain liquid assets under its ownership in order to support and enhance the Formula 1 business as required, and as announced in a press release relating to the exercise issued on 23 April 2020. Given the Group is already in positive waiver discussions with representatives of the RCF Lenders and alternative actions are available if these are unsuccessful, the directors consider the Group has the ability to resolve the matter satisfactorily, with no resulting going concern impact for the company.

Whilst the eventual overall impact on the Group and the company of, and the period affected by, the COVID-19 outbreak are uncertain, for the reasons discussed above, including the indicative parental financial support of Delta Topco and Liberty should it be required, the directors conclude that in all currently foreseeable scenarios the company will have access to sufficient liquidity and adequate financial resources to enable it to continue operating for the foreseeable future and at least the next twelve months, and that it is therefore appropriate to adopt the going concern basis in preparing these financial statements.

Directors of the company

The directors who held office during the year were as follows:

Mr D Llowarch

Ms S Woodward Hill

Non adjusting events after the financial period

Issues arising from the global outbreak of COVID-19 are discussed in the Strategic Report in more detail, in the section titled 'COVID-19 and risks for the company' (see page 5).

Disclosure of information to the auditor

Each director has taken the necessary steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of, and of which they know the auditor is unaware.

Formula One World Championship Limited

Directors' Report for the Year Ended 31 December 2019

Reappointment of auditor

The auditor, KPMG LLP, will be deemed reappointed in accordance with section 487 of the Companies Act 2006.

Approved by the Board on 28 April 2020 and signed on its behalf by:



.....
Mr D Llowarch
Director

Formula One World Championship Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of Formula One World Championship Limited

Opinion

We have audited the financial statements of Formula One World Championship Limited (the "company") for the year ended 31 December 2019 which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and related notes, including the accounting policies in note 5.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Independent Auditor's Report to the Members of Formula One World Championship Limited

Directors' responsibilities

As explained more fully in their statement set out on page 14, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) 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 the financial statements.

A further description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Smeulders (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

29 April 2020

Formula One World Championship Limited

Profit and Loss Account for the Year Ended 31 December 2019

		2019 \$ 000	2018 \$ 000
	Note		
Turnover	7	1,603,445	1,455,688
Cost of sales		<u>(1,097,384)</u>	<u>(1,005,462)</u>
Gross profit		506,061	450,226
Other administrative expenses		<u>(272,005)</u>	<u>(272,112)</u>
Share-based compensation charges	9	<u>(24,493)</u>	<u>(15,922)</u>
Administrative expenses		<u>(296,498)</u>	<u>(288,034)</u>
Operating profit	8	209,563	162,192
Interest receivable and similar income	11	5,403	2,113
Interest payable and similar charges	11	<u>(194)</u>	<u>(80)</u>
Profit before tax		214,772	164,225
Tax on profit on ordinary activities	15	<u>(41,767)</u>	<u>(9,582)</u>
Profit for the financial year		<u>173,005</u>	<u>154,643</u>

The above results were derived from continuing operations.

Formula One World Championship Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

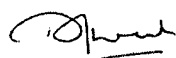
	2019 \$ 000	2018 \$ 000
Profit for the year	173,005	154,643
Other comprehensive income, net of tax	-	-
Total comprehensive income for the year	<u>173,005</u>	<u>154,643</u>

Formula One World Championship Limited

(Registration number: 04174493)
Balance Sheet as at 31 December 2019

	Note	2019 \$ 000	2018 \$ 000
Fixed assets			
Intangible assets	16	4,908	5,433
Investments	17	<u>23,544</u>	<u>23,544</u>
		<u>28,452</u>	<u>28,977</u>
Current assets			
Debtors due within one year	18	347,573	355,912
Debtors due after more than one year	19	336,848	336,608
Cash at bank and in hand	20	<u>400,890</u>	<u>29,296</u>
		1,085,311	721,816
Creditors: Amounts falling due within one year	21	<u>(879,701)</u>	<u>(584,009)</u>
Net current assets		<u>205,610</u>	<u>137,807</u>
Total assets less current liabilities		234,062	166,784
Creditors: Amounts falling due after more than one year	22	(11,377)	(3,215)
Provisions for liabilities	23	<u>(4,957)</u>	<u>-</u>
Net assets		<u>217,728</u>	<u>163,569</u>
Capital and reserves			
Called up share capital	24	-	-
Profit and loss account		(26,171)	(58,828)
Share-based compensation reserve		<u>243,899</u>	<u>222,397</u>
Shareholders' funds		<u>217,728</u>	<u>163,569</u>

Approved by the Board on 28 April 2020 and signed on its behalf by:



Mr D Llowarch
Director

Formula One World Championship Limited

Statement of Changes in Equity for the Year Ended 31 December 2019

	Share capital \$ 000	Share-based compensation reserve \$ 000	Retained earnings \$ 000	Total \$ 000
At 1 January 2018	-	205,598	326,868	532,466
Total comprehensive income	-	-	154,643	154,643
Dividends	-	-	(540,339)	(540,339)
Share-based compensation transactions	-	16,799	-	16,799
At 31 December 2018	-	222,397	(58,828)	163,569
Total comprehensive income	-	-	173,005	173,005
Dividends	-	-	(140,348)	(140,348)
Share-based compensation transactions	-	21,502	-	21,502
At 31 December 2019	-	243,899	(26,171)	217,728

Share-based compensation reserve

The share-based compensation reserve is used to recognise the fair value of equity-settled share-based compensation transactions (see note 26).

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1 General information

The company is a private company limited by share capital, and incorporated and domiciled in England and Wales.

The address of its registered office is:

No. 2 St. James's Market

London

SW1Y 4AH

These financial statements were authorised for issue by the Board on 28 April 2020.

2 Basis of preparation

Abbreviations used in these financial statements are defined in the Glossary of abbreviated terms (see page 1).

These financial statements were prepared in accordance with FRS 101 and under historical cost accounting rules.

The financial statements contain information about FOWC as an individual company and do not contain consolidated financial information as the parent of a group, as the company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements, as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of Liberty (see note 29).

The financial information is presented in US dollars and all values are rounded to the nearest thousand (\$000) except where otherwise indicated.

New standards, interpretations and amendments effective

None of the new standards, interpretations and amendments adopted by the company for the first time for its annual reporting period commencing 1 January 2019 have had a material effect on the financial statements.

3 Going concern

Notwithstanding net current liabilities of \$131.2m as at 31 December 2019, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The company's business activities, together with the factors likely to affect its future development, its financial position and its risk exposures, are described in the Strategic Report on page 3, noting the importance of the activities of the wider Group in supporting the company's own business. The relative uncertainty of the COVID-19 outbreak and its exact impact has therefore had to be considered both from the point of view of its anticipated effect on the company and the Group when adopting the going concern basis in these financial statements.

To date the first ten events of the season have been cancelled or postponed, and whilst it is the Group's intention to try to reschedule as many events as possible, there is a risk that a number of the 2020 Championship events do not take place, as discussed. Given the season is not likely to start until July, at earliest, and, with the likelihood that the scope of the Group and the company's activities will be somewhat compromised, it is expected that the Group and the company's 2020 financial results will be impacted.

Forecasts and projections have been prepared for 2020 and 2021 looking at a range of what are considered possible outcomes in the Group's trading performance and cash flow, including a severe but plausible one addressing what is currently considered to be the remote circumstance of no races being staged in 2020. In this most severe outcome the forecasts indicate that additional funding may be needed in addition to that expected to be available to the Group and the company through existing facilities. Notwithstanding this, the company is supported by Delta Topco's confirmation that, during the period, it intends to provide additional financial support to the company and its fellow subsidiaries should it be required. This intention to provide financial support is also supported by similar assurances Delta Topco itself has received from the company's ultimate parent, Liberty, and as such the company believes it will have access to sufficient liquidity, including any additional funding as may be needed, to be able to meet its liabilities for a period of at least 12 months from the date of approval of these financial statements.

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

3 Going concern (continued)

As one of the key trading subsidiaries of the Group, the revenues and returns generated by the company contribute towards the servicing, and compliance with the terms, of the Group's external financing arrangements. As part of these, certain of the Group's subsidiaries, including the company, have access to borrow a \$500m revolving credit facility ("RCF"), which is available to provide additional liquidity if/when it is so required. As a result, in adopting the going concern basis of preparation, consideration has been given by the directors to the ability of the Group as a whole to both continue to comply with the terms of its existing financing arrangements, and to access sufficient additional or alternative sources of liquidity if they are required.

The company is an obligor under the Group's \$2.9bn Senior Loan facilities and these facilities are secured by fixed and floating charges over the present and future assets of the Group's main operating companies, which include the company. The terms of the facilities see no covenants required to be tested in respect of the Senior Loans and no impending maturities, as the loans are not repayable until February 2024.

In addition to the Senior Loan facilities, as noted the Group and company also have access to the \$500m RCF, which was undrawn at 31 December 2019. Following the onset of the COVID-19 pandemic, in March 2020 the Group took the precautionary measure of drawing \$475m of the facility, with the cash remaining on the company balance sheet as at the date of the approval of these financial statements. This facility is subject to a single net debt leverage ratio which is tested quarterly. Given that it is now expected that the 2020 season will not start before July at the earliest, it is likely that the RCF leverage covenant will be breached when tested at 30 June 2020, as the absence of races in the first half of the year will materially impact the recognition of the Group's revenues and therefore reported EBITDA for the rolling 12 month period used for covenant testing purposes. Given that such a breach would most likely continue through the period until the number of races held within a preceding 12 month period returned to more normal levels, the Group has initiated actions to address the anticipated breach.

The Group is in discussions to seek the agreement of the nine banks who are the lenders of the RCF ("the RCF Lenders") for a temporary waiver of the existing covenant test requirement. Under the terms of the RCF this requires consent to be given by sufficient RCF Lenders to represent, by cumulative addition of their individual commitments, a simple majority of the total \$500m facility. Since the outbreak of COVID-19, the Group has received expressions of support from the RCF Lenders and has provided projections that indicate the financial impact of COVID-19 on the Group will be temporary. The Group is therefore confident that consent for the covenant test waiver will be provided in due course.

In what the directors believe would be the unlikely event that the Group is unable to generate sufficient support from the RCF Lenders for the request, alternative actions would be available to it. The leverage covenant is only tested if the RCF remains in place, so its repayment would eliminate the test requirement completely and make the question of breach academic. In addition, even if the covenant test waiver is obtained, in the most severe of the outcomes considered, the Group's forecasts indicate that additional funding may be required over and above available facilities. Whilst the directors believe the Group would be able to access additional 3rd party financing if preferred, as discussed above the Group has received, from its parents Delta Topco and Liberty, confirmation that they intend to provide financial support to the Group if required. This support has been underlined by an exercise performed by Liberty to reattribute certain liquid assets under its ownership in order to support and enhance the Formula 1 business as required, and as announced in a press release relating to the exercise issued on 23 April 2020. Given the Group is already in positive waiver discussions with representatives of the RCF Lenders and alternative actions are available if these are unsuccessful, the directors consider the Group has the ability to resolve the matter satisfactorily, with no resulting going concern impact for the company.

Whilst the eventual overall impact on the Group and the company of, and the period affected by, the COVID-19 outbreak are uncertain, for the reasons discussed above, including the indicative parental financial support of Delta Topco and Liberty should it be required, the directors conclude that in all currently foreseeable scenarios the company will have access to sufficient liquidity and adequate financial resources to enable it to continue operating for the foreseeable future and at least the next twelve months, and that it is therefore appropriate to adopt the going concern basis in preparing these financial statements.

4 Disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

4 Disclosure exemptions (continued)

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based Payment, because the share-based payment arrangement concerns the instruments of another group entity;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 39(c), 40A, 40B, 40C, 40D and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

5 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Revenue recognition

Revenue recognition is determined using the principles of IFRS 15 Revenue from Contracts with Customers, which are applied through the application of the following 5 step model:

1. Identify the contracts with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

The company generates revenue in association with the FIA Formula One World Championship® ("the Championship") and its events, principally derived from the sale and licensing of broadcasting, race promotion and other rights, and the provision of other services. As such individual revenues relate either to (i) rights associated with an entire Championship season, (ii) rights related to a specific Championship event, (iii) rights related to a specific period, typically a calendar year, or (iv) the sale of other rights or services with more ad hoc performance obligations.

Revenues that relate to rights granted for an entire Championship season are recognised evenly on an event by event basis, with revenues relating to specific Championship events being recognised on the occurrence of the events concerned. Revenues that relate to grants of rights or licensing over a period of time are recognised evenly over that time period. Otherwise, revenues that do not meet these criteria are recognised when the services are provided.

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

5 Accounting policies (continued)

The transaction price is determined by the fixed fees which are typically specified in the contract. Multi-year contracts will typically specify a fee for each Championship season, event or period, falling within each year of the contract. Where a contract contains multiple distinct performance obligations but does not specify a specific fee for each element, a separate standalone value is identified for each performance obligation, with the overall transaction price then allocated to each performance obligation in proportion to its standalone value relative to the total standalone value of all performance obligations.

Capitalisation of costs to obtain a contract

The company incurs incremental costs such as contract commissions, which are to be paid out over the life of the contract, but for which the recipient does not have any substantive future performance requirement in order to earn the commission. These future costs to obtain a contract are capitalised and classified in the Balance Sheet as prepayments and, if not yet paid, an accrual is also recognised. The prepayment is subsequently released to the Profit and Loss account as a charge to cost of sales as the commission is earned over the expected contract period. This is done on a systematic basis to reflect the pattern in which the company transfers control of the good or service, to which the commission relates, to its customer and recognises the associated revenue.

At each reporting date, it is determined whether or not any prepayments for capitalised costs to obtain a contract are impaired. The carrying amount of a prepayment is compared to the remaining amount of consideration under the related revenue contract which the company expects to receive, and the related commissions are reassessed, with any impairment losses released. If a related revenue contract is cancelled, or the customer defaults on payment, the commission may not be payable and in such cases the corresponding prepayment and liability are derecognised.

Interest received

Income is recognised as interest accrues using the effective interest rate ("EIR") method: that is, the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Tax

The tax expense for the period comprises current and deferred tax. Tax is charged or credited to the Profit and Loss account except where it relates to items charged or credited to other comprehensive income or directly to equity, in which case the tax is recognised in other comprehensive income or in equity.

Current tax is the expected tax payable for the year based on the tax rates and laws enacted or substantively enacted at the balance sheet date, plus any adjustments to tax payable in respect of previous periods.

Tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets against current tax liabilities, and the taxes relate to the same taxation authority and to the same taxable entity or to different entities which intend to settle the current tax assets and liabilities on a net basis.

Deferred tax is recognised on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts relevant for tax purposes. Deferred tax is calculated on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the underlying temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax is not recognised on temporary differences that arise on the initial recognition of goodwill or on the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. Deferred tax is not recognised in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

5 Accounting policies (continued)

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded by the company at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

All differences arising on settlement or translation of monetary items are taken to the Profit and Loss account. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in the Profit and Loss account.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or the Profit and Loss account, are also recognised in other comprehensive income or the Profit and Loss account, respectively).

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the Profit and Loss account in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. All of the company's intangible assets are assessed as having finite lives.

Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Profit and Loss account in the expense category consistent with the function of the intangible asset, including cost of sales and administrative expenses.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Profit and Loss account when the asset is derecognised.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class

Website traffic

Pre-1981 archive footage

Amortisation method and rate

over 20 years on a straight-line basis

over 33 years and 8 months on a straight-line basis

Investments

Investments in subsidiaries are carried at cost less provision for impairment.

Impairment of non-financial assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

5 Accounting policies (continued)

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The company's financial instruments consist of trade debtors, intra-group receivables, intra-group loans receivable, cash and cash equivalents, trade creditors and intra-group payables.

Financial assets and liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. The company determines the classification of financial assets and financial liabilities at initial recognition.

All financial assets and financial liabilities are initially measured at fair value except for trade receivables that do not contain a significant financing component or for which the company has applied the practical expedient and which are measured at the transaction price determined under IFRS 15.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as at amortised cost and financial assets at fair value through other comprehensive income ("FVOCI") are included within the carrying value of such instruments. Transaction costs directly attributable to the acquisition of financial instruments which are classified as fair value through profit and loss ("FVPL") are recognised immediately in the Profit and Loss account.

Financial Assets

(a) Classification and subsequent measurement

All recognised financial assets are classified as either financial assets at amortised cost, FVOCI or FVPL. The company currently has no financial assets classified as either FVOCI or FVPL.

Financial assets at amortised cost

Financial assets that meet the following conditions are classified as 'financial assets at amortised cost':

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest; and
- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The asset was not acquired principally for the purpose of selling in the near term or management for short-term profit taking (held for trading).

Financial assets at amortised cost are subsequently measured at amortised cost using the EIR method. The EIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial instrument. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income or finance costs in the Profit and Loss account.

Financial assets at amortised cost are subject to impairment review. Gains and losses are recognised in the Profit and Loss account when the asset is derecognised, modified or impaired.

(b) Impairment of financial assets

The company assesses financial assets at amortised cost and accrued income for impairment and recognises an impairment loss allowance to reduce the carrying amount of the assets. The impairment loss, as required by IFRS 9, is based on expected credit losses ("ECL") and reflects forward looking information. The ECL is first recognised on the date of initial recognition of the asset.

The simplified approach is used under IFRS 9 for assessing the potential impairment of short term trade receivables, long term trade receivables, accrued income and lease receivables, with the general approach used for other financial assets.

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

5 Accounting policies (continued)

The simplified approach:

Under IFRS 9's simplified approach, the impairment loss is based on credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL) and is calculated, for a class of assets, as the weighted average of credit losses where the weights are the probabilities of default. Factors such as historical credit loss experience, future economic climate and forward-looking factors specific to the debtors are taken into account when estimating the probability of default.

The general approach:

Impairments are assessed and recognised in three stages to reflect the potential variation in credit quality of financial assets:

-Stage 1: items that have not deteriorated significantly in credit quality since initial recognition. For these items, the ECL is based on credit losses that result from default events that are possible within the next 12 months (a 12 month ECL) and is calculated as lifetime losses from default inside 12 months weighted by the probability of default in 12 months

-Stage 2: items that have deteriorated significantly in credit quality since initial recognition but do not have objective evidence of a credit loss event. For these items, the ECL is equal to a lifetime ECL and interest is calculated based on the gross carrying value of the asset

-Stage 3: items that have objective evidence of impairment at the reporting date. For these items the ECL is also equal to a lifetime ECL but the interest is calculated based on the net carrying value of the asset.

The amount of credit loss is calculated as the present value of estimated cash shortfalls discounted at the financial asset's original EIR.

(c) Financial assets held by the company

(i) Trade debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as fixed assets.

Trade debtors that do not contain a significant financing component or for which the company has applied the practical expedient under IFRS 15 are recognised initially at the transaction price under IFRS 15. Otherwise they are initially measured at fair value. They are subsequently measured at amortised cost less provision for impairment.

(ii) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, deposits and short-term deposits with an original maturity of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Term deposits with an initial maturity of more than three months are treated as other current financial assets.

(iii) Intra-group receivables

Intra-group receivables are recognised at transaction price less any provision for impairment on receivables.

(iv) Intra-group loans receivable

All loans receivable are initially recorded at the amount issued, net of transaction costs. Loans receivable are subsequently carried at amortised cost, with the difference between the amount issued and the amount due on redemption being recognised as a credit to the Profit and Loss account over the period of the relevant loan as interest receivable. Any losses arising from impairment are recognised in the Profit and Loss account in interest payable and similar charges.

Loans receivable are classified as current assets unless the company does not have an unconditional right to recover the loan for at least 12 months after the reporting date.

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

5 Accounting policies (continued)

Financial liabilities

(a) Classification and subsequent measurement

All recognised financial liabilities are subsequently measured at either amortised cost or fair value. Financial liabilities that are not held for trading and are not designated as at fair value through profit and loss are classified as 'Financial liabilities measured at amortised cost' and are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts that are subsequently measured at amortised cost are determined based on the EIR method (see above). The company's financial liabilities include trade and other creditors, intra-group payables and intra-group loans. All of the company's financial liabilities are classified as 'Financial liabilities measured at amortised cost'.

(i) Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

(ii) Intra-group payables

Intra-group payables are initially recognised at the transaction price and subsequently measured at amortised cost using the EIR method.

Deferred income

Deferred income is generated because the company raises invoices in accordance with contractual terms with customers, which generally, for income specific to an event, require invoicing and payment dates in advance of the relevant event taking place, or in the case of season based income require instalments of the full season fee to be invoiced and settled in advance of the proportionate progression of the year's calendar. As a result of these typical invoicing patterns, there will be contractual amounts invoiced and/or collected which have not as yet been recognised in the Profit and Loss account, resulting in their recognition as deferred income within creditors.

Share-based compensation

Liberty Media Corporation 2013 Incentive Plan (see note 26)

Equity-settled share-based compensation

Benefits arising to certain of the company's directors and senior managers under Liberty's incentive plans ("the Liberty Incentive Plans") (see note 26), in respect of the award of options over Liberty's Series C Formula One Common Stock ("Stock Options") and Series C Formula One Common Stock Restricted Stock Units ("RSUs"), have been accounted for as equity-settled transactions in accordance with IFRS 2 Share-based Payments.

The company has also accounted for as equity-settled transactions under which the company has withheld an equivalent number of shares, at the option of the participant, in order to settle the participant's tax liability.

Recognition of charges for the Liberty Incentive Plans

IFRS 2 requires that where any participant in the Liberty Incentive Plans has an employment or service contract with a subsidiary company, the equity-settled transaction expense relating to that participant is recognised in either the operating subsidiary that is considered to benefit from the services provided by the participant, or in the subsidiary that employs the participant.

Dividends

Dividend distributions to the company's shareholders are recognised as liabilities in the company's financial statements in the period in which the dividends are approved.

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

6 Judgements and key sources of estimation uncertainty

The preparation of historical financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosures of contingent liabilities, at the end of the reporting period. Uncertainty in making these judgements, assumptions and estimates can result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In preparing the financial statements management have made certain judgements, estimates and assumptions which are considered to have a significant effect on the amounts recognised in the historical financial information and where significant uncertainty may exist, with the risk that a material adjustment to the carrying amounts of assets and liabilities may be required within the next financial year. Those judgements, estimates and assumptions are discussed below.

COVID-19 impact on going concern considerations and RCF covenant compliance

As discussed in note 3 and in the Directors' Report to these financial statements, in light of the ongoing issues caused by the outbreak of COVID-19, management have had to carefully consider the potential impact of the crisis on the going concern consideration. In order to support the preparation of the financial statements on a going concern basis, the Group has prepared a number of financial projections, including cash flow modelling, which assess on a broadly conservative basis the currently foreseeable range of impacts on the Group's financial performance in 2020, through the end of the going concern period ending 12 months from approval of these financial statements, and through the balance of 2021. The outputs from scenario modelling have then been used to assess liquidity requirements and availability.

The directors' deliberations have also been supported by the indication of intended financial support received by the company from Delta Topco, and the similar confirmation of intent received by Delta Topco from Liberty.

The financial projections of the range of currently foreseeable scenarios, advice received from banks as to the ability of the Group to access additional liquidity if required, and the expressed intentions of parental financial support, lead the directors to conclude the company will have access to sufficient liquidity across the going concern period.

In addition, the forecasts have been used to assess the Group's 2020 compliance with the leverage covenant required to be tested under its RCF, of which the company is a borrower. As discussed in note 3 and in the Directors' Report, it is the Group's expectation that the leverage covenant will be breached and therefore, the Group has approached the lenders of the facility for a temporary covenant waiver.

The directors have assessed the ability of the Group to resolve a covenant breach and applied their judgement in determining that they consider either the waiver will be granted or the Group will be in a position to refinance the facility, including drawing on parental support if required, and so leading to the elimination of the currently required test.

Expected credit losses

IFRS 9 Financial Instruments requires a provision to be taken for expected credit losses. In order to determine the impairment provision required for financial assets, management assesses expected credit losses on a forward-looking basis. Default rates are used in this calculation and management uses judgement to incorporate historical, current and forward-looking information in order to set these default rates.

Classification of historic FIA-related payment as a prepayment

In 2001 the Group entered into a series of agreements with the FIA and amongst its own subsidiaries. Consequent to these agreements, for a period of 100 years commencing from 1 January 2011, the FIA committed to provide various annual regulatory services to the Championship and to discharge certain other annual obligations to the Group, and the company itself became the CRH to the Championship. As the company was considered the primary beneficiary of the agreements it was agreed that it would refund its fellow Group subsidiary SLEC for the \$321.0m payment SLEC made on behalf of the Group to the FIA in respect of the agreements. As the various agreements resulted in a number of different benefits arising to the company, including (i) the undertakings from the FIA to continue to support the Championship as the world's premier global motor sport series and provide regulatory services throughout the 100 year term, and (ii) access to certain intellectual property usage rights, a judgement was therefore required as to the classification of the payment made by the company to SLEC.

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

6 Judgements and key sources of estimation uncertainty (continued)

Management assessed the relative values of the services and the intellectual property-related benefits to the company of the agreements, and determined that, taking into account the relative materiality of the different elements, for accounting and disclosure purposes the entirety of the payment should be treated as a prepayment rather than any element being classified as an intangible asset. It was also considered that classification of the total balance as a prepayment was also in the interests of a user of the accounts being able to better identify and understand the impact of the company's entry into the agreements.

Management determined to release the prepayment to the Profit and Loss account on an annual basis across the 100 year term in line with the delivery of the services and undertakings by the FIA. It is noted that had any element been capitalised as an intangible asset, then that asset would also have been amortised to the Profit and Loss account over the same 100 year term, with the alternative classification therefore resulting in no change to the annual reported operating profit.

7 Turnover

Turnover represents invoiced amounts, stated net of value added tax.

The analysis of the company's turnover for the year from continuing operations is as follows:

	2019 \$ 000	2018 \$ 000
Commercial rights exploitation	1,470,522	1,314,953
Services rendered	132,923	133,533
Other	-	7,202
	<u>1,603,445</u>	<u>1,455,688</u>

Turnover from commercial rights exploitation includes income generated from the exploitation of commercial rights related to the Championship and its events, and includes income from media rights and race promotion fees.

Turnover from services rendered includes income generated from the sale of freight, travel, television production and post-production services.

The company is exempt from the requirements of IFRS 8 to disclose segmental information.

8 Operating profit

Arrived at after charging/(crediting):

	2019 \$ 000	2018 \$ 000
Amortisation expense (see note 16)	525	492
Foreign exchange (gains)/losses	<u>(5,330)</u>	<u>7,604</u>

9 Share-based compensation charges

	2019 \$ 000	2018 \$ 000
Share-based compensation charges	<u>(24,493)</u>	<u>(15,922)</u>

The charges relate to awards under the Liberty Incentive Plans (see note 26).

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

10 Reconciliation of non-GAAP measures

The directors' discussion of the company's financial performance in the Strategic Report includes reference to a measure which is intended to assist readers in analysing the underlying performance of the company. The measure is non-GAAP in nature and therefore a reconciliation to the equivalent GAAP measure is provided below.

	2019 \$ 000	2018 \$ 000
EBITDA pre share-based compensation		
Operating profit	209,563	162,192
Add: amortisation expense (see note 8)	<u>525</u>	<u>492</u>
EBITDA	210,088	162,684
Share-based compensation (see note 9)	<u>24,493</u>	<u>15,922</u>
EBITDA pre share-based compensation	<u><u>234,581</u></u>	<u><u>178,606</u></u>

11 Interest payable and receivable

	2019 \$ 000	2018 \$ 000
Interest receivable and similar income		
Interest income on bank deposits	5,052	1,755
Other finance income	<u>351</u>	<u>358</u>
Total interest receivable and similar income	<u><u>5,403</u></u>	<u><u>2,113</u></u>
Interest payable and similar charges		
Interest on bank overdrafts and borrowings	-	(3)
Other finance costs	<u>(194)</u>	<u>(77)</u>
Total interest payable and similar charges	<u><u>(194)</u></u>	<u><u>(80)</u></u>

12 Staff costs

The company had no employees during the year (2018-Nil). All of Formula 1's principal activities are based in the UK, and its UK based employees are employed by the company's subsidiary FOM. FOM acts as a service company and recharges costs to fellow Group companies, including the company, which were incurred on their behalf. Costs recharged to the company during the year include costs in respect of FOM employees who performed activities on behalf of the company.

13 Directors' remuneration

The company's directors are both employed by FOM, which settles their remuneration in respect of their services and responsibilities performed for the Group and its various subsidiaries. The Group has not allocated any of the directors' remuneration to the company in the current year (2018-Nil). Given the directors also serve as directors of FOM, the information required to be disclosed by the Companies Act 2006 in respect of their emoluments is disclosed in full in FOM's own financial statements.

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

14 Auditor's remuneration

No audit fee was incurred by the company during the year (2018-\$Nil). Fees of \$135,574 (2018-\$137,299) in relation to the audit of the company's financial statements have been borne by the company's subsidiary FOM.

15 Taxation

Tax charged in the Profit and Loss account:

	2019 \$ 000	2018 \$ 000
Current taxation		
UK corporation tax adjustment to prior periods	(39)	-
Payment to fellow Formula 1 subsidiaries for group taxation relief	41,064	29,123
Group relief adjustment to prior periods	56	-
	41,081	29,123
Foreign tax	8,021	7,797
Foreign tax adjustment to prior periods	-	(27,338)
Total current income tax	49,102	9,582
Deferred taxation		
Arising from origination and reversal of temporary differences	(7,335)	-
Tax charged in the Profit and Loss account	41,767	9,582

The Foreign tax adjustment to prior periods relates to the recovery during 2018 of historic taxes withheld in error by overseas tax authorities on race promotion fees.

Tax charged to the Profit and Loss account differs from tax calculated by applying the average rate of corporation tax in the UK of 19% (2018-19%) to the result before tax for the period. The differences are reconciled below:

	2019 \$ 000	2018 \$ 000
Profit before tax	214,772	164,225
Corporation tax at standard rate	40,807	31,203
Effect of overseas taxes	296	296
Other permanent differences	4,305	2,303
Effect of adjustments relating to prior periods	17	(27,338)
Effect of share-based payment transactions	(3,746)	3,025
Other non-deductible expenses	88	93
Total tax charge	41,767	9,582

Deferred tax assets and liabilities

	Asset \$ 000	Liability \$ 000	2019 Net \$ 000	Asset \$ 000	Liability \$ 000	2018 Net \$ 000
Employee share options	11,206	-	11,206	-	-	-
	11,206	-	11,206	-	-	-

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

15 Taxation (continued)

Deferred tax movement during the year

	Employee share options \$ 000	Net tax assets/ (liabilities) \$ 000
At 31 December 2018	-	-
Recognised in income	7,335	7,335
Recognised in equity	3,871	3,871
At 31 December 2019	<u>11,206</u>	<u>11,206</u>

The deferred tax assets at 31 December 2019 of \$11.2m (2018-Nil), relating to employee share options have been recognised because the company expects that there will be sufficient suitable taxable profits in future periods against which the reversal of the temporary differences and losses can be offset.

As at the Balance Sheet date, as legislation was in place under the Finance Act 2016 to enact a scheduled reduction in the rate of UK corporation tax from 19% to 17% from 1 April 2020, deferred tax balances in the year were recognised at 17% (2018-17%). However, the UK Government has announced that it will cancel the reduction in the rate of corporation tax prior to its planned introduction on 1 April 2020, so, for indicative purposes, and assuming the rate remains at 19% thereafter, such legislation would result in the company's deferred tax asset increasing by \$1.3m with a corresponding \$1.3m credited to the Profit and Loss account.

16 Intangible assets

	Other intangible assets \$ 000
Cost or valuation	
At 1 January 2019	8,900
Amortisation	
At 1 January 2019	3,467
Amortisation charge	525
At 31 December 2019	<u>3,992</u>
Carrying amount	
At 31 December 2019	<u>4,908</u>
At 31 December 2018	<u>5,433</u>

Intangible assets include Formula 1.com website traffic and pre-1981 archive footage as described below.

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

16 Intangible assets (continued)

Formula 1.com website traffic

'Other intangible assets' include Formula 1 website traffic acquired in 2002 when Formula 1 took over the site's operation. The intangible asset is being amortised over its useful life of 20 years, with the remaining amortisation period at 31 December 2019 being 4 years (2018-5 years). No impairment is considered to have arisen to date. The carrying value of this asset was \$1.7m at 31 December 2019 (2018-\$2.1m).

Pre-1981 archive footage

This intangible asset represents the company's purchase of the "Brunswick" archive of pre-1981 footage. The asset is being amortised over its useful life of 33 years and 8 months, with the remaining amortisation at 31 December 2019 being 32 years (2018-33 years). No impairment is considered to have arisen to date. The carrying value of this asset was \$3.2m at 31 December 2019 (2018-\$3.3m).

17 Investments in subsidiaries

	2019 \$ 000	2018 \$ 000
Investments in subsidiaries	23,544	23,544

The cost of investment represents the costs incurred by the company when it acquired the entire issued share capital of its subsidiary FOM in 2010.

Details of undertakings

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Country of incorporation	Holding	Proportion of voting rights and shares held	Principal activity
Subsidiary undertakings				
Formula One Management Limited	England and Wales	Ordinary shares	100%	Formula 1® management, administrative and technical services

Details of registered office

FOM - No.2 St. James's Market, London, UK, SW1Y 4AH.

18 Debtors due within one year

	Note	2019 \$ 000	2018 \$ 000
Trade debtors		38,626	87,852
Provision for impairment of trade debtors		(16,616)	(33,498)
Net trade debtors		22,010	54,354

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

18 Debtors due within one year (continued)

	Note	2019 \$ 000	2018 \$ 000
Amounts due from other Formula 1 companies		46,524	38,825
Receivables from other Liberty companies		9	-
Receivables from other related parties	28	38	23
Loans to other Formula 1 companies		200,630	203,012
Accrued income		9,393	8,154
Prepayments		49,768	39,593
Other debtors		48	-
Other tax recoverable		19,153	10,729
Income tax asset		-	1,222
Total debtors due within one year		<u>347,573</u>	<u>355,912</u>

Amounts due from other Formula 1 companies are trading balances and no interest is charged.

The only remaining loan made to fellow Group companies is due from Delta Topco, and totals \$200.6m (2018-\$203.0m). No interest is charged on this loan. The loan is classified as current and an amount of \$2.4m was repaid during the year (2018-\$1.8m was drawn down).

Prepayments include certain prepaid costs to obtain a contract. The gross cost of these assets was \$21.7m (2018-\$9.5m) and following amortisation charged to the Profit and Loss during the year of \$6.5m (2018-\$2.9m), a net balance of \$15.2m (2018-\$6.6m) is reported at 31 December 2019. Of the \$15.2m (2018-\$6.6m), an amount of \$3.6m (2018-\$3.5m) has been included under current prepayments, representing the amount that will be amortised within the next 12 months, with the remaining \$11.7m (2018-\$3.2m) classified under long term prepayments.

No ECL has been provided on amounts due from other Formula 1 companies because under the simplified approach for trade receivables, the probability of default is considered to be extremely remote because the Group has considerable financial resources. Therefore the lifetime ECL is deemed to be immaterial and so no impairment has been recognised.

No ECL has been provided on accrued income because under the simplified approach, the probability of default is considered to be extremely remote because the majority is due from large national or multinational companies, or may be due from third parties which are government supported, and the associated risks of default are therefore considered low. Such transactions are also sometimes backed by letters of credit. Therefore the lifetime ECL is deemed to be immaterial and so no impairment has been recognised.

In addition no ECL has been provided on loans due from other Formula 1 companies because these balances are at Stage 1 of IFRS 9's general approach impairment model ie. they have not deteriorated significantly in credit quality since initial recognition. The probability of default is considered to be extremely remote as the Group has considerable financial resources and therefore the ECL in the next 12 months is deemed to be immaterial and so no impairment has been recognised.

19 Debtors due after more than one year

	Note	2019 \$ 000	2018 \$ 000
Prepayments		325,642	336,608
Deferred tax assets	15	<u>11,206</u>	<u>-</u>
Total debtors due after more than one year		<u>336,848</u>	<u>336,608</u>

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

19 Debtors due after more than one year (continued)

\$325.6m (2018-\$336.6m) of prepayments are classified as due after more than one year. Prepayments due after more than one year include amounts totalling \$288.9m (2018-\$292.1m) in respect of historic payments made to the FIA related to the agreements under which the FIA continues to provide regulatory services, and the company became the CRH, to the Championship for a 100 year period ending 31 December 2110. The payments are being amortised to the Profit and Loss account over the 100 year period. Other amounts include payments made to the teams and the FIA in respect of various other long term contractual commitments, and which are being amortised to the Profit and Loss account in line with the underlying terms of the agreements to which they relate.

Prepayments also include \$11.7m (2018-\$3.2m) of prepaid costs to obtain a contract (see note 18).

20 Cash and cash equivalents

	2019 \$ 000	2018 \$ 000
Cash at bank	<u>400,890</u>	<u>29,296</u>

In considering the ECL for cash and short-term deposits, all balances are at Stage 1 of the three stages classified under the General approach impairment model. There has been no significant deterioration in credit quality since initial recognition and all balances are held with banks and financial institutions with high credit-ratings assigned by international credit agencies. As a result the probability of any default is considered to be extremely remote (less than 0.1%). Therefore the expected credit loss in the next 12 months is deemed to be immaterial and no impairment has been recognised.

The company and most of Formula 1's other subsidiaries participate together in a cash pooling arrangement operated by the Group's principal bank. Under the arrangement, each participating subsidiary's account balances are swept in real time into accounts held by the company, which acts as principal to the arrangement. Intra-group receivables or payables with the other participants in the arrangement are recognised as and when they arise.

21 Creditors: Amounts falling due within one year

	2019 \$ 000	2018 \$ 000
Trade creditors	-	174
Accrued expenses	103,420	63,715
Amounts due to other Formula 1 companies	622,936	415,430
Amounts due to other Liberty companies	31,757	7,961
Social security and other taxes	17,007	16,528
Other creditors	191	4
Deferred income	<u>104,390</u>	<u>80,197</u>
Total creditors falling due within one year	<u>879,701</u>	<u>584,009</u>

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

21 Creditors: Amounts falling due within one year (continued)

Amounts due to other Formula 1 companies and amounts due to other Liberty companies are trading balances and no interest is charged.

22 Creditors: Amounts falling due after more than one year

	2019 \$ 000	2018 \$ 000
Accrued expenses	11,377	3,215
Total creditors falling due after more than one year	11,377	3,215

23 Other provisions

	Liberty Incentive Plan \$ 000
At 1 January 2019	-
Increase in provisions	4,957
At 31 December 2019	4,957

The Liberty Incentive Plan provision represents the future estimated employer's UK National Insurance and US social security contributions payable on the benefits accrued as part of the plan.

24 Share capital

Allotted, called up and fully paid shares

	No.	2019 \$	No.	2018 \$
1 Ordinary share of £1 each	1	2	1	2

25 Dividends

	31 December 2019 \$ 000	31 December 2018 \$ 000
Dividends paid	140,349	540,339

During 2019, the company declared and paid dividends totalling \$140.3m (2018-\$540.3m) in the form of a cash dividend of \$62.5m declared on 17 June 2019 and paid on 30 June 2019 and a cash dividend of \$77.8m declared and paid on 9 December 2019.

Formula One World Championship Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

26 Option Schemes

The Liberty Incentive Plan

On 6 March 2019 several of the company's directors and senior managers were granted awards under the Liberty's 2017 Incentive Plan, consisting of options over Liberty Series C Formula One Common Stock ("Stock Options"). Participants were collectively awarded 2,005,466 Stock Options at a price of \$Nil and an exercise price of \$33.94.

On 14 March 2018 several of the company's directors and senior managers had been granted 1,887,793 Stock Options under the 2017 Incentive Plan at a price of \$Nil and an exercise price of \$31.53.

On 6 March 2017 several of the company's directors and senior managers had been granted awards under the Liberty's 2013 Incentive Plan, consisting of both Stock Options and Liberty Series C Formula One Restricted Stock Units ("RSUs"). Participants were collectively awarded 345,622 RSUs at a price of \$Nil and with no exercise price, and 2,014,686 Stock Options at a price of \$Nil and an exercise price of \$33.99.

Vesting of Awards

RSUs vested monthly from March 2017 to September 2017. Certain Stock Options vest monthly over 12 months from the date of grant, whilst others vest monthly over 12 months beginning the October following grant.

Exercise prices

The options outstanding at 31 December 2019 had an exercise price in the range of \$31.53 to \$33.99 (2018-\$31.53 to \$33.99) and a weighted average contractual life of 5.2 years (2018-5.7years).

The weighted average share price at the date of exercise for share options exercised in 2019 was \$45.25 (2018-no options exercised).

Expense recognised

IFRS 2 requires that where any participant has a service contract with a subsidiary company, the equity-settled compensation expense relating to that participant is recognised in either the operating subsidiary considered to benefit from those services, or in the subsidiary that employs them. As the company benefits from the services provided by participants, an expense has therefore been recognised by the company.

The expense recognised represents the fair value of awards at the date of grant, recognised over the vesting period for participants and is detailed below:

	2019 \$ 000	2018 \$ 000
Equity-settled share-based compensation cost for Liberty Incentive Plan	<u>24,493</u>	<u>15,922</u>

27 Guarantees and other financial commitments

The Group's third party loan facilities and hedging arrangements are secured by fixed and floating charges (including share pledges and security over intra-group and book debts) over the present and future assets of the Group's main operating companies (of which the company is one), with cross guarantees as appropriate (including from the company).

28 Related party transactions

The company has taken advantage of the exemption under FRS 101 not to disclose transactions with wholly-owned subsidiaries of Liberty.

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Notes to the Financial Statements for the Year Ended 31 December 2019

28 Related party transactions (continued)

Key management personnel

Transactions with key management relate to travel sales.

Summary of transactions with key management

	Key management \$ 000
2019	
Travel sales	33
Amounts receivable from related party as at 31 December	38
2018	
Travel sales	27
Amounts receivable from related party as at 31 December	23

29 Parent and ultimate parent undertaking

The company's immediate parent undertaking is SLEC which is a wholly-owned subsidiary of Liberty.

As at the balance sheet date Liberty, a Nasdaq listed company incorporated in the United States of America, is the parent undertaking of the smallest and largest group for which publicly available group financial statements are prepared which include the results of the company. Liberty's consolidated accounts are publicly available from 12300 Liberty Blvd, Englewood, CO 80112, USA. Liberty is considered to be in the opinion of the directors the ultimate parent undertaking of the company.

30 Non adjusting events after the financial period

COVID-19

In the period since 31 December 2019 and as of the date of approval of these financial statements the company has been addressing issues arising from the global outbreak of COVID-19. In the directors' judgement the outbreak of COVID-19 has not required any post-balance sheet adjustment to be made to, or specific disclosure of the potential impact of the virus to be provided in respect of, any of the company's balance sheet assets and liabilities reported as at 31 December 2019, although there is an evident economic risk exposure for its business in 2020 and potentially beyond, as discussed at length in the Strategic Report.

Bank loans

On 24 March 2020 the company drew down \$475m of the Group's \$500m revolving credit facility, as a precautionary measure to ensure that the Group had access to funds should they be needed in due course. Interest is currently charged on drawn amounts at LIBOR + 2%.