Scotland's media brand of choice.

Annual Report and Accounts
2009

stv group plc

Scotland's most influential, relevant, innovative and trusted media brand... with ambitious plans for the future

Highlights

- Strong performance against 2009 original KPI growth targets
- Launch of STV Player, which now attracts 1m page views per month
- STV Productions wins first ever series commission from BBC2
- Launch of extensive interactive website, STV Local and new classified business, STV Jobs
- Dynamic programming strategy implemented, with strong schedule for 2010
- 100th episode of *Taggart* broadcast on ITV1 and STV. Co-commission confirmed for brand new series of *Taggart*

2009 has been a profitable and busy year for STV. Less than three years ago, the new Board and management team implemented a turnaround strategy to refocus the direction and improve the financial health of what was then a heavily debt-laden and drifting company. While it required that the employees go through, what has been at times, a painful process, all rose to the challenge and we now have a properly results orientated organisation. We are substantially leaner, a great deal fitter and have demonstrated our new found resilience by weathering one of the worst economic downturns ever to have confronted the country and, in particular, advertising supported media.

Despite continuing to cut costs throughout the year, while investing in new programmes, our share price continued to disappoint and management took the initiative to align their remuneration with shareholders interests by voluntarily reducing their salaries and waiving all bonus potential for the year.

Adapting to the changing media landscape and positioning STV as Scotland's media brand of choice has been an overriding theme for us this year, coupled with our pledge to fulfil our commitments as a commercial public service broadcaster. We have a clear strategy, driven by a strong and dedicated leadership team. As we go into 2010, we will outline new KPI targets for the business and I am confident that these ambitious yet realistic targets will be met.

There is no doubt that 2010 will be a year of considerable changes, which will impact on our business. We have the Digital Britain Report, which supports much of what we have asked for including the very sensible recommendation that STV have the same rights as an independent producer. If implemented after the current consultation period this will provide a real fillip to the independent production sector in Scotland, fast-tracking the development of a vibrant creative cluster and creating new jobs.

We welcomed the proposals, confirmed in the Digital Britain Report, recognising the important role that strong, relevant, home-grown, news production plays in this multi-platform digital age. We believe Scotland can only be best served within the news environment by a robust alternative to BBC Scotland. Government has accepted that the commercial economics of the digital age impinge on this and have proposed that a small proportion of the money set aside to inform and assist consumers with digital switchover be used to fund three pilots to be tendered for, one of which is here in Scotland.

As one of two bidders, we have formed a strategic partnership with Bauer Media, owner of the largest commercial radio network in Scotland, and ITN with a worldwide reputation in news gathering, presentation and distribution. Our current news output is highly regarded by viewers but our plans build on that taking news to a new and exciting level, providing a vibrant multi-platform service across Scotland, available to others not simply consortium members.

We appreciate and understand that the Conservative party is looking at other solutions involving deregulation and dozens of highly localised advertising supported news outlets but the latter is untested on a standalone basis and deregulation, while necessary, takes time. In Scotland we believe that the current Government's proposed pilot be allowed to go ahead in order that a strong news alternative to the BBC continues across the country and on our proposed expanded local platforms. Our suggestion also includes our willingness to serve the Scottish Borders, Dumfries and Galloway, currently outside our licence area and which currently receive their news from Sunderland.

STV is Scotland's most popular peak time TV station

We hope to see the introduction of product placement within programmes by the end of the year, presenting new revenue generating opportunities for the business. We will fully explore the possibilities that this will allow where it delivers revenue for the company and enhances the viewers' experience.

A major theme for STV in 2010 will continue to be working in partnership and developing new partnerships. We are keen to extend our groundbreaking Memorandum of Understanding with the BBC from whom we received our first series commission during the year. We have also announced an innovative partnership for the commissioning of six new episodes of *Taggart* with ITV and UKTV.

2010 is the last year of the onerous contract arrangement that Pearl & Dean entered into some years ago with the Cinema chain, Vue. We continue to seek a purchaser for this business and will sell when the conditions are right.

During the course of the year we were able to come to a new and satisfactory arrangement with Trustees on the pension deficit laying down an 18 year recovery funding plan.

We continue to believe that the advertising Contract Rights Renewal (CRR) unfairly penalises the non-ITV plc licence holders in particular and that this mechanism is no longer appropriate in the current media landscape. With the consultation ongoing, we would hope that any decision to abolish CRR ensures appropriate and adequate regulatory protections for the minority licence holders.

We continue to be engaged in legal proceedings against ITV. It is important to understand that the legal process was not of our choosing. We would have been prepared to accept Ofcom's offer to appoint an independent arbitrator, but this was rejected by ITV management. We believe we have a very strong position on the issues involved which is fully supported by accountancy and legal advice to the Board. With a new Chairman at the helm and Chief Executive appointed we are keen to establish a new working relationship with ITV. We fully support the Channel 3 network but believe that all the partners will benefit from another look at how the system is working.

We are very much committed to investing in new, high quality Scottish productions and creating a diverse schedule for viewers. Our decision to opt out of some network material in 2009 related to cost, relevance, the appeal of network programmes, and the time slot. While over 90% of our schedule is currently comprised of network material, and we welcomed the opportunity to inject more high quality, well funded home-grown production into the STV schedule. We recognise that some of our scheduling decisions in 2009 did not work for us, particularly on Sunday evenings, and we have taken this on board by making changes to our approach for 2010. Key for us is that our schedule be of good quality, relevant and affordable and that, as Scotland's biggest commercial broadcaster, we remain true to our roots by investing in the creative economy by producing programmes in and relevant to Scotland.

As touched on earlier, the broadcast and publishing industry has been particularly impacted by the unprecedented economic climate experienced throughout the year and whilst we are seeing very early signs of an advertising improvement, we must continually adapt our business and extend our online platforms to ensure that STV remains strong and competitive.

We have shown that we are a bold, lean and ambitious company. We now need to show that, in an improving advertising environment, however modest, and with the removal of the last financial and regulatory shackles on the business, we are able to produce the return to shareholders we all wish for.

Finally, I must thank Rob Woodward and his leadership team for their unstinting work in sometimes very difficult situations. The support they receive from our staff across the company is testament to their abilities and the partnership arrangements they have fostered within the company.

Richard Findlay
Chairman

STV reaches 4.2m people each month

STV is a vibrant and dynamic company with a clear strategy and a dedicated staff. The vigorous turnaround plan, initiated three years ago, has transformed STV. The business is in a financially sound position and I am pleased to report that we are delivering on our growth targets and are well positioned for an economic recovery. In 2010, we will redefine our KPIs to reflect progress made so far, changes in our market place and the new opportunities for the Company. The new KPIs will continue to be ambitious yet realistic, and will help all stakeholders to measure our future progress.

Despite the economic malaise, 2009 has been a busy and productive year. Television remains at the heart of our business, with STV, STV Productions and Ginger Productions developing and delivering strong content. We have embraced the ethos of the Channel 3 network, implemented a dynamic programming strategy, taken more control of our destiny and are building a strong identity in the UK and internationally.

We have invested heavily in new Scottish-produced programming and have placed these titles in accessible, high profile peak time slots. We launched a new shoulder-peak series, providing viewers with an hour of live magazine style programming every week day. We are operating as a sovereign broadcaster, true to the regional roots of the Channel 3 network, and have significantly over-delivered on our licence obligations for the year.

Our Ventures business continues to grow and has seen the launch of our new classified business and the STV Player, and the website has become one of the most popular commercial media sites in Scotland.

We have, however, been operating in an extremely difficult economic climate but have developed a strong culture of efficiency improvements to the benefit of the business. We have a focused and motivated staff and a committed leadership team, which took voluntary cuts in salary from May to end 2009. We remain excited by the prospects for the business and share a passion in the future of STV. We have every confidence that, despite the challenging climate, we will continue to establish our position as Scotland's most trusted and innovative media brand into 2010 and are well positioned for growth on the back of an economic recovery.

Awards

Over the years, the work of STV has been recognised across the industry, and 2009 was no exception.

STV's drama series *Cracked* won the award for Single and Serial Television Drama at the Mental Health Media Awards, in November 2009.

STV Creative won the award for Best Television Campaign of the Year for the *Scottish Leader* campaign at the Scottish Advertising Awards in 2009. They also received two commendations for *New Tomorrow* and *Fergus & Glover* campaigns.

Ginger Productions won The Special Jury Award at the Banff Mountain Film Festival for documentary, *Take A Seat*.

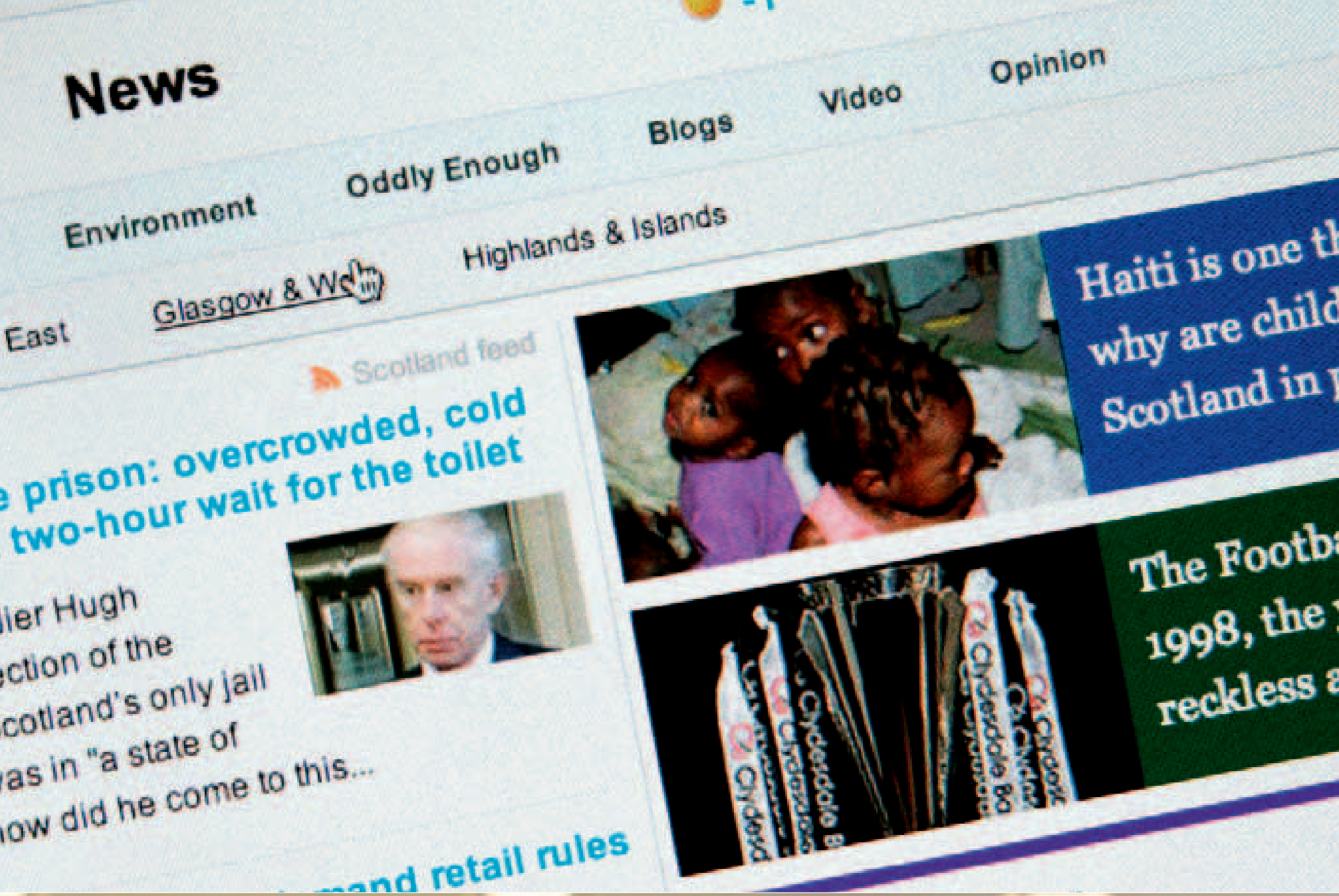
1> John Mackay, STV News

2> stv.tv/news

3> Raman Bhardwaj, STV News

Broadcasting

STV reaches 93% of the Scottish population and continues to be Scotland's most popular peak time TV station. STV's news programmes are watched by over 1.5 million viewers per week and consistently outperform the BBC1 national news at 6pm.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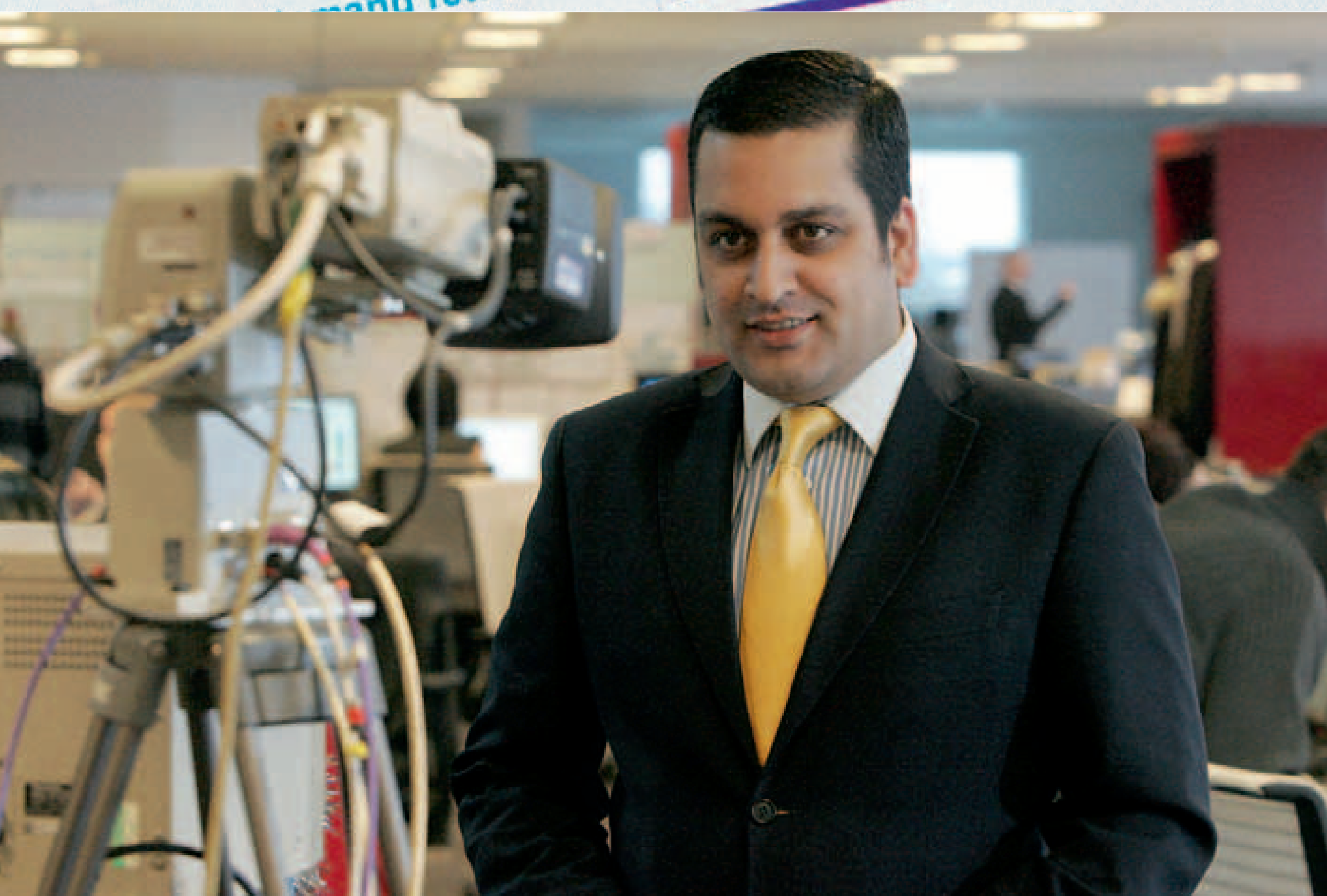


200% increase in sponsored programmes year-on-year

STV's news service reaches over 1.5m people each week

Broadcasting

STV reaches 4.2 million people every month, which represents 93% of the Scottish population, and continues to be the most popular peak time TV station in Scotland, with a share of 23.1% compared to BBC1 at 20.7%.

We have increased our share of the regional advertising market, achieving our KPI in this area. Our sales team introduced innovative packages for advertisers around our homecoming themed programming, which proved hugely successful in attracting top Scottish brands to our station. Despite the impact of the downturn on advertising revenue, STV successfully attracted 169 new advertisers during 2009.

In 2009 the team secured sponsorship for 30 programmes, compared with 10 in 2008. In addition, the team secured sponsorship for 30 one-minute campaigns, representing a 50% increase from 2008. I am pleased to report that we have met our KPI in this area.

It is no surprise that due to the incredibly challenging market conditions, we have not achieved our broadcast margin target for 2009. Whilst the economic climate remains difficult, we are starting to see signs of recovery and are confident of an improved performance in 2010.

In 2009, STV Creative confirmed its position as a leading producer of commercials in Scotland, delivering over 700 adverts for clients across the year – more than any other production company. Revenues for this part of the business are up 83% from 2008.

STV continues to be Scotland's most popular peak time TV station and has performed on par with the network in peak time throughout 2009. We also rejuvenated the STV brand, launching a new logo and revamping our on-screen appearance. Through the introduction of an increased level of home-grown production and key acquired programming, we are seeking to broaden the reach and appeal of our audience. We have successfully achieved this in 2010 with our recent production *The Football Years,* whose strongest performing audience was Men, with the first episode attracting 14 TVR's and a 30% share, 16 share points ahead of the network in this demographic.

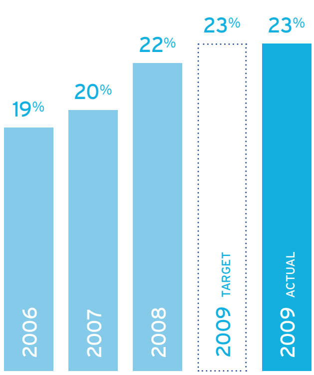
We continue to enhance and develop our dedicated and valued news service for the north and central areas of the country and this year, we re-branded both news programmes to *STV News At Six*. These programmes reach over 1.5 million viewers per week and consistently outperform the BBC1 national news at 6pm.

In 2009, we grew our dedicated online news team. The news pages of our website remain one of the most popular sections, attracting 2.5 million Unique Users during 2009.

STV welcomed the recommendation within the Digital Britain White Paper that public funding be made available for Channel 3 news services. We remain committed to providing viewers in Scotland with what research has shown is a much valued, comprehensive and wide-reaching multi-platform news service. STV has formed a strong consortium, Scottish News Network, with Bauer Media and ITN, and is bidding to provide a high quality, wide ranging, multi-platform news service with an available audience reach of 98% of the Scottish population, providing plurality of choice and innovation in delivery to Scotland.

In June 2009, STV agreed a Memorandum of Understanding with the BBC which has seen both broadcasters considering ways of sharing pictures, facilities, training, technology and archive programmes, with a view to providing better services for audiences in Scotland. We expect to deepen this collaboration in 2010.

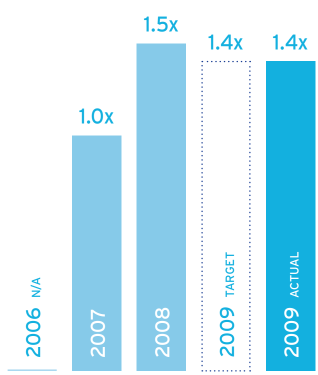
Regional Advertising Market Share
ACHIEVED



Why it's important
Television advertising is core to our broadcast business and our regional advertising sales team are employed by STV, as opposed to our national sales which are outsourced to ITV sales.

How we measure it
Using MMS data we compare STV's regional sales with the total display advertising market for Scotland.

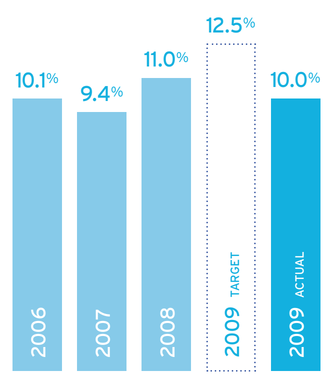
Regional Sponsorship Growth
ACHIEVED



Why it's important
Sponsorship packages are increasingly attractive to advertisers as they enable a closer association with a programme for their product. They are also a fast growth segment of advertising spend.

How we measure it
2007 is the base level for sponsorship revenues and these are targeted to grow by 40% over the period to 2009.

Broadcasting Margin
NOT ACHIEVED



Why it's important
Margin improvement across the period provides evidence of profitable growth in the Broadcast business.

How we measure it
It is calculated as operating profit divided by turnover and expressed as a percentage.

1> The Search for Sherlock Holmes
2> Made in Scotland
3> Jack Osbourne Adrenaline Junkie
4> Scots at War
5> Britain's got Talent
6> STV Rugby

Content

Content is at the heart of STV and 2009 saw an injection of high quality home-grown content to complement the high level of network material in the schedule. With key commissions for BBC2, ITV and Sky Real Lives, it has been a busy and successful year for the STV content team.


ONE WAY


BRITAIN'S GOT
TALENT


GILBERT

STV wins first ever series commission for BBC2

Content

2009 has been a transitional year for our Content team in line with our plans for this area of the business. We successfully met our KPI target of 90 produced hours; exceeded our target in terms of exploitation of our content library; and exceeded our 10% content margin target.

We continued to deliver growth in terms of rights exploitation, despite being slightly under our target at year end. Key deals, including pre-sales of new episodes of *Taggart*, which were agreed in 2009, will be realised in 2010. 2009 was a very effective year for re-licensing and archive sales, including sales of key brands such as *Adrenaline Junkie*, *Taggart* and *Rebus*. In addition to programme sales, we licensed the format of *DNA Stories* to the Netherlands, with various international options.

In June 2009, STV won its first ever series commission from the BBC, a 20 X 30 minute factual series called *Antiques Road Trip*. STV Productions was also commissioned to produce a one-hour factual documentary on convicted serial killer, Peter Tobin, for ITV1.

STV, along with ITV and UKTV, has co-commissioned six new episodes of *Taggart* for delivery in 2010. As part of this innovative deal, the series will receive its first airing on STV in the autumn followed by the rest of the Channel 3 network in 2011.

Partnership has been a key theme in 2009 and we have successfully worked with a range of partners to bring content to STV. We worked with the History Channel on *Scots At War*, *The Sinking of the Royal Oak* and *The Search for Sherlock Holmes*. We are co-producing two episodes of *Missing Mums*, presented by Lorraine Kelly, with Sky Real Lives; as well as delivering an additional six episodes via a commission for the channel. We have also worked with production companies Caledonian TV and Move On Up on ratings winner, *Scotland Goes to War* and acclaimed documentary *The Scots Who Fought Franco*.

2009 saw an injection of increased and improved Scottish content to complement the high level of network material in our schedule. Our own productions performed well for us, including the Scottish Government and Daily Record sponsored Homecoming themed series, *Scotland Revealed*, *Made in Scotland* and *The Greatest Scot*. We have made a number of scheduling changes in 2010 that we expect to strengthen our ratings performance and reflect our position as Scotland's sovereign broadcaster.

We are the only broadcaster outside London to produce and broadcast a live daily hour-long programme. *The Hour*, which launched in mid-2009, is a lively magazine style show and has gained momentum, establishing itself in the shoulder-peak schedule. It now regularly outperforms the network.

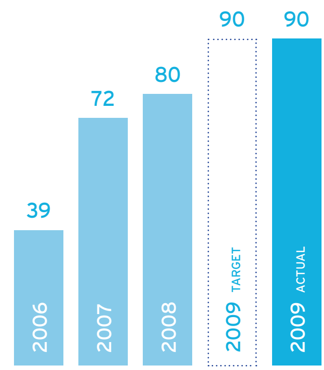
2009 was a very busy year for Ginger Productions, as they produced *Take A Seat* for ITV4; six part series, *Jack Osbourne Adrenaline Junkie* for ITV2; and *Osbourne Family Adrenaline Junkie* for ITV1. Ginger has also been commissioned by Bio Channel and STV to produce a six-part series exploring the effects of imprisonment on relationships, for broadcast in 2010.

Ginger was recognised at the Cultural Diversity Network Awards for their unique prisoner work placement initiative, which saw three prisoners from women's prison, HMP Downview, working with the Ginger production team on an ongoing basis.

It is important that we grow our reputation internationally and, as we strive to nurture the strong relationships and partnerships we have already established, we intend to establish a base in the US. This will help further facilitate international co-productions and the sale of existing and new programmes and formats.

We were pleased that via the Digital Britain Report, the Government confirmed support for the case of granting STV Productions the same benefits as independent producers, which would certainly help fast track the development of a vibrant creative cluster in Scotland and create jobs in a key growth sector. We have participated fully in the legislative consultation and look forward to a timely conclusion.

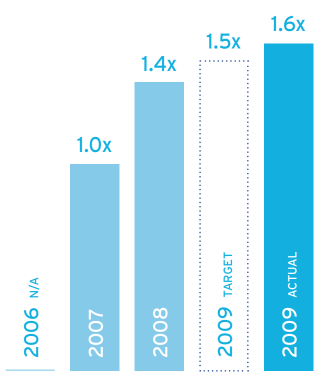
Production Hours
ACHIEVED



Why it's important
A key strategic objective is to grow our content business and this provides clear evidence of that growth.

How we measure it
It is the total of all hours of new production delivered in the financial year to broadcasters.

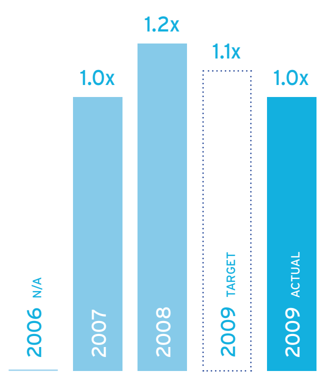
Library Content Monetisation
EXCEEDED



Why it's important
Our content library contains over 200,000 hours of production which is a valuable catalogue to be monetised.

How we measure it
2007 is the base level for library revenues and these are targeted to grow by 50% over the period to 2009.

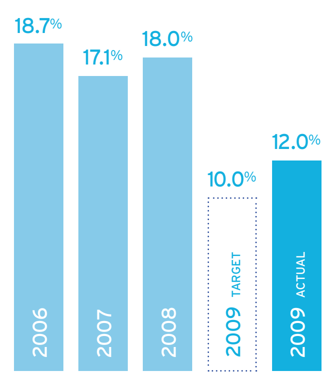
Rights Exploitation Growth
NOT ACHIEVED



Why it's important
Secondary sales in the UK market and to overseas broadcasters provide additional revenues and margin.

How we measure it
2007 is the base level for content rights revenues and these are targeted to grow by 10% over the period to 2009.

Content Margin
EXCEEDED



Why it's important
Margins provide evidence of the level of profit being achieved in the business.

How we measure it
It is calculated as operating profit divided by turnover and expressed as a percentage. The target is to maintain 10% in the context of talent inflation and broadcaster tariff deflation.

1> STV Player
2> STV Jobs
3> STV Local

Ventures

Throughout 2009, our Ventures business has continued to identify new opportunities for revenue generation and stv.tv has seen significant growth in traffic. The launches of STV Player, STV Jobs, STV Casino and STV Local, has meant a very busy year for this growth area of the business.

stv jobs
Home
Find a job
Public Sector
Jobs by email
My account
My profile
Search stvjobs.com
Location
All
Sector
All
Keywords
e.g. Web Designer
Agencies
Find jobs by
Accountancy (163)
Admin / PA / Secretarial (176)
Banking / Finance (248)
Call Centre / Customer
Cleaning / Domestic (110)
Education / Teaching (265)
Engineering (299)
Executive / Management
Fundraising / Voluntary
HR / Training / Recruit

stv local DUNDEE
ENTERTAINMENT LISTINGS
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Events
Businesses
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NEWS
Lords committee backs tax breaks for game developers
Dundee feed
Dundee games firm Realtime Worlds warned last year that British firms are struggling to compete with overseas companies that benefit from tax...
18 hours ago
Add a comment
SPORT
Jon Daly wants Peter Houston to stay on as boss
Monday
Tuesday
Medium-level cloud
4°
Sleet
3°

stv.tv attracts over 100,000 visitors per day

Ventures

Our Ventures business continues to identify new opportunities for revenue generation and sees increasing traffic flow to the stv.tv network of sites by leveraging the broadcast window and via the launch of new online and on-air initiatives. We have continued to strengthen our digital team and have an ambitious array of developments planned for 2010.

stv.tv is now amongst the most popular commercial media websites in Scotland. Since June 2007, our digital channel has seen a 417% increase in Unique Users per month. Unique Users grew through 2009, with a Q4 monthly average of 1.3m, up 176% on Q4 2008. This figure continues to grow in 2010.

We introduced a dedicated online ad sales team in 2009 and have achieved £0.5m in online advertising revenue. Whilst this is not in line with our KPI target, this figure represents a 150% increase on last year's figure and with our strong usage growth, will continue to grow.

We launched our classified business in February and, despite the collapse of the recruitment market, have successfully established the business in 2009 and are now positioned as a strong competitor to the market leader. STV Jobs has a firmly established market position in Scotland and we are confident of a strong performance in 2010. The team has recently signed up some notable partners, including Tesco, Cosla, NHS, Scotmid and a number of the country's largest recruitment agencies.

In July, we launched the STV Player, our new online TV-on-Demand service. With a world-class user experience and functionality, the service makes our TV programmes as accessible as possible and allows us to bring public service broadcasting onto alternative digital platforms. The combined STV Video and STV Player service delivered an average of 700,000 video streams per month in the last quarter of 2009, peaking at 800,000. Total video streams for 2009 were up 307% year-on-year, and up 868% since video became available on stv.tv in July 2008.

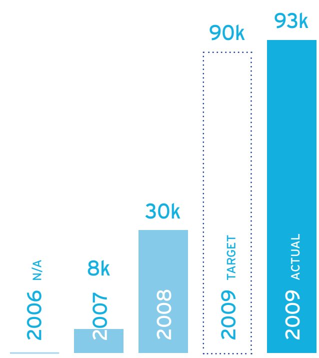
In late 2009, we launched a major initiative for our digital business, STV Local. An extensive interactive website where people across Scotland can access, and contribute to, a wealth of local information about their area, STV Local will allow us to build strong relationships with communities across Scotland.

Going into 2010, we are poised to announce further developments of our VOD strategy including addressing the mobile market.

Our product mix of regional transaction based consumer revenues was changed during 2009 and we continue to see success in our Watch To Win competition. In August, STV partnered with established gaming firm NetPlay to launch STV Casino, providing late night gaming programmes for viewers. We moved quickly to take advantage of changes in regulation around teleshopping, opening up a new revenue stream for the business. In early 2010, we announced a new 2-year deal with NetPlay to continue to maximise our late night slots. These new ventures started in H2 2009 and we are optimistic of increased revenues in this area going forward.

We successfully exceeded our operating margin KPI target of 15% for the Ventures business.

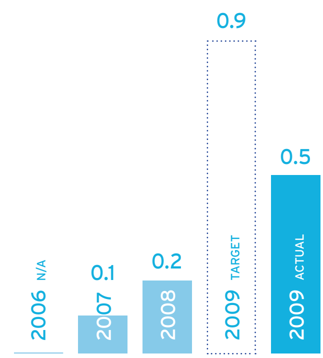
Online Visitor Growth at stv.tv
(per day)
EXCEEDED



Why it's important
Unique visitors to stv.tv are key to driving advertising revenues from the site.

How we measure it
Using analytical tools, the number of unique visitors can be identified and collated across each 24 hour period.

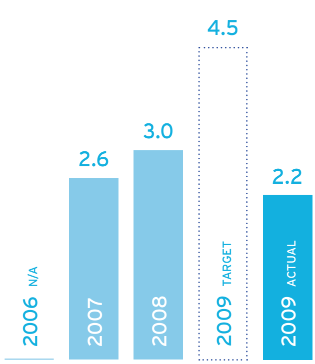
Online Advertising
(£m)
NOT ACHIEVED



Why it's important
The business model for our online activities is built around visitor growth generating online advertising which is the fastest growth area of advertising spend.

How we measure it
This represents banner and sponsorship display advertising on stv.tv.

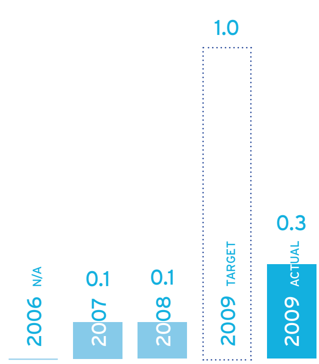
Regional Transaction Based Revenues
(£m)
NOT ACHIEVED



Why it's important
Another key online revenue stream comes from consumer transactions on our websites eg through bingo games. This is a high growth revenue segment.

How we measure it
This represents the revenue earned directly through transaction based services.

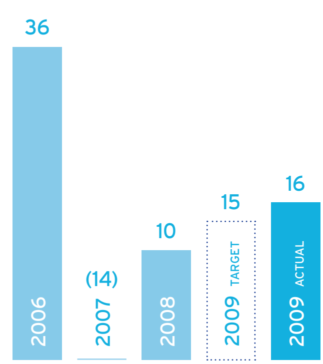
Classified Advertising
(%)
NOT ACHIEVED



Why it's important
Classified advertising is a large area of advertising revenue which STV has traditionally not been able to access. Online opens up this area to stv.tv and it is a strategic objective to grow to 3.0% of the available market by 2010.

How we measure it
The market share percentage is stv.tv's share of the 3 key largest classified markets (jobs, homes, and cars) in Scotland.

Ventures Margin
(%)
EXCEEDED



Why it's important
Margin improvement across the plan period provides evidence of profitable growth in the Ventures business.

How we measure it
It is calculated as operating profit divided by turnover and expressed as a percentage.

Non-Core Business

Pearl & Dean

Pearl & Dean remains a non-core asset of the Group and we will continue to seek an exit from this business.

In 2009, we have increased our provision under the onerous contract we have with Vue Cinemas by £13.3m. 2010 is the last year of this contract and the Group made the final payment in early 2010.

In 2009, our share of the cinema advertising market was 35.2% (2008: 34%).

The Future

STV is a business with a clear strategy, a dedicated board and management team and a talented staff. As one of the few broadcasting businesses to deliver a profit in an incredibly challenging 2009, we look forward to 2010 with confidence and guarded optimism.

2010 will deliver many developments in news as the recommendations from the Digital Britain White Paper come into effect.

We will continue to take control of our own destiny and our schedule, operating as a sovereign broadcaster and providing a unique, relevant and diverse schedule for Scotland.

The economic climate has been incredibly challenging but we are now seeing early signs of improvement. Going forward, we will maintain a cautious approach and will continue to focus on efficiency improvements and cost reduction activities. The Board and I remain committed to delivering value for shareholders.

We are confident that as we go into 2010, STV will continue to provide Scotland – and the world – with high quality production delivered through a world-class digital platform.

STV KPI's 2010-2012

The 3-year KPI targets have proved to be highly effective in providing operational focus, clarity and consistency in communicating our targets and objectives. In order to maintain this approach during 2010 and beyond, we have reviewed the relevance and appropriateness of the targets in relation to the growth strategy and we are pleased to confirm KPI targets which we are confident will support delivery of our strategic priorities.

KPI	2009	2010 Measure	2011 Measure	2012 Measure
Broadcasting				
1. Regional advertising market share	23%	25%	26%	27%
2. Peak time audience v ITV Network	In line	To be in line with the Network	To be in line with the Network	To be in line with the Network
3. Broadcast margin	10%	10%	12.5%	14%
Content				
4. Production hours	90 hours	110 hours	130 hours	150 hours
5. Value of external commissions	£5.6m	£11.2m	£16.8m	£21.0m
6. Content margin	12.0%	10% (min)	10% (min)	10% (min)
Ventures				
7. Unique users per month (Q4 monthly average)	1.3m	1.7m	1.9m	2.1m
8. Page impressions per month (Q4 Monthly average)	4.8m	6.7m	8.0m	8.8m
9. Digital revenue value	£2.7	£5.2m	£7.3m	£9.1m
10. Video Streams per month (Q4 Monthly average)	0.7m	1.0m	1.2m	1.4m
11. Ventures margin	16%	25%	30%	35%

STV is recognised in the FTSE4Good index services as a low impact company

As Scotland's media brand of choice reaching over four million people every month, STV recognises the importance of engaging with integrity and building relationships based on trust to maintain this position. We are committed to acting responsibly to our audiences; the communities we serve; our advertisers and our people.

STV is recognised in the FTSE4Good Index Series, which is a body set up to measure the performance of companies that meet standards in Corporate Social Responsibility.

Our Viewers

Our viewers are of paramount importance to us and we continue to engage with them and welcome their feedback on our output. We offer a clear, immediate and direct route for viewers to feedback to us via our Your View service, which allows viewers to get in touch via phone, email and online. We also broadcast on air announcements directing viewers to the Your View webpage on www.stv.tv, so that we can gain public input as quickly and as easily as possible.

STV's website allows viewers to offer their opinions via the comment sections online, giving us immediate and valuable feedback on our programme service.

Independent research provides us with valuable feedback from the Scottish public. In June 2009, we carried out an Omnibus Telephone Survey and in November we held focus groups in the central and northern regions of Scotland. We also placed a series specific questionnaire on our website to encourage viewer feedback, and this is something we will consider utilising further going forward. The ITV Vision Panel also continues to inform our work.

In addition to formal research and Your View, we receive feedback on a first hand basis via the large number of the businesses and members of the public whom we welcome into our building on a regular basis.

STV has a vigilant compliance process and dedicated announcers, ensuring that all of our programming is clearly signposted and that the content is clear, enabling our viewers to make informed decisions about what programmes they choose to watch. Any scheduling decisions are also carefully discussed at regular meetings by STV's Commissioning Group, which is made up of senior staff from across the business.

Digital Switchover is due to take place in 2010 and 2011 in the north and central regions of Scotland. We are aware that, as a trusted media brand, viewers will look to the station for advice and information on when they are required to switchover, how they should do so and the rationale behind DSO.

Throughout 2009 we have worked in conjunction with Digital UK to help raise awareness and understanding for all groups of viewers. Our presenters helped to raise awareness via the national and local press; and our news service covered key dates for switchover. We also welcomed Digital UK representatives to carry out informative briefing sessions for staff at our Glasgow and Aberdeen studios, to ensure that STV staff are fully informed and able to impart knowledge to clients, viewers, family and friends about DSO.

Our Community

Community relations are very important to STV and both licensees engage regularly with members of the local community and further afield to increase understanding about our industry. We have a structured team which facilitates studio tours to schools, community groups and businesses. We took part in Doors Open Day and the Glasgow River Festival again this year, offering tours to the general public. Engaging with the public is very important to us and our tours are informative, detailed and ensure that visitors leave with a clear understanding of our business.

Throughout 2009, we have continued to strengthen our links with the education sector to further support the development of talent in the creative industries. This year, we have announced that STV will act as a key industry partner for Napier University's new degree programme, BA (Hons) Television. This will include student mentorship, work placements, master classes, guest speakers and internships at STV. We are also working with students at Napier University, University of West of Scotland and Stirling University on our online initiative, STV Local. STV North has supported student placements from the Robert Gordon University in 2009, as well as accommodating visits from college and university students across the region.

In addition to welcoming media students to STV, we have also facilitated visits from the MOD Press Office, Paisley Disability Centre and Ruchill Primary Autism Unit, to name a few.

This year, we worked together with The Prince's Trust and their 'Get Started in Presenting' programme, which is designed to help young people build on their communications skills and improve their confidence.

Glasgow based Common Purpose runs educational programmes for high school students, and STV has hosted an annual workshop for them since 2007. This year, the participants met with STV's Head of News and two of our presenters to learn more about news production and tips for good interview techniques.

Members of STV engage regularly with industry groups throughout the year including the following: PACT, CBI, RTS, BAFTA, GEITF, SCDI, Press Fund Charity, and we are members of various Chambers of Commerce across the country. This ensures that we are engaging with public and professional bodies on all levels of our work.

We regularly direct viewers to our website, stv.tv, encouraging them to interact with STV on a multi-platform basis. stv.tv adds value to on-screen material, with additional news stories, forums, video catch-up, behind-the-scenes footage and regular additional interactive elements. Visitor numbers to the site are consistently increasing and we are pleased to be encouraging media literacy via our on-air presentation and established links with our viewers.

During 2009, we have met with a range of community figures; business leaders and key stakeholders in locations across Scotland to continue to build relationships across the communities we serve; to communicate our plans and progress and seek feedback on all aspects of our business.

STV supported the Give Blood 2010 campaign

Our Advertisers

STV's sales team offers innovative packages for clients and one of these propositions is a range of one minute programmes within our schedule. These are sponsored programmes, bringing commercial opportunities for the business whilst offering exposure to lesser known minority groups or topics on a national television platform. In 2009, we have broadcast 30 successful campaigns including: a series on *Big Hearted Scots* and the work of inspiring individuals throughout Scottish communities; a series sponsored by Breathing Space titles *In Your Own Time* featuring case studies of people who carry out different activities to combat stress and promote well-being; and a series sponsored by The Children's Panel, featuring case studies from children who have faced adversity and turned their lives around to a positive conclusion. Other subject matters include slimming, breast feeding, Edinburgh Festivals, Royal Blind and National Care Standards to name but a few.

In December 2009, STV supported The Scottish National Blood Transfusion Service's (SNBTS) Give Blood 2010 campaign, for the second year. STV's distinctive blue logo changed colour to red for one day to appeal to viewers to give blood over the New Year and festive period.

Categories of programming in 2009 have encompassed a wide range of issues, including a touching documentary on the lives of six individuals who attended the Royal Blind School in Edinburgh; a documentary on John Hartson who is undergoing treatment for testicular cancer, which helped raise awareness of the illness; and a six-part series sponsored by the Scottish Government's Healthier Scotland initiative, which followed individuals suffering from emotional health issues.

Our People

As a talent based business, the contribution of our people has been the key contributor to the progress we have achieved during 2009.

Our culture is based upon the principle that everyone in the business can make a difference and everyone has a contribution to make in strengthening our relationships with our audiences and advertisers. This approach encourages creativity and innovation and creates a focus on delivering results and achieving our KPI's.

We have continued to implement significant organisational change during 2009 to build an organisation and structure through which we can leverage our investment in content across all platforms.

We have restructured our news and digital content teams resulting in significant enhancements to our public service content across all platforms and providing opportunities for our people within these areas to broaden their skillsets and embrace opportunities presented by developments in technology.

As we consolidate our position as Scotland's digital media company, we have integrated our digital and airtime sales and commercial teams ensuring that we are positioned to continue to offer innovative and integrated solutions for our advertisers.

We have continued to attract key talent across all areas of the business, strengthening our position as Scotland's Media Brand of Choice.

Performance Driven Culture

During 2009 we have continued to improve the alignment of the contribution of our people to the goals and KPI's of the business. We have implemented a new talent and performance management system, *mystv*, which has delivered a framework through which we can ensure that our people maximise their performance and realise their potential whilst achieving personal and professional growth as the business grows.

Through *mystv*, performance and development goals related to the KPI's are assigned at an individual level. Additionally, the performance and delivery of our people is assessed against role specific technical competencies and behavioural competencies aligned to our people strategy.

Engagement

Effective communication and engagement to secure the involvement of our people in delivering our growth targets and creating a culture where everyone can make a difference remain key to our success.

We have an open culture based on face-to-face communication. The leadership team attends our employee consultation forum, Open Forum, which is attended by representatives from across the business. We continue to hold quarterly staff briefing sessions at which the Chief Executive Officer provides an update to our people on business performance and strategy and encourages involvement and participation in delivering our targets and achieving our growth plans.

'Connect' is STV's employee intranet site and is a key internal communication channel. This site is updated daily with Company news and features, and encourages and provides staff with an opportunity to feedback on business issues.

Effective consultation with staff and trade unions continues to play an important part in delivering organisational change and the buy-in of our people to our targets and business strategy.

Talent and Capability

In response to the growth of the business and increased level of programme hours delivered in 2009, we have successfully continued to attract and retain key talent.

In addition to our core staff of 400, we have engaged over 500 freelance staff, contributing to a vibrant creative hub and indigenous production sector in Scotland.

The successful launch of our classified business, STV Jobs, created opportunities to strengthen our commercial and sales resources and the continued growth of our digital business has created opportunities for new skills to be acquired and developed.

We are committed to supporting the development of future talent to our industry and business. During 2009, we have demonstrated this commitment through the introduction of internships within our content and news teams, providing graduates with a structured six month placement to acquire knowledge and skills in a work environment. Additionally, we have provided 58 places for students and graduates across all areas of the business.

Reward and Recognition

Our reward strategy during 2009 was determined by the economic uncertainties and market conditions across our sector. We continue to benchmark our reward and remuneration and career structure against a range of UK media companies to ensure that we remain competitive in this area and the restraint applied to our remuneration during 2009 was consistent with the sector in general.

We continue to review our employee benefits and reward structure to ensure this remains competitive and, during 2009, we have introduced further enhancements to this aimed at providing greater flexibility and choice for our people.

Our sales and commercial teams faced the most challenging market conditions during 2009 and we introduced new incentive arrangements to continue to motivate them to increase our market share and achieve our targets against a backdrop of reductions in advertising spend in the market.

Equal Opportunities and Diversity

We are committed to maintaining a working environment where all employees are treated with respect and dignity and realisation of their full potential can be achieved.

We continue to monitor our performance against our policies to ensure that our approach enables us to engage effectively with our audiences and ensure a diverse pool of creative talent is attracted to our business.

Applications are encouraged from disabled candidates (internally and externally) who meet the minimum criteria required for any vacancy. Candidates are requested to make us aware of any special arrangements they may require in order to participate in the selection process on account of a disability. Line manager training is provided to ensure that there is equal opportunity for all. During 2009, no employees became disabled during their employment.

During 2009, managers have been provided with coaching sessions to continue to raise awareness of our equal opportunities and diversity obligations.

Health and Safety

STV is committed to conducting its business in compliance with all workplace health and safety laws and regulations. We continue to strive to provide a safe and healthy working environment for our employees and anyone we work with.

We monitor employee ill health and accidents closely and we have proactively undertaken health promotion programmes designed to reduce health risk and enhance employee well-being.

We continue our proactive approach to improve the Company's management documentation systems to provide suitable and sufficient information, instruction training and supervision.

The Group has procedures in place for the management of occupational road risk which is monitored and reviewed on a regular basis. The number of accidents caused by driver error continues to reduce year-on-year: (2009: 11, 2008: 12, 2007: 21, 2006: 28).

Health and Safety Performance in 2009

STV report work-related accidents, diseases and dangerous occurrences in compliance with the Reporting of Injuries, Diseases and Dangerous Occurrences Regulation 1995 ("RIDDOR").

	2009	2008	2007
RIDDOR three-day reportable accidents	–	–	–
Total of all accidents	11	6	19

Analysis of the causes of accidents provides valuable information for implementing improvements, if and when required, in working practices and procedures. The Facilities Manager is the designated senior manager responsible for health and safety matters.

Our Environment

STV has an environmental policy in place and we actively seek ways to improve our performance in this area each year. We strive to reduce our impacts on the environment and recognise that this is becoming an increasingly significant part of our culture and the way we do business. We recognise that our day-to-day activities can, and do, have an effect on the environment. We are committed to continuously improving our environmental performance and to reducing pollution.

The Scottish Government has launched its first Zero Waste Plan – aiming to increase Scotland's recycling to 70% by 2025. With crucial targets to be met, our business needs to improve year-on-year to help achieve this goal and increase our recycling figures. On average we have recycled approximately 50% of our waste each year – this includes paper, plastic, cans and glass. Going forward we aim to increase this percentage with the help of our staff and visitors to the building.

To assist us, we will set an ambitious target for staff to achieve in 2010 – increase our recycling percentage by 5%.

During 2009 we continued to raise staff awareness and encourage participation in our recycling schemes through the use of the intranet, email and posters, and will continue with this going forward.

We continued to recycle paper, cans, plastics and glass at our premises which resulted in 50% of our waste being recycled, an increase of 5% from 2008.

STV donates toner and printer cartridges and redundant mobile phones to CHAS (Children's Hospice Association Scotland), who benefit financially from this initiative. Cumulatively we have helped them raise £165,962 by donating 132 cartridges and 15 mobile handsets in 2009.

STV continues to support the White & Wild Tree appeal which aims to promote a greener Scotland, and in 2009 we planted 75 trees.

STV has implemented a Green Travel Plan at our Glasgow headquarters through which we encourage staff to use more sustainable means of transport to get to and from work. To promote cycling we provide shower facilities, cycle parking and lockers for employee use.

We also manage a Car Sharing initiative where we match up employees living in the same area, enabling them to travel to work together and we will continue to promote this.

We actively monitor our emissions and always seek to reduce these. In 2009 our transport CO_2 emissions was reduced by 14.9% from the previous year and our energy CO_2 emissions by 14.6%.

Our travel agent provides us with the Company's CO_2 emissions for all air and rail travel. Our CO_2 emissions have reduced from 382 tones in 2008 to 188 tones in 2009 – a reduction of 103% year-on-year. We will continue to monitor this and try to continue with this trend, by promoting our video conferencing facility to divert from the need to fly to our London offices.

Charitable Donations

During 2009, the Company made charitable donations of £19,000 (2008: £15,000).

The Company's policy is not to make donations which are of a political nature.

Rob Woodward
Chief Executive Officer

The last year has seen the deepest advertising recession ever experienced by the Group and it is no surprise that it has led to a significant impact on financial performance.

The levels of decline in airtime sales, in particular, were so severe that despite unprecedented cost reduction measures profits still reduced. Profit before tax, exceptional items and IFRS 5 impacts was down £6.8m at £5.5m (2008: £12.3m). However, £3.8m of the reduction is due to non-cash IAS 19 pension interest movements with a further £1.0m from the disposal of Virgin Radio last year resulting in an underlying fall of £2.0m.

Progress has been made in a number of areas during 2009, particularly in our Content and New Media operations, and the Group is well placed for future growth even if the macro economic recovery is slow. This is reflected in our KPI performance with 4 exceeded, 3 met and 5 not achieved.

We remain cautious about prospects for the UK economy in 2010 and will continue to seek out further cost savings across the Group. 2010 is also the final year of the onerous Vue Cinemas contract in Pearl & Dean and its end will signal a significant turnaround in the Group's cash generation and overall profitability.

Revenue

Total revenue, which comprises both continuing and discontinued activities, amounted to £110.2m (2008: £144.5m). This reflected the disposal of Virgin Radio (£11.3m) and adjusting for this, revenues were down 17% (£23.0m) due to the impact of the economic downturn and lack of commissions in Content.

Broadcasting revenues at £77.8m (2008: £89.0m) were down 13% with the main driver being national and regional airtime revenues which were both down 10% and 12% respectively. Content revenues fell to £8.1m (2008: £16.1m) despite increased production hours following the lack of high value deliveries. In Ventures, New Media revenues amounted to £2.8m (2008: £3.1m) due to lower premium rate Telephony Services income while the loss of Setanta and the exit from Outside Broadcasting in 2008 saw Solutions revenue fall by £1.4m to £1.6m (2008: £3.0m). Pearl & Dean revenues fell by 10% (£2.1m) as a 21% increase in average screen numbers following contract wins was more than offset by the general cinema advertising market decline.

Operating Profit

Operating profit, from continuing activities before exceptional items fell by £4.0m to £9.2m (2008: £13.2m) as the £20.9m revenue decline excluding disposals could only be partly offset by cost savings. However, the Board believe the 2009 profit outturn to be a very credible performance in the face of such significant revenue decline.

Broadcasting margins held up well at 10% (2008: 11%) due to cost savings, while both Content and Ventures exceeded their KPI targets with margins of 12% (target 10%) and 16% (target 15%) respectively. Pearl & Dean's breakeven result (2008: breakeven) is stated after the release of £12.8m (2008: £8.0m) of the Vue onerous contract provision.

Interest Costs

Net interest expenses increased by £1.8m to £3.7m (2008: £1.9m) which was due to the anticipated change in the IAS 19 non cash pension credit in 2008 of £1.9m becoming a charge in 2009 of £1.9m. This £3.8m unfavourable movement outweighed a significant £2.0m (53%) reduction in cash interest costs from lower LIBOR rates.

Exceptional Items

Exceptional items resulted in a net charge of £12.7m (2008: £38.9m) with the principal items being an increase in the onerous contract provision related to the Vue cinema advertising contract (£13.3m) and an increase in the onerous lease provision charge for the excess space at our Pacific Quay, Glasgow property (£3.4m) partly offset by a £4.0m gain from changes made to the Group's main defined benefit pension scheme.

The statutory result for the year after tax and exceptional items and including IFRS 5 benefits amounted to a loss of £8.8m (2008: loss of £27.4m).

The IFRS 5 impact from not depreciating assets which are held for sale amounted to £nil (2008: £0.5m).

Earnings Per Share

EPS before exceptional items decreased by 47% to 13.7p (2008: 25.7p) reflecting the fall in profit before tax. The effective tax rate in both years was 10%, again benefiting from the release of prior year provisions.

EPS on a statutory basis, including exceptional items and IFRS 5 impacts, was a loss of 24.1p (2008: loss of 61.3p).

Balance Sheet
The principal balance sheet movements in 2009 were a decrease in the Group's pension deficit and an increase in both debtors and creditors balances with ITV Network and ITV plc as there has been no netting down exercise this year unlike in prior years.

The pension deficit on an IAS 19 basis net of deferred tax decreased to £25.7m (2008: £27.0m) reflecting improved asset values.

A significant event during the year was the agreement of the 1 January 2009 triennial actuarial valuation which saw a new Schedule of Contributions agreed for both defined benefit schemes. Reflecting the long-term nature of the liabilities in the schemes, an 18 year deficit recovery plan was agreed. All payments required under the previous and current agreements have been made by the Group, including a one off £4.0m contribution made in early 2009 from disposal proceeds received in 2008.

A number of projects are ongoing to address the liabilities of the defined benefit schemes. One of these saw the introduction of a 1% cap on pensionable salaries from 1 January 2010 and resulted in a net £4.0m reduction in the schemes' liabilities and deficit. Further projects are planned over the period to the next valuation on 1 January 2012.

Cashflow
Net debt increased by £13.0m to £49.4m (2008: £36.4m) mainly due to the significant cash losses incurred at Pearl & Dean (£13.0m) and pension deficit funding contributions (£7.9m).

Free cashflow conversion was 91% (2008: 80%) for the continuing business due mainly to a reduction in network stock levels and continued low capital expenditure requirements.

Capital expenditure amounted to £1.0m (2008: £1.3m) and was at the low levels we expect given the lower risk strategy the Group has adopted of entering into partner relationships to deliver key strategic growth projects.

Dividends
The Board has previously stated that no dividends will be declared for 2009 and that dividends will only recommence when there is an improvement in market conditions and sustained evidence of the success of the Group's growth plan. We will monitor and revisit the position during 2010.

Principal Activities

The principal activities of the Group are currently in the production and broadcasting of television programmes, the sale of advertising airtime and space in these media and in cinema and internet services. The Group continues to focus upon its television and new media business.

Shares and other interests

As at 25 February 2010, the Company had been notified of the following interests of 3% or more in its ordinary shares:

	Total Shares	%
UBS Global Asset Mgt	7,254,611	19.76
Fidelity International (UK)	5,168,559	14.08
Odey Asset Mgt	3,877,025	10.56
Hanover Investors Partners	3,803,825	10.36
Granada Media plc	2,650,961	7.22
D C Thomson	1,839,946	5.01
Gartmore Invest. Mgt	1,670,607	4.55
Murray International Holdings Ltd	1,465,383	3.99

Suppliers

Creditor payment policy

The Company's policy is to settle the terms of payment with suppliers when agreeing terms of payment by inclusion of the relevant terms in contracts; and to pay in accordance with its contractual and other legal obligations. Trade creditors of the Company at 31 December 2009 were equivalent to 49 days of purchases (2008: 45 days).

Compliance

Part of the information that fulfils the Companies Act requirements of the Business Review can be found in the Operating and Financial Review on pages 2 to 33. The Group's principal operating subsidiaries are listed in note 2 to the Company's financial statements and details of the principal risks and uncertainties facing the Company can be found in the Chief Financial Officer's report on pages 30 to 32.

Auditors and disclosure of information

So far as the directors are aware there is no relevant audit information (that is information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are not aware. Each director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The financial statements are therefore prepared on a going concern basis.

Risks and Uncertainties 2009

Like most businesses, STV Group plc is exposed to a number of risks which could have an impact on our operating results, financial condition and prospects. We have rigorous internal systems to identify, monitor and manage any risks to the business.

Regulatory environment

Our television business is operated under licences, regulated by Ofcom, which extend until 2014. These licences contain conditions relating to such issues as regional television programme production and matters of taste and decency. It is the responsibility of the executive named on each television licence to ensure that the terms of these licences are adhered to and they put measures in place internally to ensure that this occurs. However, it is possible that in certain circumstances these terms may be inadvertently breached and sanctions imposed by Ofcom. In the most serious of circumstances it is within the remit of Ofcom for licences to be withdrawn.

Dependence on advertising

STV's sales, expenses and operating results could vary from period to period as a result of a variety of factors, some of which are outside of STV's control. These factors include general economic conditions, conditions specific to general advertising markets including the commercial television and the cinema markets, trends in sales, capital expenditure and other costs, and the introduction of new services and products by us or our competitors. In response to an ever-changing operating and competitive environment, we may elect from time to time to make certain pricing, service or marketing decisions that could have a material adverse effect on sales, results of operations and financial conditions.

Performance of the ITV Network

STV is our core business and, as such, our fortunes are linked with those of the ITV Network as a whole. The programming provided by the ITV Network, its ability to attract and retain audiences and the advertising airtime sales performance of ITV's sales house – which is responsible for the sale of STV's UK national airtime to advertisers – are factors that affect the performance of STV and, therefore, the Group as a whole. This relationship is managed closely, with regular updates on programme and schedule developments being provided via ITV Council, on which STV is represented, and through senior STV staff with responsibility to manage the sales relationship with ITV.

Litigation with ITV plc/ITV Network

In September 2009, ITV plc and other ITV entities launched a claim against STV Group plc and subsidiaries for £15-20m (net) primarily in relation to opt-out programming. STV is both vigorously defending this claim and has launched a counterclaim under the Advertising Sales Agreement. In November 2009, STV Group plc launched an additional claim in relation to the exploitation of new media rights. STV Group asserts that despite new media rights being acquired and held for the benefit of all channel 3 licensees, ITV Network Limited and ITV Broadcasting Limited have entered into commercial agreements without obtaining STV Group's consent. These commercial agreements use and exploit new media rights in STV Central and STV North's licence areas. STV is preparing to launch a third claim in relation to significant prejudicial behaviour by ITV network and ITV plc against STV Group plc and its subsidiaries. The various legal claims result in a maximum potential cash outflow of £17.9m should STV be unsuccessful in all claims and a related unprovided contingent liability for accounting purposes of £8.3m. STV has a potential contingent asset of £9.6m which has not been recognised in the accounts and which will arise in the event that it is successful in its defence of ITV's initial claim. Further contingent assets may arise under STV's counterclaim under the Advertising Sales agreement, its claim in relation to the exploitation of new media rights and its potential claim in relation to alleged prejudicial behaviour by ITV. However it is not practicable to quantify the total potential financial effect of these claims and potential claim at this stage.

Pension scheme shortfalls

We believe that the STV pension schemes are relatively strong, and the investment strategy is calculated to reduce any market movement impacts. During 2009 we reached an agreement with the Trustees of the Group's defined benefit pension plans on a future funding plan which is described in the Chief Financial Officer's report. However, it is possible that the Group may be required to increase its contributions to cover an increase in the cost of funding future pension benefits or to cover funding shortfalls which could have an adverse impact on results and cash flow. This position is kept under regular review by the Board.

Financial

The overall financial position of STV may be constrained by our leverage and other debt arrangements. An increase in interest rates could have an adverse impact on our financial position and business results. We are exposed to a variety of financial risks that arise from and apply to our activities: currency risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. STV uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out under policies approved by the Board with financial risks being identified, evaluated and hedged in close co-operation with the operating divisions. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of financial instruments and investing excess liquidity.

(a) Currency risk

STV operates almost wholly within the UK and is exposed to minimal foreign exchange risk. Foreign exchange risk arises primarily with respect to the Euro, US dollar and the Swiss franc. Foreign exchange risk arises from future commercial transactions and trade assets and liabilities in foreign currencies.

(b) Credit risk

STV has no significant concentration of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. Derivative transaction counterparties are limited to high-credit-quality financial institutions.

(c) Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the nature of the underlying business, the aim is to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow interest rate risk

STV has no significant interest bearing assets, our income and operating cash flows are substantially independent of changes in market interest rates.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare the financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 the affairs of the Company and the Group and the profit and loss of the Group 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 estimates that are reasonable and prudent
- State whether applicable IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the Group and parent company financial statements respectively
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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 the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Statement pursuant to the Disclosure and Transparency Rules

Each of the directors, whose names and functions are listed on page 35 confirm that, to the best of each person's knowledge and belief:

- the Group Financial Statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group and Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that it faces.

The directors are responsible for the maintenance and integrity of the Company's website and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

George Watt
Chief Financial Officer

Board of Directors

01 **Richard Findlay** Chairman (66)[3]
Appointed to the Board in February 2007. Richard is the former Chief Executive of Scottish Radio Holdings plc which owned a considerable portfolio of newspapers and radio stations throughout the UK and Irish Republic and which he ran for ten years, building it into a major force and consistently outperforming peer companies. In August 2005 Scottish Radio Holdings plc was sold to EMAP plc. Richard has strong links in the Scottish arts and political establishments. He is the founding Chairman of the National Theatre of Scotland, a growing life sciences company, Chairman of the Royal Scottish Academy of Music & Drama Foundation and Innovate Financial Services Ltd. He has served on various boards including that of a leading law firm, a Scottish University and as chair of the Lothian NHS Board.

02 **Rob Woodward** Chief Executive (50)
Appointed to the Board in February 2007. Previously, Rob was Commercial Director of Channel 4 Television Corporation and on the main board. He was formerly CEO of 4Ventures and achieved a dramatic turnaround of legacy businesses and built a set of successful new media and digital businesses. Rob was previously an MD of UBS Warburg and global COO of corporate finance in Media and Communications. Prior to this he was Managing Partner of Deloitte's European Telecoms Media and Technology business and UK strategy consulting practice.

03 **George Watt** Chief Financial Officer (42)
Appointed to the Board in February 2001 as Group Finance Director. George joined the Company in 1998 as Group Financial Controller and Treasurer. Prior to joining STV Group plc, George worked with KPMG's audit and assurance services practice in the UK and also in the US. George is a Member of the Institute of Chartered Accountants in Scotland and an Executive Committee Member of the Scottish Council for Development and Industry.

04 **David Shearer** Senior Independent Director (50)[1,3]
Appointed to the Board in February 2007. David is an experienced corporate financier and was previously Senior Partner of Deloitte for Scotland & Northern Ireland and a UK Executive board member of Deloitte. He was until recently Chairman of Crest Nicholson plc where he stood down after successfully completing the financial restructuring of that business, is Deputy Chairman of Aberdeen New Dawn Investment Trust plc, Senior Independent Director of Renold plc and Superglass Holdings plc and a non-executive director of Martin Currie (Holdings) Limited, Mithras Investment Trust plc and Scottish Financial Enterprise. He is also a Governor of the Glasgow School of Art and previously served one term ending in early 2007 as a non-executive director of HBOS plc.

05 **Vasa Babic** Non-Executive Director (43)[1,2]
Appointed to the Board in February 2007. Vasa is a Director of the Hanover Fund. Previously, he was Group Director of Business Integration at Vodafone plc, leading major global programmes of change and restructuring. Prior to that, he was a strategy consultant for 15 years in the London office of Mercer Management Consulting. He worked in a broad range of sectors, with a focus on Telecoms, Internet, Media and Technology industries. Vasa has an MA in Economics from King's College, Cambridge.

06 **Jamie Matheson** Non-Executive Director (55)[1,2]
Appointed to the Board in March 2007. Jamie is Executive Chairman of Brewin Dolphin Holdings PLC, a leading private client investment manager and stockbroker. He was previously a non-executive director of Scottish Radio Holdings plc until its sale to EMAP plc, and is currently a non-executive director of Bluehone AIM VCT2 plc.

07 **Matthew Peacock** Non-Executive Director (48)[3]
Appointed to the Board in February 2007. Matthew is the founding partner of Hanover Investors, a specialist turnaround investment firm based in London. He has led investments for over 18 years in, amongst other sectors, manufacturing, outsourced business services, chemicals, financial services, textiles, logistics and media. Prior to this, he ran the international M&A team in London at BZW, having started his career at Credit Suisse First Boston in New York. He holds an LLM from Cambridge University. He is currently non-executive Chairman of Renold plc, Fairpoint Group plc and Singer Capital Markets, a London Stock broking and Corporate Advisory firm.

08 **Michael Jackson** Non-Executive Director (52)[2]
Appointed to the Board on 1 May 2009, Michael is President of Programming at InterActiveCorp, the internet conglomerate, where he is responsible for overseeing the development, acquisition and distribution of content based websites. Prior to this Michael was Chairman of Universal Television Group, in charge of the creative and strategic direction of the television business. He served four years as Chief Executive Officer of Channel 4 Television, where, in addition to commissioning programmes, he refocused the channel to exploit digital opportunities and launched two new channels, Film4 and E4. Before joining Channel 4, Michael worked as Controller of BBC1 and Director of Television, and as Controller of BBC2. He was previously a non-executive director of EMI Group plc.

1 Audit Committee
2 Remuneration Committee
3 Nomination Committee

The Board is fully committed to achieving and maintaining the highest standards of corporate governance, financial reporting and business integrity and has structured its activities so as to incorporate the main and supporting principles of the UK's Combined Code, recognising these to be a sound statement of accepted good practice.

The directors consider that they complied with all sections of the Code for the year under review with the exception of provisions A.4.1 and C.3.1 in relation to the constitution of the Nomination Committee and the Audit Committee respectively. While it is acknowledged that it would be preferable to have both these Committees constituted solely with independent non-executive directors, there are a limited number of directors to choose from and in the current economic climate it is not considered desirable to expend money on enlarging the Board merely to ensure we can achieve this. However, the intention is to become compliant over time.

This section, together with the report by the directors on remuneration, set out on pages 44 to 60, describes how, in respect to the financial year ended 31 December 2009, the Company has complied with the principles and provisions of the Combined Code on Corporate Governance.

A copy of the Combined Code is publicly available at www.frc.org.uk

The Board and its procedures

The membership of the Board throughout the year was as follows:

Chairman
Richard Findlay

Chief Executive Officer
Rob Woodward

Chief Financial Officer
George Watt

Non-executive directors
David Shearer (Senior Independent Director)
Matthew Peacock
Vasa Babic
Jamie Matheson
Michael Jackson (appointed 1 May 2009)

The Board has considered the independence of the non-executive directors and has confirmed that while all the directors are considered to be of independent character and judgement, only Richard Findlay, David Shearer, Jamie Matheson and Michael Jackson would be considered independent as defined by the revised Combined Code. The wide ranging experience and backgrounds of all the non-executive directors ensure that they can debate and constructively challenge management in relation to both the development of strategy and performance against the goals set by the Board.

The non-executive directors do not participate in any share option or pension scheme of the Company.

Attendance of Board members at Board and committee meetings is set out below:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held:	10	3	3	2
Number attended:				
Richard Findlay	9			2
David Shearer	9	3		2
Rob Woodward	10			
George Watt	10			
Matthew Peacock	8			2
Vasa Babic	10	3	3	
Jamie Matheson	8	2	3	
Michael Jackson (appointed 01/05/09)	6		1	

Following the resignation of Lord Alli in November 2008, Michael Jackson was appointed to the Board as a non-executive director on 1 May 2009.

Non-executive directors are appointed for a specified period of three years and re-appointment is not automatic. Directors also stand for election by shareholders at the first AGM following their appointment and subsequently every three years. The report from the Nomination Committee contained in this report explains the process for selection of directors and succession planning. Copies of the non-executives letters of appointment will be available for inspection at the AGM.

Directors now have a statutory duty to avoid situations where they have or can have, any interest that conflicts or possibly may conflict with the interests of the Company. A director will not be in breach of that duty if the relevant matter has been authorised in accordance with the Articles of Association by the other directors. The directors confirm that there have been no such conflicts.

There is a well-established division of authority and responsibility at the most senior level within the Company through the separation of the roles of Chairman and Chief Executive. The Senior Independent Director is available to shareholders should they request a meeting or have concerns which they have been unable to resolve through normal channels or when such channels would be inappropriate. He provides a communication channel between the Chairman and the non-executive directors and is responsible for leading the Board's discussion on the Chairman's performance at the annual performance review.

Directors and officers of the Company and its subsidiaries have the benefit of a directors' and officers' liability insurance policy. The Company's Articles of Association also provide that every director and other officer of the Company is to be indemnified out of the assets of the Company against any liability he incurs in defending any proceedings brought against him (provided that judgement is not given against him). All directors have access to the advice and service of the Company Secretary and, at the Company's expense, the Group's legal advisers. The Company Secretary is an employee of the Company and attends all meetings of the Board and its committees and is responsible for ensuring that all Board procedures are observed and for advising the Board on corporate governance matters.

The Board meets regularly, at least nine times a year with additional meetings taking place as and when required. In addition the Board has a one-day, off site meeting at which the Group's general strategy is discussed. The Board has adopted a schedule of matters reserved for its decision, the principal matters being approval of:

- financial statements and shareholder circulars; dividend policy; significant changes in accounting policies or practices.
- Board and committee appointments and terms of reference; terms and conditions of non-executive and executive directors.
- the Group's long-term objectives and commercial strategy; annual operating and capital expenditure budgets.
- material contracts and significant variations in terms of the Group's borrowing facilities.
- corporate activity, which is subject to the City Code on Takeovers and Mergers or of a material nature.
- major changes to the Group's pension schemes, share schemes and treasury policy.
- internal control and corporate governance arrangements and to act as a court of last resort in relation to any investigations undertaken by the Audit Committee.

Board meetings involve reviews of financial and business performance against the plan and budgets approved by the Board, both at a Group and divisional level. The Board also receives regular presentations from the divisions, enabling it to explore specific issues and developments in more detail. Any matter requiring a decision by the Board is supported by a paper analysing all relevant aspects of the proposal including potential risks and proposed management action.

When a director is unable to attend a Board or Committee meeting, he receives the papers for consideration at that meeting and has the opportunity to discuss any issues or make any comments in advance and, if necessary, follow up with the Chairman of the relevant meeting.

The Company's Leadership Team comprises the executive directors, the Chief Operating Officer, the HR Director, the Sales Director and the managing directors of the Broadcasting, Content and Ventures divisions.

The Team was put together in 2007 to drive the agenda on implementing the Company's strategic priorities while addressing critical business issues and opportunities. It meets weekly and is focused on group-wide performance, with the emphasis on collaboration and teamwork and ensures that there are clear lines of accountability.

All members of the Leadership Team are involved in the management of risk and it is the primary driver in ensuring that the KPIs are met.

The effectiveness of the Board is vital to the success of the Group and accordingly, the Company undertakes a rigorous evaluation each year in order to assess how well the Board, its committees, the directors and the Chairman are performing. In addition, the process aims to improve effectiveness for the future and provide an opportunity for the non-executive directors – through their exposure on other company boards – to draw on their experience and to suggest areas of best practice. It is also an opportunity for directors to raise any concerns about procedures and governance issues. As in previous years, this is an internal exercise led by the Chairman.

The evaluation is conducted using a comprehensive questionnaire which canvasses the opinions of the directors on a wide range of matters including Board composition, Board meetings and processes, Board performance, the performance of individual directors as well as the Board's communication both with external stakeholders and the Company's senior management. The performance evaluation questionnaire is followed by meetings of the full Board, the Chairman with the non-executive directors, and non-executive directors only. The Chairman's evaluation is managed by the senior independent director who provides feedback to the Chairman. As part of the Chairman's evaluation, all directors meet under the chairmanship of the senior independent director.

On completion of the evaluation process the directors have concluded that the Board is effective in meeting its objectives and fulfilling its duties and obligations. Additionally, the Chairman has concluded that each director contributes effectively and demonstrates full commitment to his duties and as such, no changes or amendments were judged necessary. The following points were highlighted in the evaluation:

- there is a strong, cohesive Board with appropriate levels of skill, knowledge and experience which has a unified and clear vision of the future strategic direction of the Company;
- there is good communication not just within the confines of the boardroom but also between the directors – both executive and non-executive – and the Leadership Team;
- the Board operates in an open and constructive manner with valuable and effective contributions made by all directors and there is a collective desire for the Company to succeed.

The Audit, Remuneration and Nomination Committees each held an evaluation of their work and effectiveness during the year, the results of which were reported to the Board by the respective Committee Chairman. The reviews concluded that each Committee was operating in an effective manner and carrying out their respective delegated duties efficiently.

The Board and its Committees will continue to review critically their procedures, effectiveness and development throughout the year ahead with any concerns or observations raised with the Chairman.

The Board is supported by the Nomination, Remuneration and Audit Committees. Reports from the Nomination and Audit Committees are contained within this report, on pages 40 and 41.

Remuneration Committee

The members of the committee during the year were:

Vasa Babic (Chairman)
Jamie Matheson
Michael Jackson (appointed 01/5/09)

The activities of the Remuneration Committee are described within the report by the directors on remuneration which can be found on pages 44 to 60.

The terms of reference of the Remuneration Committee are available on request and on the Company's website www.stvplc.tv

Report from the Nomination Committee

The members of the committee during the year were:

Matthew Peacock (Chairman)
Richard Findlay
David Shearer

The Nomination Committee has written terms of reference. Its principal duties are to:

- Regularly review the structure, size and composition of the Board and evaluate the balance of skills, knowledge and experience.
- Regularly review plans for succession of executive and non-executive directors and make recommendations to the Board.
- Identify and nominate candidates for approval of the Board using, if appropriate, external recruitment and search advisers employing objective and industry-recognised selection criteria.
- Recommend to the Board membership of the Audit and Remuneration Committees, in consultation with the chairmen of those committees.

The full terms of reference of the Committee are available on request and on the Company's website www.stvplc.tv

There is a formal and transparent procedure for the appointment of new directors to the Board. As part of the annual performance evaluation conducted by the Board a review is conducted of the Board's size, composition, diversity and balance of skills. The outcome of the review is used by the Committee to determine the selection criteria and role specification of non-executive directors. External selection consultants may be retained to conduct searches and a shortlist created in consultation with the Committee and, where appropriate, the executive directors. The Committee reviews the profiles of candidates and conducts interviews prior to making recommendations to the Board for approval. Appointments are made on merit and against objective criteria.

All directors are given a comprehensive introduction to the Group's various businesses and continuing development is provided through briefing sessions in the course of regular Board meetings, covering business specific and broader regulatory issues and including presentations from members of senior management.

Report from the Audit Committee

The members of the committee during the year were:

David Shearer (Chairman)
Vasa Babic
Jamie Matheson

The Audit Committee, chaired by David Shearer, who has recent and relevant financial experience, is authorised by the Board to investigate any activity within its terms of reference and to seek any information it requires from any employee. All employees are directed to co-operate with any request made by the committee.

Amongst others, the duties of the committee are to:

- Assist the Board in ensuring that the Company's published financial statements comply with statute and all applicable accounting standards and good practice.
- Review the effectiveness of the Company's internal financial controls and audit arrangements and investigate and advise on these or related matters which are referred to it or that it considers necessary.
- Review the Company's statement on internal control systems prior to endorsement by the Board.
- Consider the major findings of any internal investigations on control and management's response.
- Discuss with the Company's auditors, matters arising from their work (in the absence of management where necessary) and encourage and monitor compliance with relevant codes of best practice in corporate governance.
- Keep under review the scope and results of the annual audit, its cost-effectiveness and the independence and objectivity of the auditors.
- Consider the appointment of the external auditors, the audit fee, their independence and objectivity and any matters relating to the resignation or dismissal of the external auditors.
- Review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

The full terms of reference of the Committee are available on request and on the Company's website www.stvplc.tv

Meetings of the Committee are normally attended by the Chief Executive Officer, Chief Financial Officer as well as the Group Financial Controller and representatives of the external auditors. The Committee also meets separately with senior management and the external auditors.

The Audit Committee and Board place great emphasis on the objectivity of the Group's auditors PricewaterhouseCoopers LLP in their reporting. The audit partner and manager attend Audit Committee meetings to ensure full communication of matters relating to the audit. The auditors have confirmed to the committee that in relation to their services to the Company they comply with UK regulatory and professional requirements, including Ethical Standards issued by the Auditing Practices Board and that their objectivity is not compromised.

The Audit Committee is responsible for approving non-audit work and during the year under review this consisted mainly of tax advice.

While it is important that the independent role of external auditors in reporting to shareholders is not compromised, it is equally important that the Company is not deprived of expertise when and where it is needed.

There are a significant number of projects and engagements where the external auditors are best placed to perform the work due to their network within or to previous experience, market leadership in a particular area or their knowledge of the Company. Accordingly in such circumstances, it is more timely and cost effective to select PwC and it has carried out or supported a number of projects for STV over the years. The Committee believes that this is in the best interests of shareholders and that the independence and objectivity of the auditors is not impaired. It should also be noted that PwC is subject to professional standards which safeguard the integrity of the auditing role performed on behalf of shareholders.

However, in order to ensure that due consideration is given to the award of any non-audit work, the Chief Financial Officer must obtain the approval of either the Chairman of the Audit Committee or another Committee member if the preference is to use the auditor and must provide an explanation as to why the auditor is the preferred option. A case by case decision is therefore necessary and the auditor cannot be engaged for non-audit work without reference to the Audit Committee. It is felt that this process ensures shareholders receive value for money.

During the year the Committee reviewed the Company's interim and full year results prior to publication as well as its risk management procedures and risk register, incorporating relevant, social, ethical and environmental risks. Towards the end of the year and following a tender process, Deloitte was appointed as the Group's Internal Auditor and an internal audit plan for 2010 and beyond has been devised and is being implemented. The Board considers the appointment of an Internal Auditor to be in support of the principles of good corporate governance and that this function will enhance the current internal controls processes, which includes a full time Compliance Manager. The comprehensive internal audit programme which will review systems and processes will ensure that the Company is operating effectively, efficiently and economically and in accordance with legislative requirements and professional standards.

PricewaterhouseCoopers LLP have been the Company's auditors since 2004. The Committee is satisfied with their effectiveness and independence and has not considered it necessary to require an independent tender process. The external auditors are required to rotate the audit partners responsible for the Group and subsidiary audits every 5 years and the current lead audit partner has been in place for 1 year. There are no contractual obligations restricting the Company's choice of external auditor.

A resolution to re-appoint the auditors will be put before shareholders at the Annual General Meeting.

Internal control and control environment

The directors of STV Group plc have overall responsibility for establishing and maintaining an adequate system of internal controls and for reviewing the effectiveness of the system. The system of internal control is designed to manage rather than eliminate risk and in pursuing these objectives, internal control can only provide reasonable and not absolute assurance against material misstatement or loss.

In addition to both the external and the internal audit, the following key controls are in place:

- a comprehensive financial review cycle, which includes a detailed budgeting process where business units prepare budgets for approval by the Board, monthly reporting of trading results for review and, where necessary, corrective action as well as detailed and regular reforecasting;
- clearly defined management structure and delegation of authority to Committees of the Board, subsidiary boards and associated business units;
- high recruitment standards and formal career development and training to ensure the integrity and competence of staff;
- Regular reviews of key performance indicators and business risks and consequent steps to manage any matters arising;
- procedures for the approval of capital expenditure;
- monthly monitoring and reforecasting of results against budget, with major variances followed up and management action taken where appropriate;
- ongoing procedures to identify, evaluate and manage significant risks faced by the business in accordance with the guidance of the Turnbull Committee on Internal Controls and procedures to monitor the control systems in place to reduce these risks to an acceptable level; and
- provision to the Board and management of relevant, accurate and timely information based on comprehensive management information systems, which are continually being improved and updated.

The Company has in place a formal procedure by which staff can, in confidence, raise concerns about possible improprieties in financial and other matters. The Audit Committee has reviewed and approved this procedure. No such concerns were raised by staff during the year.

Risk is inherent in the Group's business and activities. The ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial soundness, performance, reputation and future success. The management of risk is considered to be of vital importance and as such, it is a matter for the full Board and not delegated to a committee. Accordingly, all directors are responsible for the framework of risk governance and management and for determining risk strategy and ensuring that it is monitored and controlled effectively. This is communicated to the Leadership Team and each member is accountable for all risks assumed in their respective areas of responsibility and for the execution of appropriate risk management discipline.

The Group's risk management system is subject to regular review to ensure full compliance with the requirements of the Combined Code and the Turnbull Guidance on internal control and risk management and is designed to manage, rather than eliminate, the risk of failure to achieve business objectives.

Key elements of the Company's system of risk management include:

- Group statements on strategic direction, ethics and values
- clear business objectives and business principles
- linking identified risks to key business objectives and divisional KPIs
- a continuing process to identify and evaluate significant risks to the achievement of business objectives
- management processes to mitigate significant risks to an acceptable level
- constant monitoring of significant risks and internal and external environmental factors that may change the Group's risk profile

A highly detailed review process conducted on a multi-level basis ensures that the consolidated group accounts are prepared having taken account of the internal control procedures and risk management strategies outlined above.

The comprehensive Risk Register, a revised version of which was produced last year, is a constantly evolving document which is reviewed and updated on an ongoing basis at an operational level and on a quarterly basis by the Board, with the Audit Committee conducting an annual review. This regular review is vital to ensure that a risk culture is embedded throughout the Group and that an appropriate risk framework is operating effectively. It also provides the Board and the Audit Committee with an overall view of the Group's risk profile, identifying any major exposures and mitigating actions.

The risk management framework and internal controls system across the Group, which is subject to continuous development, provides the basis on which the Company has complied with the Combined Code provisions on internal control.

Relationship with shareholders

The Chairman meets with major shareholders on a periodic basis with the Senior Independent Director and all other non-executive directors are available for meetings on request. Communication with major shareholders, analysts and the financial press is maintained throughout the year and, in addition, detailed presentations are made at the time of the interim and full year results. Feedback from major shareholders is regularly sought and reviewed by the Board.

Detailed reviews of the performance and financial position of each division are included in the Chairman's statement, the Chief Executive Officer's and Chief Financial Officer's reviews, which the Board uses to present a balanced and understandable assessment of the Group's position and prospects. Such communication is designed to establish a mutual understanding of objectives. In addition, the Group has an electronic communication facility to allow shareholders to receive information more quickly and in a manner more convenient for them. The Board also welcomes and encourages the participation of all shareholders at the Company's AGM.

This report has been prepared in accordance with The Directors' Remuneration Report Regulations 2002, (the "Regulations"). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles and complied with the provisions of the revised Combined Code (the "Code") on Corporate Governance relating to directors' remuneration. As required by the Regulations, an advisory resolution to approve the report will be proposed at the AGM of the Company at which the financial statements will be approved.

The auditors are required to report on the 'auditable' part of this report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 2006 (as amended by the Regulations). The report is therefore divided into separate sections for audited and unaudited information.

Part 2 of the Regulations – Unaudited Information

Remuneration Committee

The directors who were members of the Remuneration Committee during the year are shown on page 39 in the section on Corporate Governance.

The responsibility for the establishment of a remuneration policy and its cost is a matter for the full Board, on the advice of the Remuneration Committee. The recommendations of the Remuneration Committee have been approved without amendment by the Board for submission to shareholders.

The Remuneration Committee is responsible for developing policy on remuneration for executive directors and senior management and for determining specific remuneration packages for each of the executive directors. The Remuneration Committee members have no personal financial interest other than as shareholders in matters to be decided, no potential conflicts of interests arising from cross directorships and no day-to-day involvement in running the business.

During the period under review, the Remuneration Committee sought the assistance of the Chairman and Chief Executive Officer on matters relating to directors' performance and remuneration. The Chairman, Chief Executive Officer and the Human Resources Director attend meetings by invitation except when their individual remuneration arrangements are discussed. No director takes part in discussions relating to their own remuneration and benefits. The Remuneration Committee appointed and received wholly independent advice on executive compensation and associated share scheme administration from PwC Human Resource Services.

The Remuneration Committee is formally constituted with written terms of reference with the full remit of the committee role described. A copy of the terms of reference is available to shareholders on request by writing to the Company Secretary whose contact details are set out on page 101 of the Annual Report and on the Company's website, www.stvplc.tv

Philosophy behind Remuneration Committee's Approach

The policy is designed to encourage, reward and retain the executives and the Remuneration Committee believes that shareholders' interests are best served by remuneration packages which have a large emphasis on performance-related pay. Emphasis on performance should encourage executives to focus on delivering the business strategy and by providing meaningful incentives to executives ensure that the appropriate balance between fixed and performance-related pay is maintained.

Remuneration Policy 2009

The Company's Remuneration Policy (approved by shareholders at the Extraordinary General Meeting in June 2007) is based on the following principles to ensure that it is inherently linked to the strategic objectives, targets and key performance indicators of the business:

- to maintain a competitive package of total compensation commensurate with comparable packages available with other similar companies operating in similar sectors;
- to make a significant percentage of potential maximum reward conditional on long-term performance;
- to ensure that the interest of executives are closely aligned with those of the Company's shareholders through the provision of share-based incentives;
- to link reward to the satisfaction of the targeted objectives which are the main drivers of shareholder value;
- to be sensitive in determining executives' remuneration relative to the current economic climate.

Alongside the structure of the current remuneration of executives is the link to attainment of the Company's 12 KPI's and the attainment of the Company's strategic operating priorities. Progress and performance against these measures is tracked on a monthly basis at an operational level; measured and reported to the Board on a quarterly basis and reported externally on a half-yearly basis.

The Company's 12 KPI's are detailed within the Chief Executive Officer's Review.

Every year, the Remuneration Committee reviews whether its remuneration policy remains appropriate for the relevant financial year. Factors taken into account by the Remuneration Committee include:

- market conditions affecting the Company;
- the recruitment market in the Company's sector;
- changing market practice;
- changing views of institutional shareholders and their representative bodies.

During 2009 it was agreed with executives that a number of changes would be made to elements of the remuneration package to reduce operating costs and mitigate against the impact of the macro economic downturn. As a result of these changes, compensation paid during 2009 did not adhere to the current Remuneration Policy as base salary levels and short-term compensation were below the current policy. As it was decided by the Remuneration Committee that there should be no enhancements to any aspect of remuneration in 2010, the Remuneration Committee did not conduct a review of the policy through a benchmarking exercise. The Remuneration Policy will next be reviewed at the end of 2010.

The undernoted table summarises the main elements of the remuneration package of executives in 2009.

Base Salary	Annual Bonus Potential	Pension	Benefits In Kind	Potential Total Short-Term Remuneration Available	Potential Annual Share Awards	Potential Total Compensation Value
In May 2009, executives agreed to accept a reduction of between 15-20% of base salary in recognition of the need to reduce operating costs during the market downturn.	Executives agreed to waive entitlement to any performance related bonus payment in respect of 2009 performance. This decision was taken in recognition of the need to reduce operating costs during the downturn.	The Group operates a defined benefits scheme (closed to new members); a defined contribution scheme and executives have the option to receive a taxable cash allowance in lieu of pension benefits.	Executives receive a taxable, cash allowance in lieu of benefits in kind.	Executives agreed to waive entitlement to any performance related bonus in respect of 2009 performance.	The 2009 share award (2009 LTIP) was capped such that any awards could not exceed the award that would have been payable under the 2005 Long-term Inventive Plan. In 2009, potential total compensation was reduced due to the reductions applied to base salary levels; the waiving of any entitlement to performance related bonus payments and the cap applied to any award payable under the 2009 LTIP.	

2009 & 2010

The following companies make up the Comparator Group used in 2009 and 2010:

Bloomsbury Publishing Plc
Centaur Media PLC
Chrysalis Group PLC
Daily Mail & General Trust
Entertainment Rights Plc
Eros International PLC
Euromoney Institutional Investor Plc
Future PLC
Informa plc
ITV plc
Johnston Press PLC
Mecom Group PLC
Pinewood Shepperton Plc
Trinity Mirror Plc
United Business Media PLC
Wilmington Group Plc

The chart below demonstrates the balance between fixed and variable performance-based compensation for each executive director for the year ended 31 December 2009:

R Woodward

56% Performance Compensation
44% Fixed Compensation

G Watt

58% Performance Compensation
42% Fixed Compensation

Key
Fixed Compensation is calculated as:
- Salary
- Benefits

Performance Compensation is calculated as:
- Bonus available
- Fair Market Value of LTIP and Share Option awards on grant

Elements of Executive Directors' Remuneration

Basic Salary

Policy 2009 & 2010: Median to Upper Quartile; however, in view of market conditions, base salaries have not been increased since 2007 and a voluntary reduction was implemented during 2009

During 2009, no increase was applied to base salary levels as executives agreed to defer a performance related increase payable in respect of 2008 performance. Effective from 1 May 2009, reductions to base salary levels of between 15-20% were implemented with the agreement of executives until the end of 2009. This decision was taken in recognition of the need to implement measures to reduce operating costs and mitigate against the adverse market conditions in 2009.

When determining the salary of the executives the Committee takes into consideration:

- the levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity, in particular the median and upper quartile salary levels of those comparable companies within the media sector and the Comparator Group;
- the performance of the individual executive director;
- the individual executive director's experience and responsibilities;
- pay and conditions throughout the Company.

For 2010, voluntary reductions to base salary levels will cease and base salary levels will return to previous levels. No increase has been applied to base salary levels for 2010 and base salaries have not been adjusted since 2007.

Name	2009 Salary (actual paid)	2009 Salary (contractual)	2010 Salary	Rise
Rob Woodward Chief Executive Officer	£329,333*	£380,000	£380,000	0%
George Watt Chief Financial Officer	£192,780*	£214,200	£214,200	0%

* Base salary was reduced by voluntary agreement on 1 May 2009.

Annual Performance-Related Bonus

Policy 2009 & 2010: Median to Upper Quartile Bonus Potential; however, in view of market conditions, bonus entitlements were waived in 2009 and pay-out structure reviewed for 2010

During 2009, executives agreed to waive any entitlement to any performance related bonus payable in respect of business and individual performance attained in the 2009 performance period. This decision was taken in recognition of the need to implement measures to reduce operating costs and mitigate against the adverse market conditions in 2009.

The targets for the annual bonus plan are reviewed and agreed by the Remuneration Committee at the beginning of each financial year to ensure that they are appropriate to the current market conditions and position of the Company in order to ensure that they continue to remain challenging. Bonus payments are not pensionable.

2010 Performance-related Bonus Plan

The 2010 Performance-related Bonus Plan has been designed by the Remuneration Committee to:

- achieve a link between achievement of key performance indicators of the business and key financial performance targets whilst encouraging a longer term performance focus through a deferred reward component;
- support executives in building up a shareholding in the business through rewards made in cash and shares;
- ensure that in recognition of the absence of a long-term equity based award in 2010, that there is an appropriate balance between short-term cash based rewards and mid-longer term share based rewards.

Bonus payments will commence upon achievement of financial performance targets resulting in payments at this level of performance of 40% of bonus potential maximum. Payments will increase on a straight-line basis to achievement of 120% of performance target generating a bonus payment of 100% of bonus potential maximum.

Payments will be made in three tranches with release of the third tranche conditional upon further financial performance targets, relating to 2011 performance, being achieved.

The first tranche will be paid in March 2011 and is payable in cash. The second tranche will be paid in March 2012 and is payable in shares. Release of the third tranche will be conditional upon achievement of financial performance targets relating to 2011 performance. Payment will be conditional upon 2011 Group PBT and EPS being 10% in excess of 2010 actual performance. Subject to this being achieved, payment will be made in March 2013, payable in shares.

Share Incentives

Policy 2009 & 2010: Upper Quartile; however, in view of market conditions, a new LTIP was approved in 2009 and it is not intended to award an LTIP in 2010

The Remuneration Committee's policy is to provide share grants to executives at the upper quartile level compared to the Comparator Group. Share incentives, excluding all employee plans, are provided to the executives through "The STV Group plc 2005 Executive Long-Term Incentive Plan" (the "LTIP") and "The STV Group plc 2009 Executive Long-Term Incentive Plan" (the "2009 LTIP"). No further grants will be made under any other discretionary share plan.

The Remuneration Committee believes that share awards under the LTIP arrangements enable the Company to provide a competitive incentive and retention tool which is also cost effective in respect of both shareholder dilution and P&L cost.

2009 LTIP

In 2009, a new incentive arrangement, the 2009 LTIP was approved by shareholders and implemented.

The 2009 LTIP is designed to ensure that:

- executives only receive rewards when there is significant value created for shareholders;
- executives only receive rewards if key value drivers are met;
- executives are appropriately rewarded for the levels of value generated to shareholders;
- key value drivers are locked in and focussed on driving shareholder value during the Company's current stage of development;
- there is a strong recruitment tool in place to attract candidates of a calibre required to drive shareholder value.

Any benefit payable is capped at the potential benefit the executive would have received under "The STV Group plc 2005 Long-Term Incentive Plan" (the "2005 LTIP"). In practice it is likely that for the same performance, the 2009 LTIP will deliver significantly less benefit.

It will also be a requirement of the plan that participants will retain 50% of any post-tax gains under the 2009 LTIP until they build up a shareholding of at least one times salary.

Participants in the 2009 LTIP have been granted awards of units which have no value on the date of grant but have the potential to convert in to nil-cost options at the end of a three year performance period depending on the achievement of the following conditions:

- no benefit is provided at all unless the share price is greater than 70p. At this point a percentage of the additional value created is used to create a pool in line with the following table:

Threshold Prices	Incentive Value
Up to 70p	0%
70p to 100p	3% of excess of 70p
100p to 150p	3% of 70p-100p + 5% of excess of 100p
Greater than 150p	3% of 70p-100p + 5% of 100p-150p + 7.5% of excess of 150p

- the units will only convert into nil cost options if the comparative total shareholder return ("TSR") and Return on Capital Employed ("ROCE") targets used in conjunction with the 2005 LTIP are satisfied;
- the value of units converting is subject to a cap to the value that would have been delivered if participants had been granted an award under the 2005 LTIP.

The performance conditions for the 2009 LTIP can be found on pages 59 and 60.

2010 LTIP Award
The Remuneration Committee does not intend to award an LTIP in 2010.

Dilution
The following table sets out the current level of dilution against the ABI limits for all share plans and discretionary plans (principally executive plans) and sets out the commitments to issue shares made during the financial year reported:

Maximum	Current Dilution	Additional Dilution During the Year in Question
10% dilution in ten years	3.75%	(0.42%)
5% dilution in ten years	3.75%	(0.37%)

In accordance with the ABI guidelines the Company can issue a maximum of 10% of its issued share capital in a rolling ten-year period to employees under all its share plans. In addition, of this 10%, the Company can issue only 5% to satisfy awards under discretionary or executive plans.

Pension

Policy 2009 & 2010: Median

Final salary scheme

George Watt is the only current executive director who is a member of the Group's principal pension scheme, the Scottish and Grampian Television Retirement Benefits Scheme, which is an Inland Revenue approved defined benefit occupational pension scheme. In common with all members, George Watt made contributions of 9% of salary to the scheme until 31 July 2009 and thereafter contributions were increased to 10% (2008: 9%). Subject to Inland Revenue limits, the scheme provides members with a pension of two thirds of final basic salary upon reaching normal retirement at age 65. The principal features of the pension benefit accrued are noted below. These are:

- the annual accrued pension payable from normal retirement age, calculated as if he had left service at the period end;
- the increase in the accrued pension attributable to service as a director during the year;
- the transfer value of the accrued benefit at the end of the period, calculated in accordance with the actuarial guidance note GN11;
- the transfer value of the accrued benefit at the end of the previous period, calculated in accordance with the actuarial guidance note GN11;
- the increase in the transfer value over the period net of employee contributions.

Members of the scheme have the option of paying Additional Voluntary Contributions, but these and the resulting benefits are not included in the table shown on page 56.

Money purchase scheme

As a consequence of A-Day pension legislation the Company closed down its Funded Unapproved Retirement and Death Benefit Scheme (FURDBS). Thereafter, members who had accrued pension benefits above the lifetime allowance would no longer be able to remain as active members of the final salary scheme. In lieu of pension scheme benefits the executive directors receive a cash pension payment equal to 20% of base salary. Furthermore, following the retention of the earnings cap within the final salary scheme, executive directors receive as a cash pension supplement of 20% of their base salary in excess of the earnings cap. This pension supplement will be excluded from the calculation of any other benefit provided by the Company. Executives will not be compensated for any loss of tax relief arising from the change in pension legislation.

Benefits in Kind

Policy 2009 & 2010: Market Practice

The Company provides a cash benefits allowance in lieu of normal benefits in kind for executives of this level in a company of this size, such as company cars, healthcare and pension benefits. The Company actively reviews the levels of benefit received to ensure that they remain market competitive. This cash benefits allowance is excluded from the calculation of any other benefit provided by the Company.

Total Compensation

Policy 2009 & 2010: Median to Upper Quartile; however, the policy in 2009 and 2010 has been amended to reflect market conditions

The following table shows the value of each of the main elements of the remuneration package provided to the executive directors during the year ended 31 December 2009. It should be noted that the FMV of LTIP awards are not the value that will be received by the executives but represent the accounting cost to the Company of providing these share incentives under IFRS 2* and therefore represent the 'cash value' of those grants at the date of grant. The FMV calculation is based on a series of assumptions and may not equate to the actual value received by the executive directors on release.

In addition, no benefit under the LTIP will be provided unless the performance conditions are satisfied.

Name	Salary	Bonus Paid	Benefits	Total Payments	FMV LTIP	Total Actual & FMV
Rob Woodward Chief Executive Officer	£329,333	-	£89,433	£418,766	£37,158	£455,924
George Watt Chief Financial Officer	£192,780	-	£32,370	£225,150	£21,394	£246,544

* International Reporting Standard dealing with the expensing of share incentives.

Other Remuneration Matters

All Employee Share Arrangements

The following table summarises the main features of the Company's all employee share arrangements and their current status:

Name	Status	Eligibility	Main Features	%age of Employees Participating
SIP[1]	The Plan was not offered during tax year 2009/10.	All employees of the Company including the executive directors.	The Plan provides employees with the opportunity of purchasing £1,500 of shares a year out of pre-tax salary and providing additional matching shares with a maximum matching ratio of 2:1.	N/A as plan was not offered during tax year 2009/10.

(1) The STV Group plc Buy! & Match! Plan.

Executive directors' contracts

Details of the service contracts of the executive directors of the Company are as follows:

Name	Company Notice Period	Contract Date	Unexpired Term of Contract	Potential Termination Payment
Rob Woodward Chief Executive Officer	12 months	28.02.07	Rolling contract	12 months salary and benefits
George Watt Chief Financial Officer	12 months	27.02.01	Rolling contract	12 months salary and benefits

All executive directors' contracts are for a fixed period of one year from date of appointment, and will continue thereafter unless terminated by at least 12 months' written notice. This arrangement is in line with best corporate practice for listed companies. In the event of the termination of an executive's contract, salary and benefits will be payable during the notice period (there will, however, be no automatic entitlement to bonus payments or share incentive grants during the period of notice other than where normal good leaver provisions apply). All executive directors will be expected to mitigate their loss in accordance with general legal principles in the event of their cessation of employment. The Remuneration Committee will ensure that there have been no unjustified payments for failure on an executive director's termination of employment. There are no special provisions in the contracts of employment extending notice periods on a change of control, liquidation of the Company or cessation of employment.

Non-executive directors

The remuneration of the non-executive directors is determined by the Board based upon recommendations from the Chairman and Chief Executive Officer (or, in the case of the Chairman, based on recommendations from the Senior Independent non-executive director and the Chief Executive Officer) and is within the limits set by the Articles of Association. The individual basic and committee fees are as follows:

Name	2009			
	Basic Fee £	Committee Chair £	Committee Fee £	Total £
Richard Findlay	£80,000	n/a	£5,000	£85,000
David Shearer	£40,000	£7,500	n/a	£47,500
Matthew Peacock	£30,000	£7,500	n/a	£37,500
Vasa Babic	£30,000	£7,500	n/a	£37,500
Jamie Matheson	£30,000	n/a	£5,000	£35,000
Michael Jackson*	£20,000*	n/a	£1,667*	£21,667*

* Michael Jackson was appointed as a non-executive director on 1 May 2009 and appointed to the Remuneration Committee on 1 September 2009.

For non-executive directors, the basic fee is paid in cash. Non-executive directors do not participate in any bonus plan or share incentive programme operated by the Company and are not entitled to pension contributions or other benefits provided by the Company. The non-executive directors do not have service contracts, but their appointments are for fixed-terms of three years, subject to the terms of the Company's Articles of Association, the Companies Act and shareholder approval. The basis of fees paid to the non-executive directors is as follows:

- a basic fee of £30,000 for carrying out the duties of a non-executive director;
- a basic fee of £40,000 for carrying out the duties of senior independent non-executive director;
- a fee of £5,000 for carrying out the specific duties of sitting on the Company's Audit and/or Remuneration Committees;
- an additional fee of £2,500 on top of the Committee fee to reflect the additional duties involved in Chairing that Committee.

Directors interests in shares

The beneficial interests of the directors and their families in the ordinary shares of the Company as of 1 January 2009 and as at 31 December 2009 were, other than in respect of options or other rights to acquire ordinary shares, as follows:

Name	1 January 2009		31 December 2009	
	Ordinary Shares	Share Incentive Plan	Ordinary Shares	Share Incentive Plan
Executive directors				
Rob Woodward	30,000	–	30,000	–
George Watt	17,634	1,070	17,634	1,070
Non-executive directors				
Richard Findlay	15,000	–	15,000	–
David Shearer	12,500	–	12,500	–
Jamie Matheson	12,500	–	12,500	–
Vasa Babic*	3,803,825	–	3,803,825	–
Matthew Peacock*	3,803,825	–	3,803,825	–
Michael Jackson	–	–	–	–

* These 3,803,825 STV Group plc shares are held by Hanover. The interests of both Matthew Peacock and Vasa Babic are by reference to the same shareholding.

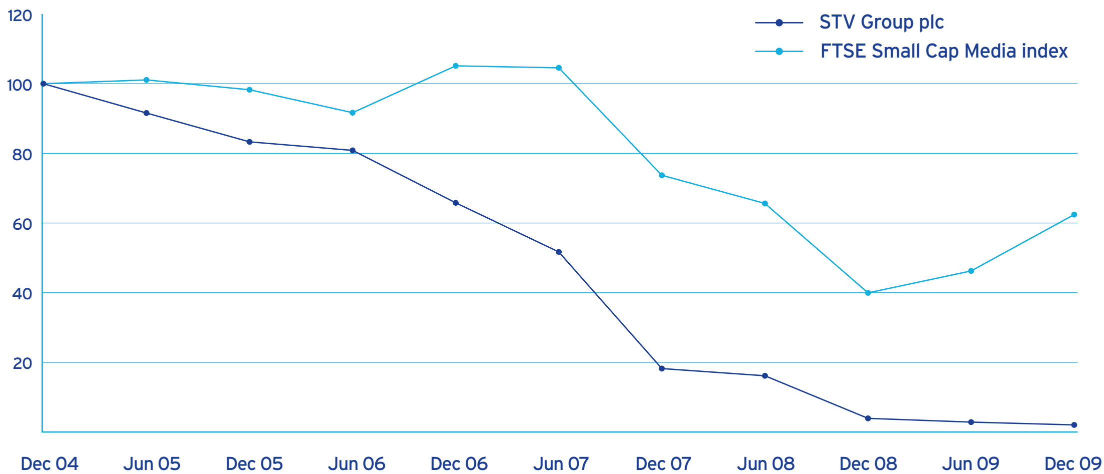
Annual Bonus Scheme

Name	Shares Allocated in 2008	Vesting Date
Rob Woodward	147,097	01.03.10
George Watt	82,903	01.03.10

These shares will vest on 1 March 2010 on the condition that Mr Woodward and Mr Watt continue to be employed by the Company.

Total Shareholder Return Performance Graph

The graph shows the Company's performance, measured by total shareholder return ("TSR"), compared to the constituents of the FTSE Media Index over the last five years.



Audited Information

The total of directors' emoluments in the year was £909,000 (2008: £1,334,000).

The remuneration of each director, excluding long-term incentive awards and pensions, during the year ended 31 December 2009 compared with 2008 is set out in the table below.

Name	Basic Salary/Fees		Benefits[1]		Annual Performance Related Bonus		Compensation for Loss of Office		Total	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Executive directors										
Rob Woodward	329	380	89	91	–	228	–	–	418	699
George Watt	193	214	32	35	–	128	–	–	225	377
Non-executive directors										
Richard Findlay	85	85	–	–	–	–	–	–	85	85
David Shearer	48	42	–	–	–	–	–	–	48	42
Matthew Peacock	38	34	–	–	–	–	–	–	38	34
Vasa Babic	38	34	–	–	–	–	–	–	38	34
Jamie Matheson	35	33	–	–	–	–	–	–	35	33
Michael Jackson[2]	22	–	–	–	–	–	–	–	22	–
Waheed Alli[3]	–	30	–	–	–	–	–	–	–	30
Total (£000)	**788**	**852**	**121**	**126**	**0**	**356**	**0**	**0**	**909**	**1,334**

(1) This is an allowance to cover standard Company benefits such as a car and medical insurance and a taxable cash payment in lieu of pension benefits.
(2) Appointed 1 May 2009.
(3) Resigned 13 November 2008.

Pension

For further information on pensions please see the unaudited part of the Remuneration Report.

Name	Change in Accrued Pension Over the Year[1] £	Accrued Pension at 31 December 2009 £	Transfer Value at 31 December 2009[2] £	Transfer Value to 31 December 2008 £	Change in Transfer Value Over the Year Less Director's Contributions £
George Watt	1,854	24,601	243,692	165,084	67,534

(1) Pension accruals shown are the amounts that would be paid annually on retirement based on service at the end of the current year.
(2) Transfer values have been calculated in accordance with Guidance Note GN11 issued by the Faculty and Institute of Actuaries. The transfer values represent the actuarial liability of the pension plan and not the sum paid or due to an individual.

2005 Long-Term Incentive Plan
Approved by shareholders on 3 June 2005.

Name	Interests at 1 January 2009	Released in Year	Lapsed in Year	31 December 2009	Award Date	Release Date
Rob Woodward	365,452	-	-	365,452	11.04.08	11.04.11
George Watt	13,524 206,000	-	13,524 -	- 206,000	14.03.06 11.04.08	14.03.09 11.04.11

2007 Long-Term Incentive Plan
Approved by shareholders on 3 June 2007.

Name	Interests at 1 January 2009	Awarded in Year	Released in Year	Lapsed in Year	31 December 2009	Award Date	Release Date
Rob Woodward	122,998	-	-	-	122,998	12.07.07	12.07.10
George Watt	46,178	-	-	-	46,178	12.07.07	12.07.10

The market price on 14 March 2006 was £0.83 (2.5p share); on 12 July 2007 was £0.515 (2.5p share); on 11 April 2008 was £0.10 (2.5p share) and on 7 May 2009 was £0.64 (50p share). A 1 for 20 share consolidation exercise was undertaken on 1 October 2008.

2009 Long-Term Incentive Plan
Approved by shareholders on 22 April 2009.

Name	No. of units awarded	Award Date	Release Date
Rob Woodward	330,000	07.05.09	07.05.12
George Watt	190,000	07.05.09	07.05.12

The total number of units awarded to all participants was one million units.

Performance conditions

2006 and 2008 award

50% of the Awards are subject to comparative TSR performance ("TSR Award"). 50% of the TSR Award are subject to the Company's performance against the Competitor Group and 50% against the Comparator Group. 50% of the Award are subject to the average annual ROCE performance of the Company.

Competitor TSR Group		Comparator TSR Group			Average Annual ROCE Performance
Place	%age of Award	Quartile	%age of Award	Group ROCE	%age of Award
Position 5	0%	<Median	0%	10%	10%*
Position 4	25%	Median	25%	15%	50%*
Position 3	50%	Upper	100%	20%	100%*
Position 2	75%	Quartile			
Position 1	100%				

* Straight-line release between these points.

Competitor Group
British Sky Broadcasting plc, Chrysalis plc, EMAP plc, GCAP Media plc(1), ITV plc, Maiden Group plc, Ulster Television plc.

(1) 2006 Award only.

Comparator Group
Aegis Group plc, British Sky Broadcasting plc, Chrysalis plc, EMAP plc, Euromoney Institutional Investor plc, Future Network plc, GCAP Media plc(1), ITE Group plc, ITV plc, Johnston Press plc, Maiden Group plc, Photo-me International plc, St. Ives plc, T&F Informa plc, Taylor Nelson Sofres plc, Ulster Television plc, United Business Media plc.

(1) 2006 Award only.

2007 award

The 2007 LTIP grant has a performance criteria of absolute share price. The award is split into three parts and any part of the award not capable of release at a measurement point will be rolled over in to the next part of the award. The absolute share price targets, adjusted for the share price consolidation are as follows:

	Share Price Target (£)	% Release
Part 1	12.48 20.80	0% 100%
Part 2	16.64 24.96	0% 100%
Part 3	20.80 29.12	0% 100%

Performance conditions

2009 award

The Maximum Incentive Value will be adjusted to reflect the extent to which the TSR and ROCE targets have been achieved.

Part 1 – 50% of the Maximum Incentive Value may be adjusted based on the extent to which the TSR targets are achieved over the three year performance period as set out below:

TSR Performance of the Company Against Comparator Group	Maximum Incentive Value Vesting Percentage
<Median	0%
Median	12.5%*
Upper Quartile	50%*

* Straight-line vesting between points.

Part 2 – the remaining 50% of the Maximum Incentive Value may be adjusted based on the extent to which the ROCE targets are achieved over the three year performance period:

Group ROCE Performance	Maximum Incentive Value Vesting Percentage
<10%	0%
10%	5%*
20%	25%*
30%	50%*

* Straight-line vesting between points.

The ROCE targets will be set and measured excluding the onerous contract with Vue as this contract expires in 2010 which would be during the performance period which could distort the result.

Basis of Performance Condition Selection and Measurement

The Remuneration Committee took the following factors into account when deciding the appropriate ROCE performance condition for the 2009 awards:

- the median and upper quartile historic levels of ROCE for the Comparator Group companies;
- the projected ROCE for the Company provided by external analysts.

It is the view of the Committee that ROCE is an appropriate performance condition for part of the awards granted under the LTIP because:

- it is one of the key investment criteria used throughout the business and a consistent return enhances shareholder value over the medium to longer term;
- ROCE measures consistent value creation and is, therefore, a particularly valuable measure in a highly cyclical business;
- ROCE is a measure well understood by the executive team and something that they can directly influence.

Comparative TSR is viewed as an appropriate performance condition for part of the awards to be granted by the Remuneration Committee as it ensures that the executives have outperformed their peers over the measurement period in delivering shareholder value before being entitled to receive any of their awards irrespective of general market conditions. In terms of the Comparator Group, the Board believes it is appropriate to make part of the award conditional on the Company's performance compared to a wider group of companies from the Media Sector. Prior to release the Remuneration Committee will also ensure that the underlying financial performance of the Company is consistent with its TSR performance. The Remuneration Committee will provide a full explanation and justification at the time of the release of the element of the award subject to TSR and why it believes that the underlying financial performance of the Company is consistent with this TSR performance.

The Remuneration Committee determines whether the performance conditions for share awards or options are satisfied. Where the performance requirements are based on ROCE the Committee will use the principles behind the audited figures disclosed in the Company's financial statements, and may take advice from independent advisors as to whether any adjustments are required to ensure consistency in accordance with the terms of the performance conditions. Where the performance measure is Total Shareholder Return, Mercer Human Resource Services shall calculate the TSR in accordance with the rules of the LTIP and sign-off these figures prior to the release of any award.

By order of the Board
Vasa Babic Remuneration Committee Chairman
Pacific Quay
Glasgow G51 1PQ
25 February 2010

Accounts

Independent Auditors' Report to the Members of STV Group plc

We have audited the Consolidated Financial Statements of STV Group plc for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 32, the directors are responsible for the preparation of the Consolidated Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Consolidated Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Consolidated Financial Statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its loss and cash flows for the year then ended;

- have been properly prepared in accordance with IFRSs as adopted by the European Union; and

- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Report of the Directors for the financial year for which the Consolidated Financial Statements are prepared is consistent with the Consolidated Financial Statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

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

- 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 29, in relation to going concern; and

- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter
We have reported separately on the parent company financial statements of STV Group plc for the year ended 31 December 2009 and on the information in the Remuneration Committee Report that is described as having been audited.

Alan Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow

25 February 2010

Consolidated Income Statement

Year ended 31 December 2009

	Note	2009 Underlying results £m	2009 Exceptional items £m	2009 Results for year £m	2008 Underlying results £m	2008 Exceptional items £m	2008 Result for year £m
CONTINUING OPERATIONS							
Revenue	5	90.3	–	90.3	111.2	–	111.2
Net operating expenses before exceptional costs		(81.1)	–	(81.1)	(98.0)	–	(98.0)
Pension service credit	8	–	4.0	4.0	–	–	–
Onerous lease contracts	8	–	(3.4)	(3.4)	–	(3.1)	(3.1)
Cost of change	8	–	–	–	–	(1.3)	(1.3)
Writedown of inventory	8	–	–	–	–	(2.0)	(2.0)
Net operating expenses		(81.1)	0.6	(80.5)	(98.0)	(6.4)	(104.4)
Operating profit		9.2	0.6	9.8	13.2	(6.4)	6.8
Finance income		0.7	–	0.7	0.4	–	0.4
Finance costs – borrowings	9	(2.5)	–	(2.5)	(4.2)	–	(4.2)
– IAS 19 pension	9	(1.9)	–	(1.9)	1.9	–	1.9
		(3.7)	–	(3.7)	(1.9)	–	(1.9)
Profit before income tax		5.5	0.6	6.1	11.3	(6.4)	4.9
Income tax charge	11	(0.5)	(1.1)	(1.6)	(3.3)	–	(3.3)
Profit for the year from continuing operations		5.0	(0.5)	4.5	8.0	(6.4)	1.6
DISCONTINUED OPERATIONS							
(Loss)/profit for the year from discontinued operations	10	–	(13.3)	(13.3)	3.5	(32.5)	(29.0)
Profit/(loss) for the year		5.0	(13.8)	(8.8)	11.5	(38.9)	(27.4)
Earnings/(loss) per ordinary share							
– basic and diluted	13	13.7p		(24.1p)	25.7p		(61.3p)
Earnings per ordinary share from continuing operations							
– basic and diluted	13	13.7p		12.3p	17.9p		3.6p

The notes on pages 68 to 97 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	2009 £m	2008 £m
Loss for the year	(8.8)	(27.4)
Other comprehensive income:		
Actuarial loss on post employment benefit obligation	(8.0)	(30.2)
Deferred tax credit	2.2	8.1
Other comprehensive expense for the year net of tax	(5.8)	(22.1)
Total comprehensive expense for the year	(14.6)	(49.5)

Consolidated Balance Sheet

At 31 December 2009

	Note	2009 £m	2008 £m
ASSETS			
Non-current assets			
Property, plant and equipment	15	12.1	14.2
Goodwill and other intangible assets	14	8.2	8.2
Deferred income tax asset	22	11.8	12.3
		32.1	34.7
Current assets			
Inventories	16	47.0	41.9
Trade and other receivables	17	22.4	24.0
Cash and cash equivalents	18	14.3	13.0
Short-term bank deposits	18	0.5	1.0
		84.2	79.9
Assets classified as held for sale	10	12.1	18.8
Total assets		128.4	133.4
EQUITY			
Capital attributable to owners of parent			
Ordinary shares	24	18.3	18.0
Share premium	24	111.3	111.3
Merger reserve		173.4	173.4
Other reserve		0.5	0.7
Retained losses		(335.4)	(320.5)
Total equity		(31.9)	(17.1)
LIABILITIES			
Non-current liabilities			
Borrowings	20	–	53.8
Trade and other payables	19	1.2	0.1
Retirement benefit obligation	33	36.0	38.3
Provisions	23	3.7	3.9
		40.9	96.1
Current liabilities			
Borrowings	20	67.5	–
Trade and other payables	19	28.7	25.1
Current income tax liabilities		0.9	5.9
Provisions	23	1.1	1.5
		98.2	32.5
Liabilities directly associated with assets classified as held for sale	10	21.2	21.9
Total liabilities		160.3	150.5
Total equity and liabilities		128.4	133.4

The notes on pages 68 to 97 are an integral part of these Consolidated Financial Statements.
The Consolidated Financial Statements on pages 64 to 97 were approved by the Board on 25 February 2010 and were signed on its behalf by:

Rob Woodward
Chief Executive

George Watt
Chief Financial Officer

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

	Equity attributable to owners of the parent							
	Ordinary shares £m	Share premium £m	Merger reserve £m	Equity reserve £m	Other reserve £m	Minority interest £m	Retained earnings £m	Total Equity £m
Balance at 1 January 2009	18.0	111.3	173.4	-	0.7	-	(320.5)	(17.1)
Net loss for the year	-	-	-	-	-	-	(8.8)	(8.8)
Actuarial loss	-	-	-	-	-	-	(8.0)	(8.0)
Deferred tax thereon	-	-	-	-	-	-	2.2	2.2
Total comprehensive expense for the year	-	-	-	-	-	-	(14.6)	(14.6)
Own shares acquired	0.3	-	-	-	-	-	(0.3)	-
Equity-settled share based payments	-	-	-	-	(0.2)	-	-	(0.2)
Balance at 31 December 2009	**18.3**	**111.3**	**173.4**	**-**	**0.5**	**-**	**(335.4)**	**(31.9)**
Balance at 1 January 2008	23.8	136.3	173.4	2.5	1.2	(0.2)	(273.3)	63.7
Net loss for the year	-	-	-	-	-	-	(27.4)	(27.4)
Actuarial loss	-	-	-	-	-	-	(30.2)	(30.2)
Deferred tax thereon	-	-	-	-	-	-	8.1	8.1
Total comprehensive expense for the year	-	-	-	-	-	-	(49.5)	(49.5)
Capital return	(5.8)	(25.0)	-	-	-	-	-	(30.8)
Equity-settled share based payments	-	-	-	-	(0.5)	-	-	(0.5)
Minority interest written off	-	-	-	-	-	0.2	-	0.2
Movement in own shares	-	-	-	-	-	-	0.1	0.1
Release of hedging reserve	-	-	-	-	-	-	(0.3)	(0.3)
Equity reserve release	-	-	-	(2.5)	-	-	2.5	-
Balance at 31 December 2008	18.0	111.3	173.4	-	0.7	-	(320.5)	(17.1)

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Note	2009 £m	2008 £m
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (used)/generated by operations	26	(1.2)	2.1
Taxes received		–	1.9
Interest paid		(3.4)	(4.0)
Pension deficit funding – Recovery plan payment		(3.9)	(3.9)
– One-off disposal proceeds contribution		(4.0)	–
Net cash used by operating activities		(12.5)	(3.9)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		0.5	0.2
Net disposal of discontinued operations	25	–	46.9
Purchase of property, plant and equipment		(1.0)	(1.3)
Net cash (used)/generated by investing activities		(0.5)	45.8
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital return		–	(30.8)
Release of cash on deposit		0.5	–
Net borrowings drawn/(repaid)		13.7	(8.2)
Net cash generated/(used) by financing activities		14.2	(39.0)
Net increase in cash and cash equivalents		1.2	2.9
Net cash and cash equivalents at beginning of year		16.4	13.5
Net cash and cash equivalents at end of year	27	17.6	16.4

Although not required under IFRS the directors have provided the following reconciliation of net debt for further clarity. The net debt represents Group borrowings less cash and cash equivalents and short-term deposits.

Reconciliation of movement in net debt

Year ended 31 December 2009

	Note	2009 £m	2008 £m
Opening net debt		(36.4)	(47.1)
Movement in cash and cash equivalents in the year		1.2	2.9
Net cash (inflow)/outflow from movement in debt financing		(13.7)	8.2
Net movement in Escrow cash		(0.5)	(0.4)
Closing net debt	27	(49.4)	(36.4)

1. **General information**

STV Group plc ("the Company") is a company which is listed on the London Stock Exchange and is incorporated and domiciled in the UK. The address of the registered office is Pacific Quay, Glasgow, G51 1PQ. The nature of the Group's operations and its principal activities are set out in note 5.

2. **Significant accounting policies**

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

Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in note 4.

Changes in accounting policies and disclosures

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2009 and are relevant to the Group's results.

IAS 1 (revised)	Presentation of financial statements	The revised standard requires the presentation of a statement of changes in equity as a primary statement, separate from the income statement and statement of comprehensive income. As a result, a condensed Consolidated Statement of Changes in Equity has been included in the primary statements, showing changes in each component of equity for each period presented.
IFRS 8	Operating segments	IFRS 8 replaces IAS 14, Segment reporting. It requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in any changes in the operating segments reported by the Group.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2009 and are not relevant to the Group or had no material impact on the financial statements.

IFRS 7	Financial instruments – Disclosures (amendment)
IFRS 2 (amendment)	Share-based payment
IAS 23	Borrowing costs
IAS 32 (amendment)	Financial instruments: Presentation
IAS 39 (amendment)	Financial instruments: Recognition and measurement on hedged items
IFRS 1 (amendment)	First time adoption of IFRS

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not yet been applied to these financial statements were in issue but not yet effective:

IFRIC 17	Distribution of non-cash assets to owners
IAS 27 (amendment)	Consolidated and Separate Financial Statements
IFRS 3 (amendment)	Business combinations
IAS 38 (amendment)	Intangible assets
IFRS 5 (amendment)	Measurement of non-current assets
IFRS 2 (amendment)	Group cash-settled share-based payment transactions

The directors do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group.

Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the income statement in the period of acquisition. The interest in minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity or business at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually or whenever there is an indicator of impairment, and is deemed to have an indefinite life. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly controlled entity or business, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment. Goodwill written off to reserves under UK GAAP prior to 1998 has not been restated and is not included in determining any subsequent profit or loss on disposal.

Exceptional items

Exceptional items, as disclosed on the face of the income statement, are items which due to their material and non-recurring nature have been classified separately in order to draw them to the attention of the reader of the accounts and to show more accurately the underlying profits of the Group.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

2. Significant accounting policies continued

Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested at least annually or whenever there is an indicator of impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying value exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Property, plant and equipment

Land and buildings are stated in the balance sheet at cost less accumulated depreciation.

Plant, technical equipment and other assets are stated at cost less accumulated depreciation and recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation to residual value of fixed assets over their estimated useful lives, using the straight-line method, on the following bases:

Freehold buildings	between 2% and 4%
Plant and technical equipment	between 12.5% and 20%
Furniture and fittings	10%
Computers and computer related equipment	20%
Vehicles	between 10% and 20%

No depreciation is provided with respect to freehold land.

The lives of assets listed are reviewed and adjusted, if appropriate, at each balance sheet date.

Assets held under finance leases (including leasehold buildings) are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Costs in respect of operating leases are charged to the income statement on a straight-line basis over the lease term.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

2. Significant accounting policies continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less estimated costs of completion and the estimated selling costs.

Film rights, recorded programmes and films

Acquired film rights are valued at direct cost less appropriate provisions and are written off in line with the rights associated with individual contracts. For acquired film rights an asset is recognised as payments are made and in full when the acquired programming is available for transmission. Recorded programmes are valued at direct cost including labour and overheads, less appropriate provisions, and are written off after the first transmission or sale. Programming made for third parties is valued at cost, less appropriate provisions, and is charged to the income statement against related income.

Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and VAT. Revenue from the sale of goods is recognised when the Group has transferred the significant risks and rewards of ownership and control of the goods sold and the amount of revenue can be measured reliably. Key classes of revenue are recognised on the following basis:

Airtime revenue	on transmission
Sponsorship	evenly over the life of the contract
Programme production	on delivery

Revenue on barter transactions is recognised only when the goods or services being exchanged are of a dissimilar nature.

Taxation

The tax expense represents the sum of current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

2. Significant accounting policies continued

Dividends

The liability for final dividends is recorded when the dividends are approved by the Group's shareholders. For interim dividends, the liability is recorded when the dividends are paid.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the projected unit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full directly in retained earnings in the period in which they occur and presented in the statement of comprehensive income.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets.

Provisions

Cost of change provisions are recognised when the Group has a detailed formal plan for the reorganisation that has been communicated to affected parties. Provisions for onerous contracts are recognised when the Group has a detailed forecast of future losses from the contract.

Financial assets and liabilities

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(a) *Trade receivables*
Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. A provision is established for trade receivables if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

(b) *Investments*
Investments are measured at reporting dates at fair value.

(c) *Cash and cash equivalents*
Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(d) *Bank borrowings*
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(e) *Trade payables*
Trade payables are not interest bearing and are stated at their nominal value.

(f) *Equity instruments*
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

2. Significant accounting policies continued

(g) *Derivative financial instruments and hedge accounting*

The Group uses derivative financial instruments to hedge its exposures to fluctuations in interest and foreign exchange rates. Instruments accounted for as hedges are designated as a hedge at the inception of contracts.

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is re-performed at the end of each quarter end to ensure that the hedge remains highly effective.

The fair value of interest rate swaps is based on the market price (LIBOR) of comparable instruments at the measurement date. The fair value of currency swaps is based on forward exchange rates at the measurement date.

The fair value of the interest rate swap contract is calculated on a discounted cash flow basis using market forward rates. Gains or losses arising from the movement to fair value are taken to the income statement except where designated as a cash flow hedge.

For cash flow hedges, the effective part of changes in the fair value of the derivative is recognised in equity. The amounts accumulated in equity are transferred to the income statement in the same period as the hedged transaction occurs, for example when interest arising on floating rate debt is paid or the forecast sale or purchase transaction takes place. Any movements in fair value occurring after the time when hedging contracts cease to be cash flow hedges are taken directly to the income statement. Gains or losses relating to any ineffective part of changes in fair value are taken immediately to the income statement.

Share-based payments

The Group has not taken the optional exemption under IFRS 1, and on the basis that the fair value of equity instruments has previously been publicly disclosed, IFRS 2 has been fully retrospectively applied to all options granted but not fully vested at the relevant reporting date. As a result, the share-based payment charge for 2009 includes all options granted and not fully vested at 31 December 2009, rather than only the value of options granted since 7 November 2002 (the effective date of IFRS 2). This approach is encouraged in the standard and gives a better indication of how past and future results are affected by IFRS 2.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will ultimately vest.

Fair value is measured by use of the Black & Scholes model or Monte Carlo model as relevant. The expected lives used in the model have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

3. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: currency risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating divisions. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of financial instruments and investing excess liquidity.

(a) *Currency risk*

The Group operates almost wholly within the UK and is exposed to minimal foreign exchange risk. Foreign currency exchange risk arises primarily with respect to the Euro, US dollar and the Swiss franc. Foreign currency exchange risk arises from future commercial transactions and trade assets and liabilities in foreign currencies. No further active management of currency risk is required.

(b) *Credit risk*

Credit risk is the risk of losses due to the failure of the Group's customers to meet their payment obligations towards the Group. The Group has no significant concentration of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. Independent credit ratings are sought for all potential customers and based on the outcome of the feedback from the ratings agency a judgement is made on the appropriate level of credit to be given. Derivative transaction counterparties are limited to high-credit-quality financial institutions.

(c) *Liquidity risk*

Liquidity risk is the risk that the Group will be unable to meet its payment obligations. Prudent liquidity management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the nature of the underlying business, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Group's liquidity reserve (comprises of the undrawn borrowing facility (note 18) and cash and cash equivalents (note 16)) on the basis of expected cash flow. This is generally carried out at a group level. In addition, the Group's liquidity management policy includes projecting cash flows and considering the level of liquid assets necessary to meet these: monitoring balance sheet liquidity ratios against internal targets and bank facility requirements; and maintaining debt financing plans.

(d) *Cash flow interest rate risk*

As the Group has no significant interest bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at short-term fixed rates expose the Group to cash flow interest rate risk. Group policy is to maintain between 40% and 60% of its borrowings in fixed rate instruments. This policy is being reviewed at present due to the significant volatility experienced in money markets.

A monthly sensitivity analysis is carried out, and on the level of borrowings of the Group at 31 December 2009, a movement of 0.25% in interest rates would change the level of interest paid in the year by +/– £0.2m (2008: £0.1m).

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowing from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rate directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specific intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

3. Financial risk management continued

(e) *Capital risk management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital.

	2009 £m	2008 £m
Total borrowings (note 20)	67.5	53.8
Less: cash and cash equivalents	(18.1)	(17.4)
Net Debt	49.4	36.4
Total equity	(31.9)	(17.1)
Total capital	17.5	19.3
Gearing ratio	282%	189%

Cash and cash equivalents includes cash held within discontinued operations and short-term deposits.

4. Critical accounting estimates and judgements

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Critical accounting estimates and assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Details of the impairment testing are set out in note 14.

(b) *Pension benefits*

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 33.

4. Critical accounting estimates and judgements continued

(c) *Provisions*

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. The Group considers the costs of onerous contract taking into account any mitigating income, and identifies the overall potential losses. A provision is then made against all future losses expected over the life of the contract.

Critical judgements in applying the entity's accounting policies

The directors have not made any further critical judgements, apart from those involving estimations (which are dealt with separately above), in the process of applying the Group's accounting policies.

5. Business segments

The Group's Chief Executive, the chief operating decision maker, considers the business primarily from a product perspective. Under IFRS 8, the reportable segments are therefore Broadcasting, Content, Ventures and Cinema advertising (Cinema), which has not resulted in any material changes from IAS 14.

The performance of the segments is assessed based on a measure of adjusted operating profit. This measurement basis excludes the effects of exceptional items such as restructuring costs.

The Group put its Cinema and Radio businesses up for sale on 13 September 2006 and 12 April 2007 respectively. Cinema continues to meet all the conditions to be classified as held for sale and is therefore classed as discontinued operations. The completion of the Radio disposal occurred on 30 June 2008.

	External sales	
	2009	2008
SEGMENT REVENUES	**£m**	£m
Continuing operations		
Broadcasting	**77.8**	89.0
Content	**8.1**	16.1
Ventures	**4.4**	6.1
	90.3	111.2
Discontinued operations		
Cinema	**19.9**	22.0
Radio	**–**	11.3
	19.9	33.3
	110.2	144.5

Turnover in 2009 includes £1.6m of revenues from sources outside the UK (2008: £1.1m).

5. Business segments continued

SEGMENT RESULT	Underlying segment result 2009 £m	Underlying segment result 2008 £m	Exceptional items 2009 £m	Exceptional items 2008 £m	Segment result 2009 £m	Segment result 2008 £m
Continuing operations						
Broadcasting	7.6	9.7	–	(2.0)	7.6	7.7
Content	0.9	2.9	–	–	0.9	2.9
Ventures	0.7	0.6	–	(1.3)	0.7	(0.7)
	9.2	13.2	–	(3.3)	9.2	9.9
Exceptional onerous lease provision attributable to Group					(3.4)	(3.1)
Exceptional pension servce credit attributable to Group					4.0	–
Operating profit					9.8	6.8
Financing					(3.7)	(1.9)
Profit before tax					6.1	4.9
Tax charge					(1.6)	(3.3)
Profit for the year from continuing operations					4.5	1.6
Discontinued operations						
Cinema	–	0.1	(13.3)	(15.0)	(13.3)	(14.9)
Radio	–	1.4	–	–	–	1.4
	–	1.5	(13.3)	(15.0)	(13.3)	(13.5)
Attributable tax credit	–	2.0	–	–	–	2.0
	–	3.5	(13.3)	(15.0)	(13.3)	(11.5)
Loss on disposal of discontinued operations					–	(17.5)
Loss for the year from discontinued operations					(13.3)	(29.0)
Net loss attributable to equity shareholders					(8.8)	(27.4)

Operating profit in 2009 includes £0.9m arising outside the UK (2008: £0.6m).

The result of discontinued operations for 2009 includes an IFRS 5 adjustment relating to depreciation of £nil (2008: £0.5m) which ceased to be charged when the businesses were classified as held for sale.

In 2008, the exceptional items in Broadcasting and Ventures respectively related to a £2.0m stock writedown and a £1.3m cost of change provision which saw all remaining balances of PeoplesChampion.com and Smartycars.com being written off.

In 2009, the exceptional item in Cinema of £13.3m relates to an increase in the Vue onerous contract provision reflecting weaker than anticipated trading (2008: £15.0m). The loss on disposal of discontinued operations related to the sale of Virgin Radio in 2008 (see note 10).

5. Business segments continued

SEGMENT ASSETS AND LIABILITIES	Assets 2009 £m	Assets 2008 £m	Liabilities 2009 £m	Liabilities 2008 £m
Broadcasting	61.7	65.1	18.2	16.5
Content	32.2	29.0	1.8	3.1
Ventures	2.6	2.5	0.5	0.5
Cinema	12.1	18.8	21.2	21.9
Total of all segments	108.6	115.4	41.7	42.0
Unallocated corporate	19.8	18.0	118.6	108.5
Consolidated	128.4	133.4	160.3	150.5

OTHER SEGMENT INFORMATION	Broadcasting 2009 £m	Broadcasting 2008 £m	Content 2009 £m	Content 2008 £m	Ventures 2009 £m	Ventures 2008 £m	Cinema 2009 £m	Cinema 2008 £m
Capital additions	0.6	1.1	-	-	0.4	0.2	-	-
Depreciation	2.4	2.2	-	-	0.2	0.4	-	-

Segment assets consist primarily of goodwill, property, plant and equipment, inventories, trade and other receivables and cash and bank deposits. They exclude deferred tax assets.

Segment liabilities comprise operating liabilities (including trade and other payables and provisions). They exclude Group borrowings, retirement benefit obligations, tax liabilities, dividends payable and other non-current liabilities.

All the net assets in 2008 and 2009 were held in the UK and therefore operates in a single geographical segment.

6. Operating expenses by nature

	2009 £m	2008 £m
Changes in inventories	(5.1)	1.6
Other external charges	86.9	101.7
Staff costs	16.4	17.6
Depreciation	2.6	2.6
Operating lease charges:		
– plant and machinery	2.2	2.6
– other	2.1	3.3
Other operating charges	0.2	0.4
	105.3	129.8
Attributable to:		
Continuing	81.1	98.0
Discontinued	24.2	31.8
	105.3	129.8

Services provided by the Group's auditor

During the year the Group obtained the following services from the Company's auditor:

	2009 £m	2008 £m
Group		
Fees payable to Company auditor for the audit of parent company and Consolidated Financial Statements	0.1	0.2
Fees payable to the Company's auditor and it's associates for other services:		
– The audit of Company's subsidiaries pursuant to legislation	0.1	–
– Other services pursuant to legislation	0.1	0.4
– Tax services	0.2	0.3
– Other	0.1	–
	0.6	0.9

Included in the audit fees payable is £5k (2008: £5k) paid in respect of the parent company. The audit of Company's subsidiaries pursuant to legislation includes an amount of £16k (2008: £16k) for the audit of pension schemes.

Other services pursuant to legislation include fees for interim review.

Other non-audit services comprise employee benefit advisory services.

7. Staff costs

The average monthly number of employees (including executive directors) was:

	2009 Number	2008 Number
Broadcasting, Content, Ventures		
Established	349	351
Contract	20	29
	369	380
Cinema		
Established	39	37
Contract	1	1
	40	38
Radio		
Established	–	94
Contract	–	5
	–	99
Total	409	517

Contract staff numbers consist of employees on fixed-term contracts.

Their aggregate remuneration comprised:

	2009 £m	2008 £m
Wages and salaries	11.9	16.6
Social security costs	1.2	1.5
Retirement benefit obligation (see note 33)	3.3	(0.5)
	16.4	17.6

Included within the retirement benefit obligation above is a £1.4m pension cost (2008: £1.4m) and a £1.9m interest cost (2008: £1.9m credit). The interest element is included within finance costs on the face of the income statement.

8. Exceptional items

i) Pension service credit

A past service pension credit (net of pension costs) of £4.0m has been recognised in the year in relation to changes made to the Scottish and Grampian Television Retirement Benefit Scheme.

ii) Onerous lease contracts

A provision of £3.1m was provided in 2008 in respect of a shortfall on a sub-lease of surplus property at the Group's Pacific Quay, Glasgow premises. A further £2.7m has been provided during the year. The space had become surplus to operational requirements following headcount reductions. £0.7m has been also provided in 2009 in respect of the lease of non-core properties.

iii) Cost of change

A provision of £1.3m was recognised in 2008 in relation to restructuring within Ventures division with all remaining balances relating to PeoplesChampion.com and Smartycars.com being written off.

iv) Writedown of inventory

A stock writedown of £2.0m was recognised in 2008 in relation to ITV1 network stock write-offs.

9. Finance costs

	2009 £m	2008 £m
Interest expense:		
Bank borrowings	2.5	4.2
Pension finance charge/(credit)	1.9	(1.9)
	4.4	2.3

10. Discontinued operations

Cinema continues to meet all the conditions to be classified as held for sale and is therefore classed as discontinued operations. The completion of the Radio disposal occurred on 30 June 2008.

	2009 £m	2008 £m
Post tax results from discontinued operations (see note 5)	(13.3)	(29.0)

Exceptional items included within the results are as follows:

Onerous contract provision

A provision of £15.0m was made in 2008 to cover future losses expected from the Vue contract within Cinema division. A further £13.3m provision has been recognised during the year.

Loss on disposal of discontinued operations

On 30 June 2008, the Group completed the sale of its Radio business, Virgin Radio, to TIML Golden Square Ltd ("TIML") for a gross cash consideration of £53.2m resulting in a loss on disposal of £17.5m.

Cash flows from discontinued operations	2009 £m	2008 £m
Net cash flows from operating activities	(9.1)	(4.8)
Net cash flows from investing activities	–	–
	(9.1)	(4.8)

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2009 £m	2008 £m
Property, plant and equipment	–	0.1
Trade and other receivables	8.8	11.6
Cash and cash equivalents	3.3	3.4
Tax	–	3.7
Total assets classified as held for sale	12.1	18.8
Trade and other payables	6.9	5.8
Provisions for liabilities and charges	14.3	16.1
Total liabilities associated with assets classified as held for sale	21.2	21.9
Net liabilities of disposal group	(9.1)	(3.1)

11. Tax

	2009 £m	2008 £m
Current tax:		
UK corporation tax on profit for the period	–	–
UK corporation tax adjustment in respect of prior years	(1.1)	–
	(1.1)	–
Deferred tax:		
Origination and reversal of timing differences	2.7	1.3
Tax charge for the year	1.6	1.3
Attributable to:		
Continuing operations	1.6	3.3
Discontinued operations	–	(2.0)
	1.6	1.3

The charge for the year can be reconciled to the profit/(loss) per the income statement as follows:

	2009 £m	2008 £m
Profit before tax from continuing operations	6.1	4.9
Loss before tax from discontinued operations	(13.3)	(31.0)
Loss before tax	(7.2)	(26.1)
Tax at the UK corporation tax rate of 28% (2008: 28.5%)	(2.0)	(7.4)
Other expenses not deductible for tax purposes	0.4	0.1
Tax losses for which no deferred tax is recognised	2.8	–
Adjustments to tax charge in respect of previous periods	(0.7)	–
Tax effect of exceptional items	1.1	8.6
Tax (credit)/charge for the year	1.6	1.3

A deferred tax asset of £19.0m (2008: £15.6m), which is due to tax losses and short-term timing differences, has not been recognised, as suitable income may not be available to utilise this asset in the foreseeable future.

12. Dividends

No dividend is proposed by the Board for the years ended 31 December 2008 and 2009.

13. Earnings per share

Basic earnings per share ("EPS"), is calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Company and held as treasury shares.

In order to calculate diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Company has one type of dilutive potential ordinary shares namely share options granted to employees.

EPS has been presented below both including and excluding exceptional items in order to provide a fuller understanding of the Group's underlying performance.

	2009 Earnings £m	2009 Weighted average number of shares (m)	2009 Per share Pence	2008 Earnings £m	2008 Weighted average number of shares (m)	Restated Per share Pence
Basic underlying EPS:						
Earnings attributable to ordinary shareholders	5.0	36.5	13.7p	11.5	44.7	25.7p
EPS from continuing operations						
Basic EPS	5.0	36.5	13.7p	11.5	44.7	25.7p
Pre-tax (profit) from discontinued operations	–		–	(1.5)		(3.3p)
Tax relating to discontinued operations	–		–	(2.0)		(4.5p)
Basic underlying EPS from continuing operations	5.0	36.5	13.7p	8.0	44.7	17.9p
Basic EPS						
EPS including exceptional items:						
Earnings attributable to ordinary shareholders (including exceptional items)	(8.8)	36.5	(24.1p)	(27.4)	44.7	(61.3p)
EPS from continuing operations						
Basic EPS	(8.8)	36.5	(24.1p)	(27.4)	44.7	(61.3p)
Pre-tax loss from discontinued operations	13.3		36.4p	31.0		69.4p
Tax relating to discontinued operations	–		–	(2.0)		(4.5p)
Basic EPS from continuing operations	4.5	36.5	12.3p	1.6	44.7	3.6p
EPS from discontinued operations						
Basic EPS						
Pre-tax (loss) from discontinued operations	(13.3)	36.5	(36.4p)	(31.0)	44.7	(69.4p)
Tax relating to discontinued operations	–		–	2.0		4.5p
Basic EPS from discontinued operations	(13.3)	36.5	(36.4p)	(29.0)	44.7	(64.9p)

There is no difference between basic and diluted EPS as there is no material impact from dilutive share options.

14. Goodwill and other intangible assets

	Goodwill £m	Other £m	Total £m
Cost			
At 1 January and 31 December 2009	10.6	0.3	10.9
Accumulated amortisation			
At 1 January and 31 December 2009	2.7	-	2.7
Net book amount at 1 January and 31 December 2009	7.9	0.3	8.2

Goodwill comprises capitalised goodwill on acquisitions completed since 1 January 1998. Other intangible assets of £0.3m (2008: £0.3m) relate to capitalised software costs.

Impairment tests for cash-generating units containing goodwill

The following units have significant carrying amounts of goodwill:

	2009 £m	2008 £m
Content business	**7.9**	7.9

Impairment Tests for Goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment.
All goodwill recognised at the year end relates to Content.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use post-tax cash flow projections based on financial budgets approved by management covering a four year period. Cash flows beyond the four year period are extrapolated using an estimated growth rate of 2%. The growth rate is not considered to exceed the long-term average growth rate for the media business in which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

Growth rate	2.00%
Discount rate (post-tax)	10.00%

Management determined Net Cash Flow based on past performance and its expectations of market development.
No impairment charge is considered to have arisen this year.

15. Property, plant and equipment

	Land and buildings leasehold £m	Plant, technical equipment and other £m	Total £m
Cost			
At 1 January 2008	0.4	53.8	54.2
Additions	–	1.3	1.3
Disposals	–	(0.3)	(0.3)
At 1 January 2009	0.4	54.8	55.2
Additions	–	1.0	1.0
Fully written down	(0.2)	(32.4)	(32.6)
Disposals	–	(0.5)	(0.5)
At 31 December 2009	**0.2**	**22.9**	**23.1**
Accumulated depreciation and impairment			
At 1 January 2008	0.1	38.8	38.9
Charge for year	0.2	2.4	2.6
Disposals	–	(0.5)	(0.5)
At 1 January 2009	0.3	40.7	41.0
Charge for year	–	2.6	2.6
Fully written down	(0.2)	(32.4)	(32.6)
At 31 December 2009	**0.1**	**10.9**	**11.0**
Net book value at 31 December 2009	**0.1**	**12.0**	**12.1**
Net book value at 31 December 2008	0.1	14.1	14.2

Following a review of the fixed asset register, fully written down assets with a £nil net book value and an original cost of £32.6m were written off during the year.

16. Inventories

	2009 £m	2008 £m
Film rights	**12.8**	16.3
Recorded programmes and films	**34.2**	25.6
	47.0	41.9

Inventories recognised as an expense during the year are included within operating expenses analysed in note 6.

Included within the above is £nil (2008: £nil) of inventories held at fair value less costs to sell.

17. Trade and other receivables

	2009 £m	2008 £m
Trade receivables	8.2	8.7
Less: Provision for impairment of receivables	–	(0.2)
Trade receivables – net	8.2	8.5
Prepayments and accrued income	8.6	10.5
Other receivables	5.6	5.0
	22.4	24.0

As of the 31 December 2009, trade receivables of £0.6m (2008: £1.6m) are past due. These are net of a provision for bad debts of £nil (2008: £0.2m). Trade receivables relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of the trade receivables is as follows:

		2009		2008
	Gross £m	Provision £m	Gross £m	Provision £m
Up to 3 months	7.9	–	7.8	–
3 to 5 months	0.1	–	0.1	–
Over 5 months	0.2	–	0.8	(0.2)
	8.2	–	8.7	(0.2)

The directors consider that the carrying amount of trade and other receivables approximates their fair value. All receivables are expected to be recovered.

18. Cash and cash equivalents

	2009 £m	2008 £m
Cash and cash equivalents	14.3	13.0
Short-term deposits	0.5	1.0

The short-term bank deposit relates to £0.5m (2008: £1.0m) placed in Escrow in relation to certain planning consents currently being sought by Primesight.

19. Trade and other payables

	2009 £m	2008 £m
Amounts falling due within one year		
Trade and other payables	12.7	20.3
Social security and other taxes	2.7	1.2
Other payables	13.3	3.6
	28.7	25.1
Amounts falling due after one year		
Trade and other payables	1.2	0.1

The directors consider that the carrying amount of trade and other payables approximates their fair value.

The Company's policy is to settle the terms of payment with suppliers by inclusion of the relevant terms in contracts; and to pay in accordance with its contractual and other legal obligations. Trade creditors of the Group at 31 December 2009 were equivalent to 49 days of purchases (2008: 45 days).

20. Borrowings

	2009 £m	2008 £m
Bank loans	67.5	53.8

The borrowings are repayable as follows:

Expiring within 1 year	67.5	–
Expiring in 2 to 5 years	–	53.8

All undrawn committed borrowing facilities are repayable within two to five years (2008: two to five years).

The directors consider that the value of current borrowings approximate their fair value.

The effective interest rates were as follows:

	2009 %	2008 %
Bank loans (floating)	5.0	8.3

A new £90.0m five-year credit facility was entered into on 27 December 2007, expiring 31 December 2012. The facility consists of a £40.0m term facility, £45.0m revolving credit facility and £5.0m overdraft. Security has been provided to the debt provider under this new facility by way of cross guarantees and a share pledge.

As a consequence of the sale of Virgin Radio, on 30 June 2008, the credit facility was reduced to £75.0m.

At 31 December 2009 £5.0m (2008: £20.0m) of the bank facility remains undrawn.

As at 31 December 2009, the Company had bank facilities in place totalling £75.0m consisting of a £25.0m term facility, £45.0m revolving credit facility and £5.0m overdraft. The facilities were due to expire on 31 December 2012 with amortisation of the revolving credit facility commencing on 30 September 2010. In November 2009, the Company commenced discussions with its lender to amend the covenant suite included in the facility to reflect the continuing cash impact of the Vue contract and potential disposal of Pearl & Dean. The revised banking facilities were agreed on 3 February 2010 with the covenant compliance certificate due on 30 January delayed with lender consent until the revised facility was agreed and submitted on 4 February 2010. Under IAS 1 (revised) para 74, renegotiation of the bank facilities on 3 February 2010 represents a non-adjusting post-balance sheet event and consequently the borrowings have all been classified as current liabilities as at 31 December 2009. The renegotiated facilities total £78.9m and comprise a £55.0m term facility, £20.0m revolving credit facility and £3.9m standby facility in relation to Pearl & Dean with the facility expiry date unchanged at 31 December 2012 and amortisation of the revolving credit facility commencing on 31 December 2010.

21. Financial instruments

In accordance with IAS 39, Financial instruments: Recognition and measurement, the Group has reviewed any contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. The Group had no such embedded derivatives during the year.

Foreign exchange

The Group has minimal exposure to foreign exchange risk and it is Group policy to ensure that all material payments or receipts are fully hedged. At 31 December 2009 the Group had no forward foreign exchange contracts in place (2008: nil).

22. Deferred tax

The movement in deferred tax assets and liabilities during the year, taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Total £m
At 1 January 2009	(1.0)	(11.3)	(12.3)
(Credit)/Charge to income	(0.5)	3.2	2.7
Credit to equity	–	(2.2)	(2.2)
	(1.5)	(10.3)	(11.8)
Assets held for resale	–	–	–
At 31 December 2009	**(1.5)**	**(10.3)**	**(11.8)**

The following is the analysis of the current deferred tax balances:

	2009 £m	2008 £m
Deferred tax asset:		
Deferred tax to be recovered after more than one year	**(11.6)**	(12.0)
Deferred tax to be recovered within one year	**(0.2)**	(0.3)
	(11.8)	(12.3)
Net deferred tax asset	**(11.8)**	(12.3)

23. Provisions

	Cost of change Provisions **2009 £m**	Cost of change Provisions 2008 £m	Other Provisions **2009 £m**	Other Provisions 2008 £m	Total Provisions **2009 £m**	Total Provisions 2008 £m
At 1 January	**0.7**	3.0	**4.7**	3.1	**5.4**	6.1
Provided during the year	**–**	1.3	**3.4**	3.1	**3.4**	4.4
Utilised during the year	**(0.6)**	(3.6)	**(3.4)**	(1.5)	**(4.0)**	(5.1)
At 31 December	**0.1**	0.7	**4.7**	4.7	**4.8**	5.4

The provisions are expected to be utilised:

	Cost of change Provisions **2009 £m**	Cost of change Provisions 2008 £m	Other Provisions **2009 £m**	Other Provisions 2008 £m	Total Provisions **2009 £m**	Total Provisions 2008 £m
Within one year	**0.1**	0.7	**1.0**	0.8	**1.1**	1.5
Greater than one year	**–**	–	**3.7**	3.9	**3.7**	3.9
	0.1	0.7	**4.7**	4.7	**4.8**	5.4

A cost of change provision of £1.3m was recognised in 2008 in relation to restructuring within Ventures division with all remaining balances relating to PeoplesChampion.com and Smartycars.com being written off.

Other provisions consist of property provisions for both Pacific Quay and non-core properties. A provision of £3.1m was provided in 2008 in respect of a shortfall on a sub-lease of surplus property at the Group's Pacific Quay, Glasgow premises. A further £2.7m has been provided during the year. The space had become surplus to operational requirements following headcount reductions and the closure of Setanta Sports. £0.7m has also been provided in 2009 in respect of the lease of non-core properties.

24. Share capital and premium

	Number of shares (thousands)	Ordinary shares £m	Share premium £m	Total £m
At 1 January 2009	36,019	18.0	111.3	129.3
Issued during the year	700	0.3	-	0.3
At 31 December 2009	**36,719**	**18.3**	**111.3**	**129.6**

The total authorised number of ordinary shares is 37 million shares (2008: 36 million shares) with a par value of £0.50 per share (2008: £0.50 per share). All issued shares are fully paid.

The Group issued 700,000 shares during the year (2% of the total ordinary share capital issued) as part of Employee Loyalty awards and these were issued at par value.

25. Disposal of discontinued operations

As referred to in note 10, on 30 June 2008 the Group disposed of its interest in Virgin Radio.

The assets of Virgin Radio at the date of disposal were as follows:

	30 June 2008 £m
Property, plant and equipment	3.2
Investments	0.1
Trade and other receivables	10.8
Cash and cash equivalents	1.1
Trade and other payables	(5.4)
Tax liabilities	(0.1)
Attributable goodwill	55.8
Working capital adjustment agreed as part of disposal	(0.2)
	65.3
Disposal expenses	5.4
Loss on disposal	(17.5)
Total consideration	53.2
Satisfied by:	
Cash	53.2
Net cash inflow arising on disposal:	
Cash consideration	46.9

26. Cash (used)/generated by operations

	2009 £m	2008 £m
Continuing operations		
Operating profit (before exceptional items)	9.2	13.2
Depreciation and other non-cash items	2.8	1.7
Operating cash flows before exceptional items and movements in working capital	12.0	14.9
Increase in inventories	(5.1)	(3.6)
Decrease in trade and other receivables	1.6	1.7
Increase/(decrease) in trade and other payables	3.4	(1.4)
	11.9	11.6
Costs of change costs and onerous property costs	(4.0)	(4.7)
Cash generated by continuing operations	7.9	6.9
Discontinued operations		
Operating profit (before exceptional items)	–	1.5
Depreciation and other non-cash items	–	(1.2)
Operating cash flows before exceptional costs and movements in working capital	–	0.3
Decrease in trade and other receivables	2.8	5.9
Increase/(decrease) in trade and other payables	1.1	(3.0)
	3.9	3.2
Onerous contract costs	(13.0)	(8.0)
Cash used by discontinued operations	(9.1)	(4.8)
Cash (used)/generated by operations	(1.2)	2.1

27. Analysis of movements in net debt

	At 1 January 2009 £m	Cash flow £m	At 31 December 2009 £m
Cash and cash equivalents (note 18)	13.0	1.3	14.3
Cash and cash equivalents included in the disposal groups held for sale (note 10)	3.4	(0.1)	3.3
	16.4	1.2	17.6
Bank borrowings (note 20)	(53.8)	(13.7)	(67.5)
Short-term deposits (note 18)	1.0	(0.5)	0.5
Net debt	(36.4)	(13.0)	(49.4)

28. Capital commitments

At 31 December 2009 the Group had no contracted for but not provided capital commitments (2008: nil).

29. Operating lease commitments

	2009 £m	2008 £m
Operating lease payments recognised in income for the year	4.3	5.9

At 31 December the Group had minimum commitments in respect of non-cancellable operating leases for leasehold buildings as follows:

	2009 £m	2008 £m
Expiring within two to five years	0.8	0.2
Expiring in over five years	26.2	39.4
	27.0	39.6

30. Contingent liabilities

The Group has a 100% holding in both Scottish Media Group (Holdings) and Dawn Chorus Holdings, which are unlimited companies.

31. Litigation

In September 2009, ITV plc and other ITV entities launched a claim against STV Group plc and subsidiaries for £15-20m (net) primarily in relation to opt-out programming. STV is vigorously defending this claim and has launched a counterclaim under the Advertising Sales Agreement. In November 2009, STV Group plc launched an additional claim in relation to the exploitation of new media rights. STV Group asserts that despite new media rights being acquired and held for the benefit of all channel 3 licensees, ITV Network Limited and ITV Broadcasting Limited have entered into commercial agreements without obtaining STV Group's consent. These commercial agreements use and exploit new media rights in STV Central and STV North's licence areas. STV is preparing to launch a third in relation to significant prejudicial behaviour by ITV network and ITV plc against STV Group plc and its subsidiaries. The various legal claims result in a maximum potential cash outflow of £17.9m should STV be unsuccessful in all claims and a related unprovided contingent liability for accounting purposes of £8.3m. STV has a potential contingent asset of £9.6m which has not been recognised in the financial statements and which will arise in the event that it is successful in its defence of ITV's initial claim. Further contingent assets may arise under STV's counterclaim under the Advertising Sales agreement, its claim in relation to the exploitation of new media rights and its potential claim in relation to alleged prejudicial behaviour by ITV. However it is not practicable to quantify the total potential financial effect of these claims and potential claim at this stage.

32. Transactions with related parties

There were no transactions with any related parties during the year.

Key management personnel are deemed to be the executive and non-executive directors of the Group, as they have authority and responsibility for controlling the Group's activities.

Key management remuneration is detailed as follows:

	2009 £m	2008 £m
Salaries and short-term employee benefits	0.9	1.3

There have been no other transactions with key management personnel as defined under IAS 24.

33. Retirement benefit schemes

Defined contribution schemes

The Group operates two money purchase schemes, the SMG Pension Scheme and the Pearl & Dean Cinemas Pension Scheme, for which the pension cost charge for the year amounted to £0.4m (2008: £0.3m).

Defined benefit schemes

The Group operates two defined benefit pension schemes. The schemes are trustee administered and the schemes' assets are held independently of the Group's finances. Pension costs are assessed in accordance with the advice of an independent professionally qualified actuary.

33. Retirement benefit schemes continued

The schemes are the Scottish and Grampian Television Retirement Benefit Scheme and the Caledonian Publishing Pension Scheme. They are closed schemes and therefore under the projected unit method the current service cost will increase as the members of the scheme approach retirement.

A full actuarial valuation of the schemes was carried out at 1 January 2009 and updated to 31 December 2009 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31 December 2009	At 31 December 2008
Rate of increase in salaries	1.0%	3.3%
Rate of increase of pensions in payment	3.4%	2.8%
Discount rate	5.7%	6.6%
Inflation	3.4%	2.8%

Mortality rate

Assumptions regarding future mortality experience are set based on advice, published statistics and experience in each territory.

The average life expectancy in years of a pensioner retiring at age 65 is as follows:

	At 31 December 2009 Years	At 31 December 2008 Years
Retiring at balance sheet date:		
Male	15.0	15.0
Female	17.9	17.9
Retiring in 20 years:		
Male	16.6	16.6
Female	19.5	19.5

Amount charged to operating profit

	2009 £m	2008 £m
Current service cost – defined benefit	(1.0)	(1.1)

The total amount charged to profit from operations is £1.4m (2008: £1.4m), which also includes the defined contribution charge of £0.4m (2008: £0.3m).

Actuarial gains and losses have been included in the statement of comprehensive income.

Amount (charged)/credited to net finance costs	At 31 December 2009 £m	At 31 December 2008 £m
Expected return on scheme assets	14.4	18.1
Interest cost	(16.3)	(16.2)
	(1.9)	1.9

Amount recognised in statement of recognised income and expense

	2009 £m	2008 £m
Actual return less expected return on pension assets	21.1	(58.2)
Experience gains and losses	29.1	(28.0)
Changes in assumptions	(58.2)	56.0
	(8.0)	(30.2)

33. Retirement benefit schemes continued

The fair value of the assets in the schemes, the present value of the liabilities in the schemes and the expected rate of return at each balance sheet date was:

	At 31 December 2009 £m	At 31 December 2008 £m	At 31 December 2007 £m	At 31 December 2006 £m	At 31 December 2005 £m
Equities	122.9	108.6	143.2	145.9	146.2
Bonds	120.9	106.7	121.9	114.7	109.6
Fair value of schemes' assets	243.8	215.3	265.1	260.6	255.8
Present value of defined benefit obligations	(279.8)	(253.6)	(279.1)	(307.3)	(308.8)
Deficit in the schemes	(36.0)	(38.3)	(14.0)	(46.7)	(53.0)
Equities	8.0%	8.0%	8.0%	8.4%	8.0%
Bonds	4.5%-5.7%	3.7%-6.6%	4.4%-6.1%	4.6%-5.2%	4.1%-4.9%

A related offsetting deferred tax asset of £10.3m (2008: £11.3m) is included under non-current assets. Therefore the net pension scheme deficit amounts to £25.7m at 31 December 2009 (31 December 2008: £27.0m).

The movement in the aggregate scheme deficits during the year was principally due to the movement of return assets being different from expectation. This was largely offset by the movement in liabilities.

The movement in the fair value of the schemes' assets during the year is shown as follows:

	2009 £m	2008 £m
At 1 January	215.3	265.1
Expected return on plan assets	14.4	18.1
Actuarial gains/(losses)	21.1	(58.2)
Employer contributions	9.0	5.0
Employee contributions	0.3	0.5
Benefits paid from plan/Company	(16.3)	(15.2)
At 31 December	243.8	215.3

Movement in the defined benefit obligation is as follows:

	2009 £m	2008 £m
At 1 January	253.6	279.1
Current service cost	1.0	1.1
Interest cost	16.3	16.2
Contributions from plan participants	0.3	0.5
Past service cost	(4.3)	–
Actuarial losses/(gains)	29.1	(28.0)
Benefits paid from plan/Company	(16.2)	(15.3)
At 31 December	279.8	253.6

The actual return on plan assets for the year was (£35.5m) (2008: (£40.1m)).

33. Retirement benefit schemes continued

History of experience gains and losses

	At 31 December 2009	At 31 December 2008	At 31 December 2007	At 31 December 2006	At 31 December 2005
Difference between the expected and actual return on scheme assets:					
Amount (£m)	**21.1**	(58.2)	(8.2)	(1.9)	22.4
Percentage of scheme assets	**9%**	(27%)	(3%)	(1%)	9%
Experience gains and losses on scheme liabilities:					
Amount (£m)	**29.1**	(28.0)	(32.9)	(7.1)	(22.2)
Percentage of the present value of scheme liabilities	**10%**	(11%)	(12%)	(2%)	(7%)
Total amount recognised in Consolidated Statement of Comprehensive Income:					
Amount (£m)	**(8.0)**	(30.2)	24.7	4.1	45.0
Percentage of the present value of scheme liabilities	**(3%)**	(16%)	9%	1%	5%

The estimated amounts of contributions expected to be paid to the scheme during 2009 is £4.6m.

34. Share-based payments

Equity-settled share option plans

The Group Executive and Company share option plans provide for a grant price approximately equal to the quoted market price at the date of grant. The vesting period is generally three years. If the options remained unexercised after a period of seven to ten years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

	2009 Executive share option scheme		2008 Executive share option scheme	
	Options	Weighted average exercise price (£)	Options	Weighted exercise price (£)
Outstanding at 1 January	8,046	21.01	1,535,355	0.85
Rights issue adjustment	–	–	221,603	0.11
Revised outstanding at 1 January	8,046	21.01	1,756,958	0.74
Expired	**8,046**	**21.01**	**1,589,592**	**0.71**
Outstanding at 31 December	–	–	167,366	1.01
Exercisable at 31 December	–	–	167,366	1.01
Outstanding and exercisable at 31 December adjusted for share consolidation	–	–	8,046	21.01

34. Share-based payments continued

	2009 Company share option scheme Options	2009 Company share option scheme Weighted average exercise price (£)	2008 Company share option scheme Options	2008 Company share option scheme Weighted exercise price (£)
Outstanding at 1 January	17,874	51.79	724,308	2.35
Rights issue adjustment	–	–	104,586	0.30
Revised outstanding at 1 January	17,874	51.79	828,894	2.05
Expired	**5,260**	**38.69**	**456,801**	**1.70**
Outstanding at 31 December	12,614	57.20	372,093	2.49
Exercisable at 31 December	12,614	57.20	372,093	2.49
Outstanding and exercisable at 31 December adjusted for share consolidation	12,614	57.20	17,874	51.79

The Executive scheme options outstanding at 31 December 2009, adjusted for the share consolidation, have a weighted average exercise price of £nil (2008: £21.01), and a weighted average remaining contractual life of nil (2008: nil) months.

No options were exercised during the current or previous year for the Executive Share Options Scheme.

The Company scheme options outstanding at 31 December 2009, adjusted for the share consolidation, have a weighted average exercise price of £57.20 (2008: £51.79), and a weighted average remaining contractual life of nil (2008: 12) months.

No options were exercised during the current or previous year for the Company share option scheme.

The exercise prices for options under both schemes, adjusted for the share consolidation, range from £21.09 to £59.01.

No new awards were made during 2008 and 2009.

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. Expected life is the average expected period to exercise. The risk-free rate is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. Expected dividend yield is based on the average dividend yield over the previous three years prior to the award.

Other share-based payment plans

The employee sharesave plans (three years and five years) were offered until 2004, at which time they were open to almost all employees. They provided for a grant price approximately equal to the quoted market price at the date of grant. The shares can be purchased once or twice a year in the six-week period following announcement of the annual and interim results. The exercise prices for options under both sharesave schemes, adjusted for the share consolidation, range from £11.82 to £47.27. At 31 December 2009, adjusted for the share consolidation there were no (2008: 3,064) options outstanding under the schemes. During the current period, 3,064 options expired. The sharesave plans were replaced in 2005 by the Share Incentive Plan.

The long-term incentive plan is for executive directors and other senior executives. The performance criteria for this scheme are based on a combination of earnings growth and total shareholder return and as such have been valued using both Black & Scholes and Monte Carlo models respectively.

Participants in the 2009 LTIP have been granted units which have no value on the date of grant but have the potential to convert into nil-cost options.

The Group issued options over 1,091,978 ordinary shares, adjusted for the share consolidation in 2008. At 31 December 2008, adjusted for the share consolidation, there were 1,391,237 options outstanding under this scheme, with a weighted average fair value of £1.25 per option at 31 December 2008.

34. Share-based payments continued

IFRS 2 – Analysis of fair values

Following the introduction of IFRS 2 (Share-based Payments), companies are required to account for the cost of share-based payments made to employees. All options awarded post 7 November 2002 are required to be accounted for. Any options prior to this date can only be accounted for where the fair value of the awards made has been publicly disclosed by the Company. The fair value of each of the awards has been determined using the Black & Scholes model or Monte Carlo model as relevant.

The *Group Executive* and *Company share option* plans and *Sharesave* scheme have been valued using the Black & Scholes model. The vesting of awards under the *Performance Share Plan* is contingent upon the Company achieving both Total Shareholder Return and EBITDA growth targets and as such the scheme is valued using both the Black & Scholes and Monte Carlo models. The fair values of each of the schemes, as determined at the grant date, are detailed below.

Analysis of fair values: Company and Executive Share Options and Sharesave (adjusted for share consolidation)

Date of award	Company Share Option Scheme	Executive Share Option Scheme	Sharesave Three-Year Scheme	Sharesave Five-Year Scheme
10 Jun 97	£4.00			
11 Mar 98	£5.82	£5.82		
08 Sep 98	£5.27	£5.27		
12 Mar 99	£6.91	£6.91		
06 Sep 99	£7.27	£7.27		
01 Dec 99				£12.73
23 Feb 00	£10.18	£10.18		
01 May 00				£12.55
22 Aug 00	£10.18	£10.18		
01 Nov 00				£10.00
27 Feb 01	£16.36	£16.36		
09 Apr 01	£11.64	£11.64		
01 May 01			£7.81	£12.18
11 Jun 01	£14.00	£14.00		
24 Sep 01		£7.09		
22 Oct 01	£7.09	£7.09		
19 Apr 02	£9.64	£9.64		
01 Jun 02			£9.64	£12.36
11 Sep 02		£6.18		
10 Mar 03	£4.00	£4.00		
01 Jul 03			£5.45	£6.91
12 Mar 04	£8.00	£8.00		
01 Jul 04			£7.09	£8.36

Analysis of fair values: Performance Share Plan

Date of award	Performance Share Plan (Black & Scholes)	Performance Share Plan (Monte Carlo)
27 Feb 01	£41.09	£25.27
24 Sep 01	£18.00	£9.09
19 Apr 02	£24.73	£13.82
10 Mar 03	£10.73	£5.45
12 Mar 04	£19.82	£13.82
06 Jun 05	£15.45	£8.55
14 Mar 06	£14.00	£8.73
12 Jul 07	–	£2.08
11 Apr 08	–	£0.82

Independent Auditors' Report to the Members of STV Group plc

We have audited the parent company financial statements of STV Group plc for the year ended 31 December 2009 which comprise the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 32, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the Remuneration Committee Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Directors for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Remuneration Committee Report to be audited 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.

Other matter

We have reported separately on the Group financial statements of STV Group plc for the year ended 31 December 2009.

Alan Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow

25 February 2010

Company Balance Sheet

At 31 December 2009

	Notes	2009 £m	2008 £m
Fixed assets			
Investments	2	250.8	301.8
Current assets			
Debtors and prepayments	3	84.5	246.8
Cash at bank and in hand		0.2	1.0
Cash in Escrow		0.5	1.0
Corporation tax		–	4.0
		85.2	252.8
Creditors: amounts falling due within one year			
Creditors and accrued charges	4	(8.3)	(31.5)
Corporation tax		(0.8)	–
Bank loans	5	(67.5)	–
Provisions		–	(0.9)
		(76.6)	(32.4)
Net current assets		8.6	220.4
Total assets less current liabilities		259.4	522.2
Creditors: amounts falling due after more than one year			
Creditors and accrued charges	6	(136.0)	(304.5)
Bank loans	5	–	(53.8)
		(136.0)	(358.3)
Net assets		123.4	163.9
Capital and reserves			
Called up share capital	7	18.3	18.0
Share premium account	7	111.3	111.3
Profit and loss reserves	7	(6.7)	33.9
Other reserve	7	0.5	0.7
Total equity shareholders' funds		123.4	163.9

The accompanying notes are an integral part of this balance sheet.

The company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the parent company profit and loss account. The loss for the parent company for the year was £40.3m (2008: profit £38.4m).

The financial statements on pages 100 to 103 were approved by the Board on 25 February 2010 and were signed on its behalf by:

Rob Woodward
Director

George Watt
Director

Notes to the Company Financial Statements

For the year ended 31 December 2009

1. Accounting policies

Accounting convention and basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. The separate financial statements have been prepared in accordance with all applicable UK Accounting Standards and have been prepared under the historical cost convention, in accordance with applicable accounting standards on a going concern basis.

Basis of consolidation

As permitted under Section 230 of the Companies Act 2006, no separate income statement for the holding company is presented. The Consolidated Financial Statements as presented within the Annual Report include the results of STV Group plc, the holding company, and all of its subsidiaries and associated undertakings up to 31 December 2009.

Cash flow statement

A cash flow statement has not been included within these financial statements in accordance with the exemption available within FRS 1 (Revised).

Investments

Fixed asset investments are stated at cost, less any provision for impairment.

Impairment

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the profit and loss account for the amount by which the asset's carrying value exceeds its recoverable amount.

Share-based payments

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will ultimately vest.

Full disclosure of share-based payment awards is provided as a note within the Group's financial statements.

Dividends

The liability for final dividends is recorded when the dividends are approved by the Company's shareholders.

For interim dividends, the liability is recorded when the dividends are paid.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax assets and liabilities are not discounted.

The taxation liabilities of certain group companies are reduced wholly or in part by losses surrendered by other group companies. The tax benefits arising from group relief are recognised in the accounts of the surrendering and recipient companies.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

2. Investments

	2009 £m	2008 £m
At 1 January	301.8	355.6
Impairment writedown	(51.0)	(53.8)
At 31 December	250.8	301.8

The carrying values of the Company's investments were reviewed during 2008 to determine whether they continued to be appropriate. This involved a review of the underlying business and entity valuations and resulted in impairment charges totalling £53.8m, principally related to the loss on sale of Virgin Radio and losses on the Vue onerous contract within Pearl & Dean. These were reviewed again in 2009 and further impairment writedowns of £51.0m were made primarily in relation to Pearl & Dean.

Subsidiary undertakings

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to the subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affect the results of the Group:

Undertaking	Country of incorporation or registration and operation	Principal activity
STV Central Limited	Scotland	Television broadcasting
STV North Limited	Scotland	Television broadcasting
STV Productions Limited	Scotland	Programme production
Solutions.tv Ltd	Scotland	Television technical facilities
Ginger Television Productions Limited	England	Programme production
Pearl & Dean Cinemas Limited	England	Cinema advertising

None of the above investments are held directly by STV Group plc. The investments are stated in the balance sheet at cost less amounts written off for impairment in value. All shares are ordinary shares. All of the above investments are 100% shareholdings within the Group.

3. Debtors

	2009 £m	2008 £m
Amounts owed by group undertakings	80.0	227.1
Prepayments and accrued income	4.5	19.7
	84.5	246.8

Amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment.

4. Creditors: amounts falling due within one year

	2009 £m	2008 £m
Trade creditors and accruals	1.9	2.3
Amounts due to subsidiary undertakings	6.4	29.2
	8.3	31.5

5. Bank loans

	2009 £m	2008 £m
Bank loans expiring within 1 year	67.5	–
Bank loans expiring in 2 to 5 years	–	53.8

The directors consider that the value of current borrowings approximate their fair value.

The effective interest rates were as follows:

	2009 %	2008 %
Bank loans (floating)	5.0	8.3

A new £90.0m five-year credit facility was entered into on 27 December 2007, expiring 31 December 2012. The facility consists of a £40.0m term facility, £45.0m revolving credit facility and £5.0m overdraft. Security has been provided to the debt provider under this new facility by way of cross guarantees and a share pledge.

As a consequence of the sale of Virgin Radio, on 30 June 2008, the credit facility was reduced to £75.0m.

At 31 December 2009 £5.0m (2008: £20.0m) of the bank facility remains undrawn.

As at 31 December 2009, the Company had bank facilities in place totalling £75.0m consisting of a £25.0m term facility, £45.0m revolving credit facility and £5.0m overdraft. The facilities were due to expire on 31 December 2012 with amortisation of the revolving credit facility commencing on 30 September 2010. In November 2009, the Company commenced discussions with its lender to amend the covenant suite included in the facility to reflect the continuing cash impact of the Vue contract and potential disposal of Pearl & Dean. The revised banking facilities were agreed on 3 February 2010 with the covenant compliance certificate due on 30 January delayed with lender consent until the revised facility was agreed and submitted on 4 February 2010. Under IAS 1 (revised) para 74, renegotiation of the bank facilities on 3 February 2010 represents a non-adjusting post balance sheet event and consequently the borrowings have all been classified as current liabilities as at 31 December 2009. The renegotiated facilities total £78.9m and comprise a £55.0m term facility, £20.0m revolving credit facility and £3.9m standby facility in relation to Pearl & Dean with the facility expiry date unchanged at 31 December 2012 and amortisation of the revolving credit facility commencing on 31 December 2010.

6. Creditors: amounts falling due after more than one year

	2009 £m	2008 £m
Deferred consideration	–	0.2
Amounts due to subsidiary undertakings	136.0	304.3
	136.0	304.5

7. Reserves and movements in shareholders' funds

	Share Capital £m	Share Premium £m	Profit and loss reserves £m	Other reserve £m	Total £m
At 1 January 2009	18.0	111.3	33.9	0.7	163.9
Own shares acquired	0.3	–	(0.3)	–	–
Retained losses for the year	–	–	(40.3)	–	(40.3)
Equity settled share based payment	–	–	–	(0.2)	(0.2)
At 31 December 2009	**18.3**	**111.3**	**(6.7)**	**0.5**	**123.4**

8. Transactions with related parties

There were no transactions with any related parties during the year other than those exempted from disclosure under FRS 8.

Five-Year Summary of Consolidated Financial Statements

For the five years ended 31 December 2009

	2005 £m	2006 £m	IFRS 2007 £m	2008 £m	**2009 £m**
Revenue					
Continuing operations	137.0	125.6	120.3	111.2	**90.3**
Discontinued operations	73.0	65.6	65.0	33.3	**19.9**
Total revenue	210.0	191.2	185.3	144.5	**110.2**
Net operating expenses*	(178.8)	(172.8)	(165.2)	(129.8)	**101.0**
Operating profit*					
Continuing operations	24.1	15.8	11.1	13.2	**9.2**
Discontinued operations	7.1	2.6	9.0	1.5	
Group operating profit*	31.2	18.4	20.1	14.7	**9.2**
Share of associates	-	-	-	-	**-**
Profit on ordinary activities before financing charges*	31.2	18.4	20.1	14.7	**9.2**
Net financing charges	(11.2)	(8.4)	(12.0)	(1.9)	**(1.8)**
Profit on ordinary activities before taxation*	20.0	10.0	8.1	12.8	**7.4**
Tax on ordinary activities	(4.8)	(0.6)	(0.8)	(1.3)	**(0.5)**
Profit on ordinary activities after taxation*	15.2	9.4	7.3	11.5	**6.9**
Dividends	(8.5)	(5.3)	(3.8)	-	**-**
Transferred to reserves*	6.7	4.1	3.5	11.5	**6.9**
Earnings per ordinary share (pence)** - basic	96.0	60.0	42.0	25.7	**13.7**
- diluted	96.0	60.0	42.0	25.7	**13.7**
Dividends per ordinary share (pence)**	58.0	24.0	-	-	**-**

* The 2005 results have been restated to split out the discontinued activities of the disposal groups consisting of Outdoor and Cinema divisions.

** The 2004, 2005, 2006 and 2007 earnings per ordinary share and dividends per ordinary share have been restated for the 1 for 20 share consolidation which took place in 2008.

Investor Information

Registrars
Capita Registrars,
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Tel: 0871 664 0300*
Tel: (overseas) +44 20 8639 3399
Fax: +44 (0) 1484 600 911
Email: ssd@capitaregistrars.com
Website: www.capitashareportal.com

Independent Auditors
PricewaterhouseCoopers LLP

Solicitors
Herbert Smith LLP; Burness LLP

Principal Bankers
Bank of Scotland plc

Stockbrokers
RBS Hoare Govett Limited

Investment Bankers
Hawkpoint Partners Limited; Greenhill & Co.

Secretary and Registered Office
Jane E A Tames
STV Group plc
Pacific Quay
Glasgow G51 1PQ
Tel: 0141 300 3074
Email: jane.tames@stv.tv

Company Registration Number SC203873

Annual Report on Internet
The 2009 Annual Report of STV Group plc including the financial statements is available at: www.stvplc.tv

Amalgamation of Accounts
Shareholders who receive duplicate sets of Company mailings because they have multiple accounts should write to the Registrars to have the accounts amalgamated.

Investor Relations
For investor enquiries please contact:
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PR Manager
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Tel: 0141 300 3670
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Share Price Information
The share price of STV Group plc is published in most newspapers and also in the United Kingdom on Ceefax and Teletext. The current price of the Company's shares (delayed by up to 15 minutes) can be obtained from the Company's website www.stvplc.tv

Individual Savings Accounts (ISAs)
The Company has Maxi and Mini ISAs which offer United Kingdom resident shareholders a simple, low-cost and tax-efficient way to invest in the Company's shares.
Full details and an application form are available from Stocktrade, a division of Brewin Dolphin Securities Limited, on: 0131 240 0441.

Dividend Reinvestment Plan
STV Group plc operates a Dividend Reinvestment Plan to provide United Kingdom shareholders with a facility to invest cash dividends by purchasing further STV Group plc shares. Further details are available from the Registrar on: 0871 664 0381*.

Your Shareholding
You can check your shareholding at any time by visiting the Registrar's website at: www.capitashareportal.com

Capita Share Dealing Services
Capita offer a quick and easy share dealing service to buy or sell STV Group plc shares. An online telephone dealing facility is available providing STV Group plc shareholders with an easy to access and simple to use service. There is no need to pre-register and there are no complicated forms to fill in. The online and telephone dealing services allow you to trade "real time" at a known price which will be given to you at the time you give your instruction. For further information on this service, or to buy and sell shares, please contact: www.capitadeal.com (online dealing); 0871 664 0454** (telephone dealing).

* Calls cost 10p per minute plus network extras.
Lines are open 8:30am – 5:30pm, Monday to Friday.

** Calls cost 10p per minute plus network extras.
Lines are open 8am – 4:30pm, Monday to Friday.

www.stv.tv