

The Business of FORMULA ONE

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Inside and online

The Melbourne grand prix's Ron Walker is seeking to win over the city's sporting public
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New season brings familiar challenges

There is a sense of déjà vu in the sport – on and off the track, write **Roger Blitz** and **James Allen**

As Formula One prepares for the first race of the new season in Australia this weekend, there are reasons to think the sport is experiencing something of a groundhog day.

This time last year there were tensions between teams over money, rumours of F1's owners mulling a sale, bribery allegations in a German court, trouble brewing regarding the Bahrain grand prix and the Red Bull Racing team looked unbeatable on the track.

Twelve months on, these issues are all still there. Yet, as benefits such as a fast-paced pursuit, rapid developments continue to change the sport.

First, the nature of the sport demands continuous technological innovation from teams if they are to keep pace with competitors and modify cars to comply with the constant tweaking of the rules.

Second, the restless search for new audiences by Bernie Ecclestone, the commercial supremo of F1, is bringing new tracks to the grand prix circus. This season sees Austin in Texas take its F1 bow, while New Jersey will stage a second race in the US in 2013. Russia is revving up for its 2014 debut.

Third, and most significantly, 2012 will go down as the season when F1 created a revolution in its broadcast-rights landscape.

The most visible sign of this is the arrival of Rupert Murdoch's paid-for Sky television as an F1 broadcaster. For years, Ecclestone has sold live broad-

cast rights only to free-to-air operators. But as the market for sports rights grows across the world, pay television is coming up with the highest bids.

In the UK, the BBC will this year broadcast only half the races live, while Sky throws massive resources at its F1 operation – launching a dedicated channel, sending up to 60 people to each grand prix and promising to change the way television covers the sport.

Pole position: Sebastian Vettel is seeking his third world title

Reuters



But the rights deal signed earlier this year by Formula One Management, the commercial rights owner run by Ecclestone, with Tata Communications, which has the world's largest network of undersea cables, is more far reaching.

By getting the Indian conglomerate to install fixed-line connectivity at every grand prix venue, Ecclestone has opened up the possibility of rights deals with the likes of Google, the search engine business, for live streaming in individual markets.

"It gives him [Ecclestone] the ability to be able to do whatever rights deals he feels are right, without technical limitations," says Formula One Management's Eddie Baker, the man responsible for broadcasting F1 television and data around the world.

"That means he can assess every opportunity, he can react to every opportunity, he can move with the times in perhaps

a way that we were not able to do in the past."

This will make F1 more valuable as a business and more attractive to potential bidders should CVC, the private equity group that owns 75 per cent of Ecclestone's Formula One Management business, look to sell at some point soon.

F1 observers look at Sky's investment and note that last year Murdoch's son, James, was seeking to launch a takeover bid of the sport by a consortium led by Sky's parent company, News Corp. But with News Corp embroiled in the UK phone-hacking scandal, that interest looks moribund.

Like other questions surrounding F1's ownership, it is a question that is unlikely to be resolved by the time this season ends in Brazil in November.

The same goes for several other issues that were around 12 months ago. Ecclestone and the teams are once more walking into a diplomatic minefield by

planning to race in Bahrain in April.

The protracted saga that eventually led to the teams withdrawing from last year's Bahrain race because of anti-government protests in the Gulf state was one of the more inglorious episodes of the season. Not much appears to have changed to make a grand prix there any more palatable this year.

There will, however, be movement on other fronts. At some point this year, the teams, CVC and the FIA, the sport's governing body, must complete the renegotiation of the Concorde Agreement, which divides the spoils of F1's profits.

The teams' new-found unity, which looked like strengthening their negotiating hand, vanished in December, when Ferrari and Red Bull broke away from the Formula One Teams Association over disagreements regarding rules to restrain spending.

The stage is set for Ecclestone

to cut separate deals with the teams, although the seven remaining Fota members plan to negotiate en bloc. "It will be a fractious and fraught process," says one team boss.

Ross Brawn, the head of the Mercedes team, bemoans the lost opportunity. "There is a great tragedy in F1," he says. "Collectively, the teams could achieve so much more, [but] we are not joined up very well and as a result some people benefit too much from their commercial position within F1 and other teams do not benefit enough."

"We have a number of teams who are finding it economically difficult, and with a sport as successful as ours, that is hard to understand."

Some things, however, never change. Ecclestone remains unassailable. He has thus far avoided any lasting damage from the bribery and tax evasion trial of a former German banker relating to the sale of F1

in 2005. It is entering its sixth month and should be concluded this year.

He has also sidestepped the nagging issue of who will one day replace him. David Campbell, brought in last year to run F1 commercial operations and touted as a possible successor, left recently.

But for motor racing's die-hard fans, the real issue is not

who will replace Ecclestone but who can usurp Red Bull's Sebastian Vettel as F1 world champion. The McLaren team's Lewis Hamilton is likely to be his nearest challenger, although Vettel is odds-on favourite with some bookmakers to take the title for the third consecutive year.

Groundhog day, it would seem, applies just as much on the track as off it.

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Business of Formula One

Melbourne battles its GP sceptics

Australian grand prix

Event has failed to win full support of the city's population, says Lachlan Colquhoun

Melbourne likes to promote itself as a natural home for major sporting events: the Australian Open tennis, Melbourne Cup horse racing, Boxing Day test cricket and Australian rules football's Grand Final are all well ensconced in the pantheon of the city's life.

Yet the Victoria capital has always had an uneasy relationship with Formula One racing.

The grand prix has for several years struggled to gain acceptance in a city that this weekend will host the first race in this season's world championship.

Indeed, the benefits of the race – which has been staged at the inner-city Albert Park circuit since 1996 – have been questioned by Robert Doyle, Melbourne's lord mayor, who kicked off a career as a columnist for a local newspaper last year with a controversial article suggesting the event had run its course in the city.

Taxpayers in the state of Victoria, of which Melbourne is the capital, had lost some A\$130m (\$138m) on the event in three years, Doyle said. He went on to describe Bernie Ecclestone, F1's commercial supremo, as "notoriously difficult, contentious and cranky".

However, Ron Walker, chairman of the Australian Grand Prix Corporation (AGPC), which stages and manages the event, says such a view misses the point, arguing that to focus on the state government's contribu-

tion, and the fact that the event lost A\$50m last year, is the wrong way of looking at the event.

The government has invested more than A\$1bn on facilities to stage the Australian Open tennis tournament, points out Walker, himself a former lord mayor, and another A\$368m has been pledged to keep the event until 2036.

"That event's exposure overseas is limited to around three cable customers," Walker quips, adding that the grand prix is broadcast to an audience of about 150m people in more than 180 countries.

"If we had to advertise Melbourne to the world and reach that many people, it would cost us much, much more," Walker says. "The ambiguity really is hard to fathom."

About 300,000 F1 fans are predicted to attend the four days of the grand prix, with more than 100,000 expected for race-day on Sunday. About 28,000 will be from overseas, and 80,000 hotel rooms are sold in Melbourne over the race period.

The grand prix's 5.3km course is a mixture of street circuit and track that takes in the picturesque Albert Park, a Melbourne icon not far from the city centre. While the setting makes for an excellent circuit that is popular with drivers, it has provoked strong protest from a section of the local population who believe the race is ruining the park.

The "Save Albert Park" movement was strong in the early years of the race, ironically in the same two years that Melbourne won the award for the best organised grand prix.

But F1 and Albert Park are inseparable, according to Walker. "We wouldn't do it anywhere else," he says.

Andrew Westacott, AGPC chief executive, says: "We have



Race time: organisers of the Australian grand prix argue that although the event is subsidised by taxpayers, it contributes millions of dollars to the Victoria economy

Getty Images

had five independent studies of the economic impact of the event and even the most conservative quantified A\$39m in economic value to the state [of Victoria] and A\$36m in branding, plus a tourism benefit of A\$174m.

"When you think about international sporting events, the only ones bigger than F1 are the Olympics and World Cup football, and Melbourne isn't likely to see either of those for 20 years, so F1 does have a place here."

Even so, the event's financial performance has been patchy, and crowds have never matched the 400,000 or so who attended the first race in 1996 – staged after Melbourne wrested the

grand prix from Adelaide.

According to the AGPC's 2011 report, total revenues fell from A\$43.4m in 2007 to A\$33.4m last year, having bottomed out at A\$31m in 2010. The state government's contribution to cover losses rose from A\$34.6m to A\$50m over the same period.

"Like every major sporting event in the world, revenue went down during the global financial crisis," says Westacott. "But it has been on the increase since 2010 and it looks as if this year will be strong again."

Tickets to the Paddock Club, where a prime position with a view of the pit area can cost up to A\$4,000, are expected to sell out, and sponsorship is in good health. Qantas, the airline, has

taken naming rights to the grand prix for the last three years.

Among more than 30 other sponsors are: UBS, the Swiss bank; Red Rooster, the fast food chain; James Boags, the brewery; Swisse, the vitamin company; and classic vehicle insurance specialist Shannons.

Despite optimism around this year's race – and hopes that victory for local driver Mark Webber can provide a boost to the event – the Melbourne grand prix still faces an uncertain future.

The city has secured the event until 2015, but there is speculation it could then move elsewhere, possibly to New York. Walker insists it is too early for

the state government to start negotiating for an extension.

The wily Ecclestone, for his part, said recently that he wanted any Australian grand prix to be a night event, to better play into European television schedules, adding that there were other cities – outside of Australia – that were interesting in taking on the race.

"Melbourne people wouldn't put their heads in their hands and cry if the event moved elsewhere," admits Walker. "But it has been a key plank in our tourism policy and the right thing to do is for [state premier Ted] Baillieu to go to London and meet Ecclestone. Hopefully they can make a decision which is right for Melbourne."

'The only events bigger than F1 are the Olympics and World Cup football, so F1 does have a place here'

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Brawn targets podiums for sharper Silver Arrows team

Interview Ross Brawn

The Mercedes GP chief will not settle for less than podium finishes this season, he tells James Allen

Ross Brawn knows what it takes to succeed in Formula One. The 57-year-old Englishman has won a remarkable 16 world championships, achieved with three different teams, most recently at the helm of his own Brawn outfit in 2009.

Today, he is in the third year of his latest – and perhaps most challenging – project: to turn Mercedes GP into a team capable of taking on Red Bull Racing, which has gained a stranglehold in F1 over the past two years.

The task for Brawn is all the more significant because he no longer just manages the engineers: he now runs the whole team. Michael Schumacher, Brawn's closest ally in F1, came out of retirement to join the project, but the first two years have not produced much in the way of results. Thus, 2012 is a vital season for Brawn: it is the year Mercedes must break through.

"It is gaining momentum," Brawn tells the Financial Times from his office in the Mercedes factory not far from Silverstone race track, which will host the British grand prix in July.

"Mercedes have the commitment, and the board understands what motor racing is all about – 2012 should be a significant step towards achieving our ambition, which is to win the world championship."

After making his breakthrough with Benetton – where he first worked with Schumacher – and claiming his first title in 1994, Brawn switched to Ferrari three years later to

team up again with the peerless German. With Brawn as technical director and Schumacher at the wheel, Ferrari were the dominant force in the sport for the best part of a decade.

Arguably Brawn's greatest achievement was winning the world title with his own Brawn team in 2009 after he was forced to make an 11th-hour rescue when Honda suddenly withdrew from the sport in 2008.

Tight finances meant the Brawn outfit had to downsize rapidly from 700 to 400 staff, and although they built the team back up again when it was bought by current owner Mercedes in 2010, this two-year blip allowed rivals Red Bull, McLaren and Ferrari to pull ahead. It has been catch up for Mercedes ever since.

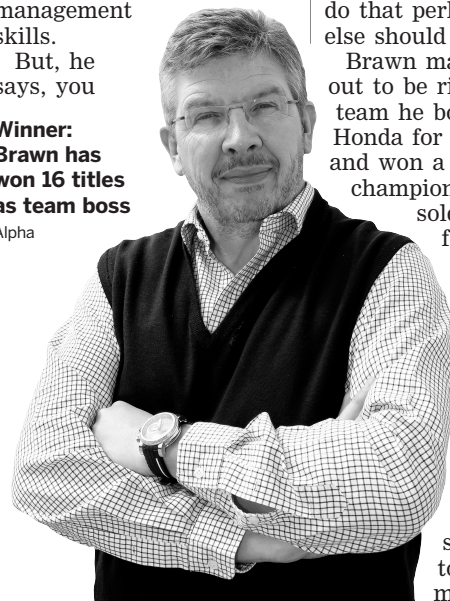
"It would be too optimistic to think we can reach the level of Red Bull in the performance sense [this season]," Brawn admits. "Do we have a faster car than Red Bull? No, but we are getting better."

"A [championship] win would be icing on the cake, but podiums have to be a certainty." Having gone from being a manager of engineers to running the entire business, Brawn has had to adapt his management skills.

But, he says, you

Winner:
Brawn has won 16 titles as team boss

Alpha



can make the job of team principal what you want it to be, provided you have people with the skills you lack in senior roles alongside you.

"There is no textbook of how you run an F1 team," he says. "In the engineering field you form close partnerships, and I have done that in management with [chief operating officer] Rob Thomas and [chief executive] Nick Fry."

"Because of my background I tend to focus more on the racing, engineering, and operations of the team. But people look to me to make the final decision – a responsibility I enjoy."

"My mantra is: 'Treat people how you want to be treated yourself.' You need clear lines of communication: who is in charge, who is making the decisions?"

What happens if Brawn does not succeed this time? He laughs: "I want to stop when I'm succeeding. Strangely, when we are not succeeding is when I find the most motivation. The last two seasons have been painful, but they have provided huge motivation. The ambition to make the Silver Arrows successful again is huge."

"If it does not come off I will have to recognise there is something missing, something I am not able to do that perhaps someone else should have a go at."

Brawn may not have set out to be rich, but the team he bought from Honda for a nominal sum and won a world championship with was sold to Mercedes for more than £100m, making him very wealthy. "I'm obviously a lot wealthier now than before and you wonder if you still have the same motivation to get up in the morning," he

says. "But it did not alter my perspective or my passion and ambition to succeed in racing."

As for Schumacher, now 43, has he still got it? "Oh yes," Brawn replies.

"Probably in a different way – the raw speed on a single lap still has to be revealed. But in terms of the performance over a race, building himself up to a race, Michael still has it in abundance. With the right car he can win races. When you really rely on Michael to bring the car home or take an opportunity, he will never let you down."

Who would bet against the Brawn and Schumacher pairing succeeding again?

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Iconic marque wins new fans

Ferrari

Italian group sells record numbers despite slipping back on the track, writes James Allen

Luca di Montezemolo, the chairman of Ferrari, likes to say the iconic car company is "condemned to win".

With more than 60 years of unbroken participation in Formula One, this is good news not just for the company and its legions of fans, but for the sport as a whole. A strong Ferrari is good for F1 as a business.

F1 and Ferrari are inextricably linked: the myth and allure of the blood-red cars carrying the prancing horse logo provide the dash of sexiness and glamour that F1 needs.

It is a mutual dependency. F1 is Ferrari's most important global showcase, a series of races where the lines between racing and road car technologies are temporarily blurred.

At the recent Geneva Motor Show, the company unveiled its £225,000 F12 Berlinetta, which possesses a similar horsepower to an F1 car, at about 730bhp. The F12 Berlinetta is not only a thing of beauty – it is a statement of commitment by Ferrari to the sport.

Of late, however, Ferrari's success as a business has been out of sync with its performance on the track.

After coming close to winning the world championship in 2010, Ferrari has fallen behind the benchmark, set by Red Bull Racing. Ferrari won just one grand prix in 2011, and Fernando Alonso, its lead driver, was never in contention to win the world championship.

Yet the company's latest annual figures, published last month, showed the strongest sales performance in its long and illustrious history. The world economic crisis does not seem to have damped demand for Italian luxury.

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The US remains Ferrari's leading market, but sales in



Prancing horse power: the £225,000 Ferrari F12 Berlinetta incorporates cutting-edge F1 technology

Camera Press

China jumped 62 per cent, lifting it into second position. And despite economic anxiety in Europe, sales in Germany and the UK were up 14 per cent and almost a quarter respectively.

The F1 team is also in rude financial health thanks to recently renewed long-term deals with major partners Banco Santander and Shell.

Yet F1 changes quickly, and there are high hopes at Ferrari that by going with a bold and radical chassis

The world economic crisis does not seem to have damped demand for Italian luxury

design the team will be able to match Red Bull on the track. How optimistic this view is will be played out in the coming months. The signs from initial testing, however, have not been encouraging.

Ferrari is also being tested in a different way, having walked out of the Formula One Teams Association, the body that represents teams, in December.

Cynics say this leaves

Ferrari free to negotiate their own financial agreement with Bernie Ecclestone, F1's commercial rights holder, as they did back in 2005, rather than bargain collectively, which is what Fota was set up to do in the first place.

This naturally weakens the Fota teams' position in negotiations over the Concorde Agreement, which is due to come into force next year. It also means Fota will not be able to make the kind of progress in revenue sharing and other rights it was hoping for this time around. All this, of course, plays nicely into Ecclestone's hands.

The trigger for Ferrari's walkout was a lack of trust in the other teams, particularly Red Bull, which Ferrari felt was not honouring Fota's Resource Restriction Agreement.

Arguments had dragged on for months about how the RRA was policed and the sanction that might be applied for those who breached spending caps. But when it became clear this was not working, Ferrari walked. Red Bull seized the opportunity to follow them out of the door, citing Fota's failure as an organisation.

Politically, Ferrari is somewhat isolated now, and

they have been accused of "reverting to type" by putting self-interest above the collective interest of the sport. "It is a tragedy," says Ross Brawn, Mercedes GP's team principal. "Collectively we are not joined up very well as teams, and as a result some people benefit too much from their commercial position in F1."

Ferrari points out that it still engages with the other teams on day-to-day matters and on joint promotional activities, such as fans' forum events. "Clearly this is a very important year and we are all aware of that," says Stefano Domenicali, Ferrari team principal. "We are still in discussion, especially with the bigger teams, despite the fact we have left Fota, on the subject of cost reduction – discussions where Ferrari has always been at the forefront."

Furthermore, the RRA is still in force. The key point is to understand if this is an important tool for the future. What should happen to those who do not abide by the rules? Today, only a financial penalty is planned. But we need to decide if it would not be better to think of something on the sporting front and, in that case, who should decide the outcome."

'It can be the world's ugliest car, as long as it's fast'

In early March, when Ferrari pulled the dust cover off its newest sports car in Geneva, the reaction in the motoring media was typically breathless.

"Pulse quickening", "red hot", and "downright gorgeous" were among the adjectives reviewers applied to the F12 Berlinetta. The car, styled in collaboration with Pininfarina, the legendary design house, has massive alloy wheels, rakishly sliced headlights and sensuous S-curves on its sides.

Contrast that with the horrified reaction the producer received a month earlier at its snowbound headquarters in Maranello, when it unveiled its F2012 race car for the current Formula One season – a chunky-looking vehicle with an awkward-looking stepped nose.

The car, according to one scribe, "raised gasps of shock" at first. Then the epithets flowed: journalists reached for phrases such as "goose nose", "duck bill", and "platypus" to describe the car's inelegant nose and T-shaped front. One tweeted: "The new Ferrari is built from Lego and has stolen Alain Prost's nose!"

Ferrari acknowledged that the car's nose was "not aesthetically pleasing". However, it noted that the design was the result of new regulations by the FIA, the regulating body of Formula One, requiring it to lower the car's front end.

F1 may be glamorous, but the cars are, say some critics and fans, becoming downright ugly.

While early grand prix cars from the 1950s and 1960s are coveted collectors' items, it takes a leap of imagination to think that today's platypuses will be seen as style icons two or three decades hence.

"Personally, I think the cars in the last decade have become more and more messy and less and less cohesive," says Gordon Murray, a former F1 car designer who now runs his own design company. Of the new designs, he says: "Just when I thought they couldn't make the cars uglier, they did."

The unattractive designs stem from worthy intentions.

For the current season, the FIA required teams to lower their cars' nose heights to 550 millimetres from the car floor, in order

to minimise the chance of one car flipping or penetrating another in a sidelong T-bone crash. The bulkhead, where the nose joins the chassis, can still be 625mm high – hence the jarring drop.

The new season has also seen changes introduced for the cars' rear ends. While last year teams used exhaust gases to blow on the rear diffuser and give their cars more dynamic downforce – an innovation pioneered to great effect by Red Bull Racing's winning team – the FIA abolished the practice this year. The cars' exhausts now pop up through the body cover like a periscope at the back.

Murray says that whereas in the 1970s and 1980s, aerodynamics flowed from the shape and proportion of the car as a whole, teams now work on minuscule areas of the car in isolation, adding features such as winglets and bargeboards that do not make for cohesive design. "They are all working on tiny areas, and the actual design falls by the wayside," he says.

The 2011 season saw the introduction of an adjustable rear wing on F1 cars that could be opened, making overtaking faster and easier. Teams and some fans say this made the sport more exciting, but opinions on the aesthetics of the changing rules are mixed.

Does the design of the cars actually matter? Arguably it does for companies such as Ferrari, whose road car business is intertwined closely with that of its racing team.

Ferrari uses its F1 team as a laboratory of innovation for its sports cars, as well as one of the main ways it markets its cars to the world.

While Ferrari does not break down the source of profits of its business, the road car business, along with sponsorship revenue, is widely thought to subsidise the cost of the F1 team.

So are unattractive racing cars bad for business? Ferrari says no.

"It can be the ugliest car in the world, as long as it's fast," says Stefano Lai, a spokesman. "What matters in F1 is to be in front – and if you do it in an ugly car, who cares?"

John Reed



Winning shape: the nose shape of Ferrari's 2012 race car has divided opinion

Reuters

Pay TV deal changes the game for a sport hungry for revenues

Media rights

Hunt for new finance is driving change. By Andrew Edgecliffe-Johnson

Three deals – two completed and one not – changed the debate about Formula One media rights of late.

In July, BSKyB won full UK rights to broadcast live F1 races from 2012 to 2018 in a deal that gave the BBC live rights for half the grand prix fixtures a year, topped up with highlights packages.

While BSKyB has proven its willingness to pay for prime sporting rights, many observers were shocked that it won this battle. Few thought F1's governing body would sell the rights to a pay-television operator.

Worldwide, F1 has the unusual distinction of appearing mostly on free-to-air channels, largely because the sponsors whose revenues are so critical to the sport want to ensure their logos are seen by the widest possible audience.

The sport derives a modest \$450m from television rights, partly because of slim interest from the large US market. It could make much more if it encouraged pay-television broadcasters, which have both advertising and subscription revenues.

So far, however, sponsors' interests have been paramount. The \$887m they paid into the sport in 2011, according to Formula Money magazine, dwarfed revenue from television.

After the Sky/BBC deal was signed, Murray Walker, the British veteran F1 commentator, lamented the drift away from free-to-air television, but admitted: "Media is changing a hell of a lot."

Audiences' migration towards big live events has been one feature of that change, driving steep inflation in the cost of other live rights. F1, however, has sometimes seemed in danger of missing out on the trend. Even though F1's global audience is large, it slipped 10 per cent between 2006 and 2010, Formula Money estimates.

The sport has pushed for growth, targeting emerging markets of great interest to sponsors. In 2010, 88m Brazilians watched the F1 world championships, as did 76m in China, compared with 33m in the UK and 37m in Germany.

But reports of falling Chinese audiences suggest that the initial interest has waned.

In India, just 12.5m viewers watched in 2010, compared with the 135m-strong audience for 2011's cricket world cup final.

Formula One Management, the commercial rights holder controlled by Bernie Ecclestone, countered that it had seen growth in nine of its 11 largest television markets in 2010, with many European broadcast partners reporting their highest audiences for several seasons.

But the perception that F1 could be doing better from television was a factor behind the second – uncompleted – deal of the last year: the news in May that News Corp, the global media group, was working on a possible consortium bid for F1.

An ageing and shrinking audience proved that the sport was losing its way under Ecclestone, people close to the consortium told reporters in off-the-record briefings. With News Corp controlling a wide range of media outlets, from BSKyB in the UK to Fox in the US, much more could be done to rejuvenate and expand the audience, they said.

Ecclestone was not amused, saying that month that he was resisting selling rights to a pay-television

company: "Sky is doing an incredible job but if you look at their audience, they are nowhere. With these figures it would be almost impossible for teams to find sponsors. That would be suicidal."

By July, News Corp had become embroiled in the UK phone-hacking scandal, and Ecclestone was hailing BSKyB's joint rights bid with the BBC, perhaps seeing it as a more palatable option than a takeover.

News Corp is no longer actively looking at an F1 bid, according to one person close to the company, but "we remain interested in the business, and patient".

Meanwhile, billboards across the UK are promoting Sky's F1 coverage, in a marketing push that looks like an attempt to demonstrate to sponsors that the sport can thrive on pay television.

One feature of the BSKyB deal points to another way in which F1's media priorities are changing. It has promised to make extensive live footage and highlights available to Sky Sports subscribers' smartphones and tablets.

F1's wide-ranging technology and marketing agreement with Tata Communications, the Indian conglomerate, which includes delivering content to the official F1 website, appears to be in preparation for more digital distribution.

Already, F1's official Live Timing and Track Positioning app sells for a hefty \$28.99 or £19.99. Such "second screen" viewing may yet become a lucrative revenue stream.



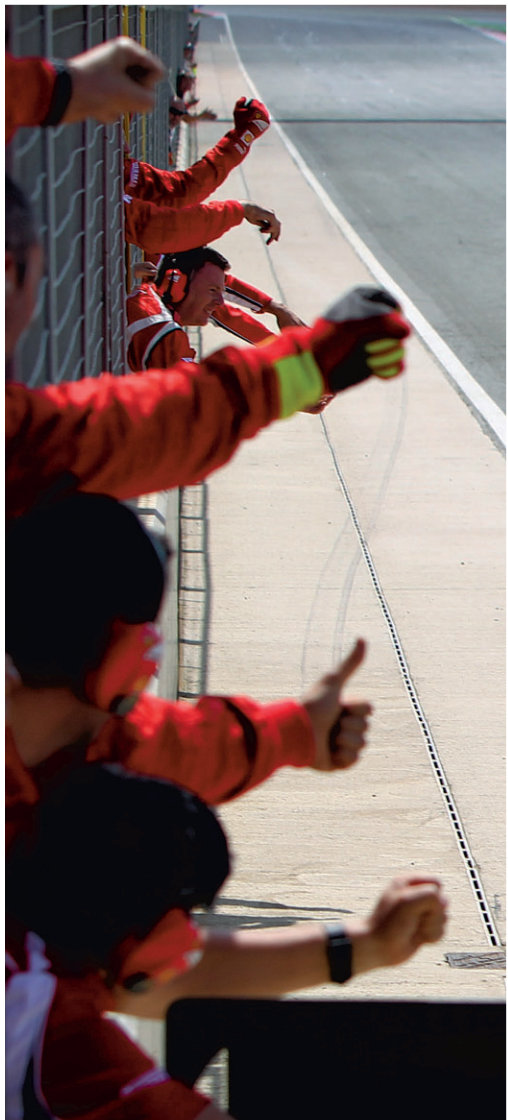
Driving seat: Bernie Ecclestone, F1's commercial boss

Reuters

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