Annual Report and Accounts 2010

Scotland's digital media company

Directors' Report

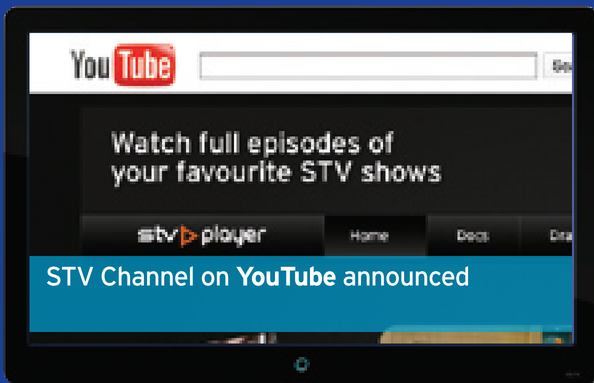
Accounts

Shareholders

Creating and delivering **great content** across **multiple platforms** means that we're strengthening our connections with **our audiences and our advertisers**

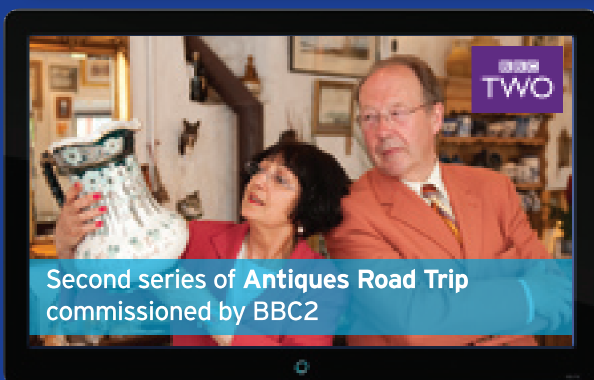
▶ To download a pdf of this report visit **www.stvplc.tv**

Highlights of 2010



STV Channel on **YouTube** announced


Launch of new sports programme
STV Sports Centre



Second series of **Antiques Road Trip**
commissioned by BBC2

STV Local launched

Turnover (million)

£105m
2009: **£90m**

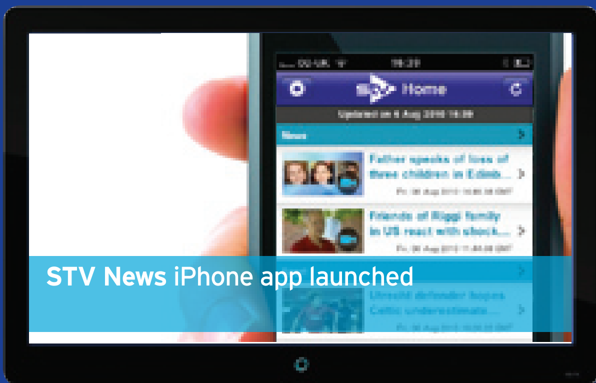
+16%

EBITDA (million)*

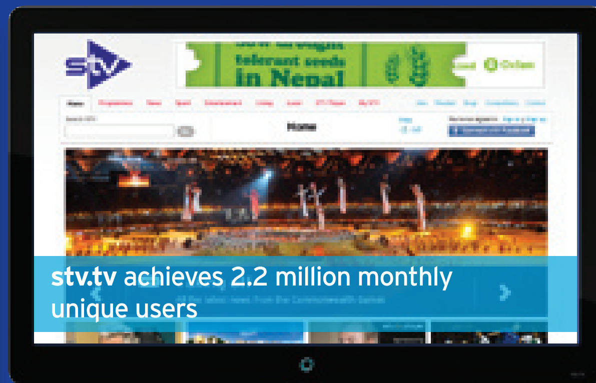
£16.9m
2009: **£12m**

+41%

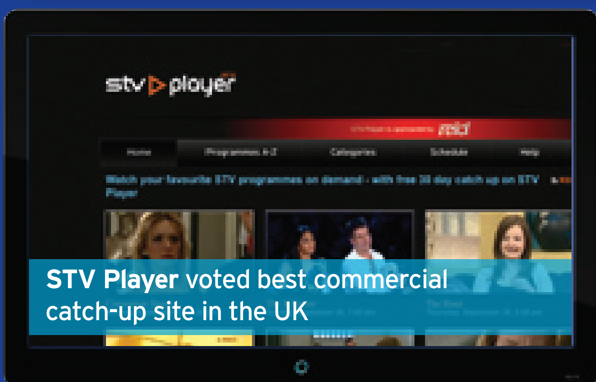
* pre-exceptional



STV News iPhone app launched



stv.tv achieves 2.2 million monthly unique users



STV Player voted best commercial catch-up site in the UK

Taggart co-commission agreed with ITV and UKTV

Operating Profit (million)*

£14m
2009: **£9m**

+56%

Pre-tax Profit (million)*

£12.5m
2009: **£5.5m**

+127%

Chairman's Statement

Last year I reported that I believed 2010 would be a year of considerable change and that has certainly been the case both within the company and externally. Despite the economic environment we have produced a very good financial result against a backdrop of improved national revenues and rigid cost control.

Operating profit before tax and exceptional items is £14.4m and earnings before exceptional items, tax, depreciation and amortisation is £16.9m. National airtime revenue performed particularly well with growth of 21% year-on-year, while regionally, within Scotland, the pace of economic recovery was slower and revenue was flat year-on-year, however, we continued to dominate the Scottish marketplace.

Once again our Chief Executive, Rob Woodward, has aligned his interests with that of shareholders. Shareholders will recollect that last year (2009) he and his colleagues voluntarily reduced their salaries. This year he has proposed that the performance related bonus he has earned in 2010 should be deferred, subject to future performance, for up to 24 months and payable wholly in shares.

Our share price is now beginning to reflect the new STV and given the strong base that has now been established there is scope for further value to be created.

The disposal of Pearl & Dean was completed and the general improvement in stock market prices had a beneficial effect on the pension deficit.

We are committed to delivering high quality public service content and we have continued to enhance this through the introduction of new platforms and the launch of STV Local. While much has been made in the press about our decisions to opt out of some Network programmes in favour of our own produced or acquired content, the fact is that viewers have responded well, as demonstrated by the increase in our audience share against

"With a **strong identity** and **clarity of vision** we are delivering an entertaining and relevant schedule."

For financial updates on STV visit **www.stvplc.tv**

Channel 3 itself across the all important peak period. Having said that, 95% of our programmes are from the Network, to which we pay a considerable sum of money, but we are always mindful that we are a Scottish based service, independent of ITV, and have a clear responsibility to produce a balanced schedule relevant for audiences in Scotland.

Our digital strategy is firmly on track and we have exceeded our stretching KPI targets in relation to digital audience growth. Our traffic and audience levels have surpassed the targets we set for 2012 and as a result we have set new higher targets for 2011. During the course of the year we were delighted to have been voted the best commercial catch-up site in the UK. This is an achievement we are particularly proud of given the financial resources of the competing platforms developed by our competitors. Our dedicated YouTube channel is delivering extremely strong month-on-month growth in video streams and we have achieved 2.2m unique users per month, exceeding our target of 1.7m, up 129% on the same time last year. We have now exceeded our KPI target of one million video streams per month demonstrating the value placed on our content.

As other mainstream media reduce services to local marketplaces through cutbacks, increased syndication and consolidation, we have taken a contrary view, seeing a service and commercial opportunity with the development of STV Local. We piloted this project in one of the more difficult geographical areas for media and have been so encouraged by the results that we are swiftly rolling out the concept to other parts of the country.

Our ability to generate audiences and revenues for our content across different platforms is now firmly established adding real substance and strength to our position as Scotland's digital media company.

The decision not to proceed with the piloting of Independently Funded News Consortiums by the new coalition Government was widely expected. We did not stand still, however, and immediately began to consider a range of options to develop a sustainable solution that would allow us to continue to deliver high quality news content across Scotland. In early 2011 we announced the launch of a pilot to trial the delivery of an enhanced and more locally focused news service. This combined with our investment in STV Local, demonstrates our continuing commitment to provide high quality public service content.

We believe that the Government's decision that STV Productions should not be granted independent production status is not conducive to supporting the growth of the wider production sector in Scotland. We will continue to push for the necessary change of mind to achieve this status, however, regardless of this, our content team continue to grow commissions from other broadcasters, including the BBC, providing clear evidence of its capability and creativity.

The litigation involving ITV will be heard in court during the course of 2011 and 2012 and, while we have always regretted being forced to take the defensive action we have, we are confident that our position will prove to have been properly justified.

Our marketplace is highly regulated and we anticipate further changes in this area in the forthcoming year. We are confident in our ability to respond positively and embrace regulatory changes. Most significant are the opportunities presented by an increased commitment to supporting the growth of locally focused media services and the investment in high speed broadband infrastructure, enabling enhanced access to our content for audiences across all platforms.

Whilst we recognise that changes to the television market, including increased competition, the growth of online advertising and sales house consolidation, make a review of CRR timely, any relaxation of this mechanism must take account of the need to ensure that the Merger Undertakings put in place to protect the interests of the non-consolidated Channel 3 licensees are not disregarded.

During 2010, we confirmed our investment in MirriAd Limited, the market leader in digital product placement. As both a content maker and national broadcaster offering solutions to advertisers, MirriAd's products and processes are of great value to STV as the rules on product placement are relaxed.

During 2010 we contributed to the consultation process undertaken by Ofcom into the rules governing television airtime sales and airtime minutage quotas and, whilst there is no decision expected on these imminently, we will continue to engage with the regulator on this matter.

So, having achieved or exceeded the majority of our 2010 KPI targets we can look forward to 2011 with confidence and excitement. STV is a company with a focused view on its direction of travel and has the team in place to achieve our 2011 ambitions.

None of the achievements of the company would have been possible without a strong and supportive board, a visionary Chief Executive Officer and motivated staff. My thanks go to all of them for their extraordinary achievements.

Richard Findlay
Chairman

A conversation with Rob Woodward by journalist and media commentator Ray Snoddy

The STV press release issued in February 2011 hardly set the world alight. The Scottish commercial broadcaster was launching three new hyper-local websites in Edinburgh to add to a growing number across Scotland.

It is, however, a key to what Rob Woodward who four years ago took over a company heavily in debt and with question marks over its future, is trying to achieve.

"Scotland's digital media company," as Woodward has dubbed STV, is adding an additional leg to the strategy – Scotland's local media company.

"The Edinburgh announcement takes us to 19 sites and over the next 18 months we would expect to be covering over 75% of the population of Scotland through hyper-local sites and we will end up with 100 or more," says the personable Woodward, the former banker and consultant who was also Commercial Director of Channel 4.

Each website is run by a professional journalist working in partnership with representatives of the local community whether it's the local authority, emergency services or arts or sports groups.

The initiative is part of a strategy to ensure STV branded services are available anywhere and all the time in Scotland, while trying to tap new sources of advertising – in this case classified. Apart from all the usual apps on smart phones there are now even STV screens in the Glasgow underground.

But however innovative, will the hyper-local sites actually make any money?

"It is early days yet, however, we have made a strong start," confirms Woodward.

The STV Chief Executive believes the low cost structure will enable the venture to be profitable and estimates that breakeven might only be 18 months away.

On a more conventional scale, but also involving Edinburgh, STV plans to launch a new Edinburgh edition of its 30 minute *STV News At Six* programme to add to the current services from Glasgow and Aberdeen.

All three will continue to carry national and international news but Woodward notes, "we see through our own experience that the most popular part of our news show is when it goes to serve the ultra-local."

Ironically the STV local and regional expansion comes when ITV has been reining back its local news services.

The STV strategy chimes with the Government's enthusiasm for creating more local television in the UK and Woodward will be looking carefully at these proposals, which are supported by £40m from the BBC licence fee settlement.

"There is an expectation of us being involved in some capacity. It's work in progress," said Woodward.

The strong results for 2010 announced by STV in February demonstrate that restructuring is over and the company is pushing ahead with organic expansion. Debt has been reduced from £180m to £52m and should continue to fall. The last of the non-core businesses, the screen advertising company Pearl & Dean was sold for £1 following the disposals of Virgin Radio and outdoor company Primesight.

But would STV still have sold the companies if not forced to do so to reduce debt?

"Getting rid of the companies was 100% the right thing to do because we wanted to focus on digital media in Scotland. As it happens we had to do it anyway. STV is not a media holding company," the STV Chief Executive insists.

Woodward has taken a similar robust line with ITV by dropping programmes STV thought would not play well in Scotland or cost too much.

There have been complaints – about dropping *The Bill* – and raised eyebrows when the drama series *Downton Abbey* was not shown in Scotland.

Woodward is unrepentant. Instead of *Downton Abbey*, STV showed the new series of *Taggart* and matched ITV's 33% audience share.

Other programmes shown – about 5% of the peak-time have ranged from local football to films and the Australian acquired series *Underbelly*.

"Clearly **defined strategy** and progress against key **operating priorities.**"

▶ **Rob Woodward** Chief Executive
in conversation with **Ray Snoddy**

A conversation with Rob Woodward by journalist and media commentator Ray Snoddy continued

They produced younger, more up-market audiences that, overall, were 0.24% higher than the ITV average.

"A core part of our strategy is the right of opt-out from ITV," says Woodward.

The declaration of independence from an ITV dictated schedule is part of a series of continuing legal disputes between STV and ITV due in court in the Spring.

"We are always working to find an amicable solution. There is value to be created by working together not working against each other," is all Woodward will say.

Many expect a compromise before the hearings begin and house brokers Peel Hunt say that any resolution of the disputes, which have cost STV more than £3.5m in legal fees already, could "provide a trigger for a significant re-rating of the stock."

Woodward is most pleased at the state of his KPIs – key performance indicators. Overall, performance metrics have improved "very significantly versus last year" and seven of the KPIs, including the digital traffic targets, have been exceeded, one achieved with only three underperforming.

Under Alan Clements, Director of Content, STV Productions has produced 25 more hours of programming in 2010 including *Antiques Road Trip* for BBC 2, *Missing Mums* for Sky Real Lives as well as *Taggart* for ITV – reducing dependence on ITV for programme sales to 30% of the total compared with 80% in the past. Another part of STV's stated ambition is to increase its share of display advertising in Scotland.

"Over the course of the last three years we have increased our percentage share from 20 to 25% and we are positioning ourselves as an innovator, not just in digital but in the way we work with advertisers," says Woodward.

The aim, he explains, is to develop closer relationships with advertisers beyond the traditional 30-second spot and into everything from sponsorship and market research to product placement – now permitted for the first time on UK television.

Woodward is adamant that STV will never again go on a corporate spending spree, which caused so much trouble for the company, but there have been a number of more modest partnerships and deals.

"We are expanding organically and through relationships and partnerships and for the foreseeable future that will continue to be our way of delivering sustainable growth - that's the future vision, certainly for the next 18 months to two years," says the STV Chief Executive.

A partnership with Brightcove produced an STV equivalent of the BBC's iPlayer in six weeks and a stake has been taken in MirriAd Limited, a company that can digitally insert products to be placed in programmes at the post-production stage.

A deal with Kinetic Content of the US could open up the American market. STV has now secured its first pilot in the US through this venture. "We are not focused now on a particular geography although our past has been slightly 'tartanised.' We are moving away from that. Just look at the things we are doing," says Woodward with enthusiasm.

The move to the outside world from the Scottish fortress is exemplified by a deal with YouTube for an STV channel of archive programmes, news and a daily one-hour entertainment magazine-style show called *The Hour*.

"For the first time in STV's 53-year history we are able to start reaching for a global audience – the idea of providing high quality Scottish content to the Scottish diaspora," explains Woodward.

The executive acknowledges the sums involved are modest to start with but that doesn't hold him back.

"The key to me is to learn from experience – who wants to watch what, and potentially in time what are they willing to pay for and the only way to find out is by trying," says Woodward.

But isn't STV, particularly the new, more compact STV crafted by Woodward, simply too small to compete in the media jungle inhabited by multi-billion pound players?

"I would argue very strongly that there are strong positives to being relatively small because it means you can be nimble, it means you can try things, move very quickly and take timely decisions," insists Woodward.

The immediate outlook looks promising with Woodward "cautiously optimistic" for the prospects of the television advertising market and looking forward to the company being operationally cash flow positive next year.

His performance at STV so far has recently triggered a "not insubstantial cash bonus."

Woodward has decided not to take it because he believes the company is not yet in a strong enough position to take such cash out of the business. Instead he is taking the money in shares, deferred for two years with hurdles in place contingent on future growth.

Rob Woodward believes that further growth will come – particularly if two things come to pass.

"Sort out the situation with ITV, prove that we can make money from local and then you have really got something and can think about expanding outside Scotland," says Woodward.

Chief Executive's Review
Scotland's Digital Media Company

We are a **flexible, nimble** and **focused** organisation, able to respond rapidly to changing **market conditions**

Broadcasting page 10
Content page 14 **Ventures** page 18

STV is Scotland's digital media company. In 2010, we have secured this position through the growth of audiences across an increasing range of channels and platforms. We have stabilised the core business, demonstrating the robustness of this through the testing market conditions we have responded to in the past year. We have completed the disposal of non-core activities and our digital strategy is firmly established.

We are committed to creating and delivering high-quality, relevant and entertaining content to our audiences across all platforms and, through this relationship, providing new and innovative commercial opportunities for our advertisers and sponsors to target their customers.

STV is a transformed business with the disposal of non-core assets completed; debt levels significantly reduced and the cost base of the business tightly managed. We have built in resilience to our business that has enabled STV to remain profitable through the dramatic downturn in advertising revenues whilst continuing to make targeted strategic investments in key growth areas for the future.

Through the successful implementation of our digital strategy and our programming strategy, we have continued to deepen and strengthen relationships with our two key stakeholder groups: our audiences and our advertisers.

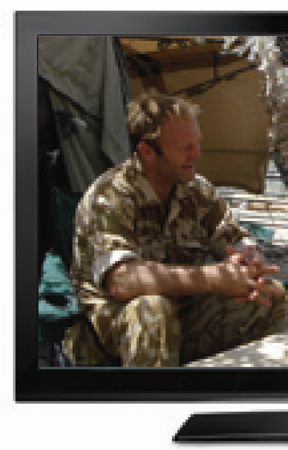
The media landscape has continued to evolve at a rapid pace in 2010 and we have demonstrated our ability organisationally and culturally to respond to this increasing pace of change and exploit opportunities to grow revenues and audiences.

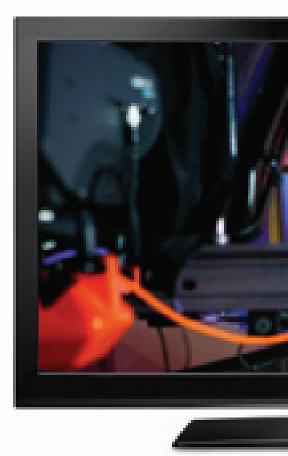
We are a flexible, nimble and focused organisation, able to respond rapidly to changing market conditions, audience requirements and media consumption patterns. Through targeted investment, we have successfully strengthened the business during 2010 augmenting our position as Scotland's digital media company.

Chief Executive's Review continued
Broadcasting

Broadcasting is the bedrock of our business and brand, it gives us the visability and trust to connect with our audiences and advertisers

▶ Watch your favourite STV programmes on STV Player
www.stv.tv/player





Left to right, from top:
Underbelly
Postcode Challenge
X Factor
Scots at War
Champions League
Coronation Street
The Hour
Taggart
Politics Now
Vet School

Chief Executive's Review continued

Broadcasting continued

We've got it covered - from international news now available on our **STV iPhone app,** to all that is happening in your neighbourhood via **STV local**

▶ To download our free STV iPhone app visit **www.stv.tv/news** and follow the easy instructions.

During 2010 we have continued to extend our reach through the development of new platforms and channels and providing our audiences with an increased choice in the way that they can access our compelling content. These include an HD service; further enhancement of our VOD service through the highly commended STV Player; new digital channels, including an STV YouTube channel and the launch of mobile applications such as the STV Jobs and STV News iPhone apps. The STV Player is also available as a public beta on the PlayStation 3.

We have delivered against all of our Broadcasting KPI targets, with the key metrics of audience share versus the Network and the broadcast margin exceeded, the latter highlighting the sustained upturn in advertising revenue. This is a tremendous achievement given the macro-economic backdrop, particularly in the early part of the year.

We continue to hold the position as Scotland's most popular peak time television station, reaching 4.2 million viewers every month. During 2010 our primary digital channel, *www.stv.tv*, secured the position of Scotland's most popular commercial website attracting over 2.2 million unique users every month in Q4.

2010 marked the first full year of the implementation of our programming strategy, designed to engage our audiences through a varied, relevant and entertaining

To discover and share your ... local news, sport, weather reviews, events, announcements, places and community visit www.stv.tv/local

schedule. This approach has proved to be highly successful, delivering a peak time audience share in excess of the ITV Network demonstrating our pre-eminence as Scotland's leading media brand.

We have successfully expanded our audience profile through the inclusion of specific programming to target key demographic groups for advertisers.

Our schedule has been delivered with over 95% Network content and the acquisition of programming targeted to address the viewing preferences of our audiences. Early in 2010 we broadcast the hard-hitting drama, *Underbelly*, rating as STV's most popular acquired series. The series also attracted over a quarter of a million video plays on the STV Player and a third series has been acquired for broadcast during 2011.

We have also continued to grow our share of the Scottish market place despite a slower pace of recovery in this region.

We have continued to offer a wide variety of high profile broadcast sponsorship campaigns, allowing brands to feature their brand logo and commercial messages in and around key programming guaranteeing sponsors a prime position and maximum visibility across a mass viewing audience.

Our in-house commercial production team, STV Creative, has delivered continued growth producing winning creative content for Scottish based and Network advertising clients. The work of the team has continued to expand into the development of new advertising solutions for our clients including the production of regional and Network sponsorship campaigns and short-form editorial content and provides our clients with a full service commercial offering.

We continue to develop innovative solutions for our advertisers. During 2010 we launched our Social Marketing initiative. This new approach offers innovative and flexible solutions for private and public sector organisations to expand upon broadcast advertising by offering a full range of innovative STV services, including microsites, sponsorship, online advertising, PR, marketing and social media.

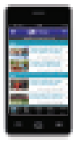
Our commitment to delivering high quality news services to our audiences on-air and online has continued during 2010.

We have achieved a year-on-year increase in traffic to our online news content through the combination of our news gathering resources located at our news centres across Scotland and our investment in hyper local news services through STV Local. This will deliver an increased level of local news provision unrivalled by any other provider in the UK.

In early 2011 we will pilot a new service which, if proven, will enable us to enhance the extent to which we deliver local news using a new broadcast technology platform.

The news journey

STV Local - local news from where you live



STV's iPhone app

stv.tv news online

STV News at Six

=

over

55%

of the Scottish population watch STV News on STV at least once a week

Chief Executive's Review continued
Content

Creating and delivering great content is at the heart of everything we do

Missing Mums
produced for

Postcode Challenge
sponsored by

Being Victor
co-produced with

In Search of Burke and Hare
produced for

Taggart
co-produced for

Antiques Road Trip
produced for

Pink Saris
produced for

Jack Nicklaus's Greatest Open Course
sponsored by






POLICE DO NOT CROSS


Chief Executive's Review continued
Content continued

We have successfully broadened our customer base

A highlight of 2010 was the partnership formed between STV Productions and US production company, Kinetic Content

During 2010, STV Productions has achieved success in winning commissions from an increasing range of broadcasters, including Living, Sky Real Lives, BBC and ITV. Significantly we received our first series commission and re-commission from the BBC, *Antiques Road Trip* for BBC2, which achieved a higher-than-average audience share for the channel.

In early 2010 we secured the first co-commission of the UK's longest running crime drama, *Taggart*, through an innovative deal with ITV and UKTV. This series was filmed for the first time in HD and through a first run window on STV achieved a 33% audience share, outperforming the alternative drama programming on the Network.

The impact of the economic downturn on the programming budgets of broadcasters resulted in our target for the value of external commissions being missed, however, we have continued to deliver year-on-year growth of 25%. The key financial metric of margin was delivered and we are confident of our strong position as we enter 2011.

We have set out our ambitions to expand internationally and a highlight of 2010 was the partnership formed between STV Productions and US production company, Kinetic Content. This innovative format deal, which allows the companies to exclusively license each others original formats in their respective countries, was confirmed in July 2010. All formats owned and controlled by STV, including existing and newly developed formats from its production companies STV Productions and Ginger Productions, are now available to Kinetic Content to co-produce with STV in the USA. Similarly, STV holds the exclusive UK rights to co-produce formats developed and owned by Kinetic Content.

The two companies work closely together to develop brand-new formats to be pitched to broadcasters both in the UK and the US. This deal provided STV with a targeted and cost effective means of accessing US broadcasters, and similarly opened up the UK market to formats developed and owned by Kinetic Content.

We continued to strengthen our creative team and earlier in the year we were delighted to confirm the appointment of Liam Hamilton as Deputy Director of Content. Liam will support the expansion of STV Productions and the re-focusing of the Ginger Productions brand to concentrate on developing entertainment formats.

Whilst we are disappointed at the decision taken by DCMS not to award independent production status to the business we will continue to seek to obtain the necessary legislative change to provide this status. Our KPI targets do not assume that will be granted this change.

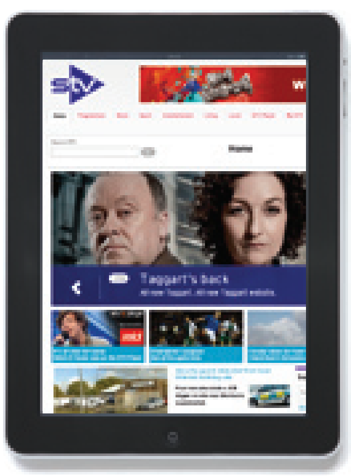
In late 2010 it was confirmed that television rights distributor DRG now exclusively represents STV Productions and Ginger Productions international distribution rights. DRG promotes the two production companies to the worldwide market under the newly created brand name, STV International. The extensive 2,000 hour STV International programming catalogue includes *Taggart* and an array of high-profile factual content. The deal additionally incorporates a new co-funding and development partnership between the two companies.

The Hour, the only daily live TV magazine show broadcast outside of London, went from strength to strength in 2010 and attracted top stars such as Westlife, John Barrowman and Julian Clary. *The Hour* regularly outperforms Channel 4, Five and BBC Two, is closing the gap on BBC One, in that slot, and regularly attracts up to a million viewers a week.

Chief Executive's Review continued
Ventures

Delivering revenue growth, developing new platforms and identifying opportunities to take STV content to new audiences

▶ Wherever you are visit **www.stv.tv**



▶ Visit your local STV site to find out everything that's going on in your community **www.stv.tv/local**

▶ Get your latest sports news from our **STV iPhone app**

▶ To watch your favourite STV shows on YouTube visit **www.youtube.com/stvplayer**

▶ Go to **www.stvjobs.com** for thousands of Scottish jobs

Chief Executive's Review continued

Ventures continued

Through innovation in production and platform development we are reaching new audiences

In 2010, we have delivered digital growth, successfully built audiences and traffic, launched new initiatives and invested in digital distribution to create new platforms and grow digital revenues. We have delivered against our stretching KPIs in this key growth area of the business and, on the strength of this over-achievement of our targets, we have increased our targets for 2011 and 2012.

We have exceeded three of our KPIs in this area relating to traffic demonstrating that we have established a valuable, content rich, must visit proposition and securing the position of *stv.tv* as the most popular commercial website in our marketplace.

We are firmly established as Scotland's digital media company. As part of our digital strategy we have created *STV Anywhere*, our commitment to making our content available to audiences wherever, whenever and however they want to consume it. For our advertisers, this is creating new and innovative opportunities for brand development and targeting of marketing activities enabling them to improve their return on investment in advertising.

In early 2010, we launched our first iPhone app, providing users with instant access to the latest news, sport and high quality video reports on their mobile phones. The free STV News app, which has now been downloaded over 80,000 times to date, allows users across the globe to access STV branded news content.

A cornerstone of our digital strategy is the successful launch of STV Local during the latter part of 2010. Leveraging our investment in our content and through the formation of relationships with communities across Scotland, these sites will feature news and information from a range of sources, making STV Local a highly interactive experience and offering a platform for users to inform, discover and share everything that is relevant to their community. This is a commercial service with display, classified and video advertising and is a natural extension of public service content in a digital environment.

We are encouraged by the early level of positive audience engagement and interest from our advertisers and content partners in the STV Local platform. By the end of 2010, our service covers 25% of the Scottish population by local authority area and we will continue to implement our ambitious programme of roll-out of local sites during 2011 with Edinburgh sites being launched during February.

To support us in the execution of STV Local we have recruited a highly skilled team of editorial staff and as roll-out continues we will recruit community embedded editors creating new employment opportunities across Scotland.

▶ **STV Anywhere** – making our content available to audiences wherever and however they want to consume it

▶ For information on STV HD visit **www.stv.tv/stvhd**

Our TV-on-demand service, STV Player, provides our viewers with the ability to catch up on their favourite STV programmes and watch highlights from the vast STV archives and it continues to build traffic delivering an average of over one million video plays per month during the final quarter of 2010. In September 2010, digital consultants Webcredible rated the STV Player second only to the BBC's iPlayer, and ahead of all other commercial channels' services – a fantastic endorsement of our digital development capabilities particularly given the system was developed entirely in-house and on a modest budget.

In June, we announced a major content deal with Google making over 2.500 hours of content, both new and archive, available for viewing via the YouTube video sharing website across the UK and internationally. Advertiser supported content is delivered free of charge and on demand.

Our digital roadmap addresses the anticipated increase in mobile web consumption of content and increasing expectation of consumers for known and trusted brands to be available on mobile platforms. This demand will be met through further plans for our content to be made available on an increasing range of connected devices, including PS3 and Wii, allowing our digital audiences to enjoy broadband-delivered STV content on their TV screens. YouView (formerly Project Canvas), due to launch in 2011 will provide further convergence for broadcast and broadband services and STV is working to capitalise fully on this.

We continue to embrace technological developments to enhance our viewer experience and foster audience engagement and have developed a split screen application that enables viewers to chat and comment on major programming events such as the *World Cup* and *X-Factor* on their PC screens alongside live video feed of STV output.

Our online classified business site, STV Jobs, has been further developed to continue to improve the functionality of this service through the introduction a number of market leading innovations, including the launch of an iPhone app and CV Magnet, STV Jobs' own CV database.

We have ambitious plans to grow our classified business during 2011, through exploiting the STV Local platform to unlock local classified revenues.

Rob Woodward
Chief Executive Officer

Building Platforms

YouTube

providing over 2,500 hours of STV content in UK and internationally

PS3 PlayStation 3

extending VOD content across platforms

stv local

delivering news and information services and providing a platform for community engagement

STV HD

delivering Scotland's most popular peak time schedule in HD quality

=

STV anywhere

KPIs 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.

New KPI targets have been set for 2011 and 2012 for the four measures where 2010 performance exceeded the 2012 target. In addition, the digital revenue KPI target for 2012 has been increased due to the higher level of operational performance.

Upgraded KPI targets:

- Broadcast margin
- Unique users per month (Q4 monthly average)
- Page impressions per month (Q4 monthly average)
- Digital revenue value (2012)
- Video streams per month (Q4 monthly average)

Broadcasting

Increase regional advertising market share

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 NMR data we compare STV's regional sales with the total display advertising market for Scotland.

2009 Actual	23%
2010 Target	25%
2010 Actual	**25%**
2011 Target	26%
2012 Target	27%

Increased by 9%

KPI achieved

Content

Production hours

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 third party broadcasters.

2009 Actual	90 hours
2010 Target	110 hours
2010 Actual	**113 hours**
2011 Target	130 hours
2012 Target	150 hours

Up by 26%

KPI exceeded

Ventures

Unique users per month (Q4 monthly average)

Why it's important
Unique users to our websites are key to driving advertising revenues through their engagement with the site.

How we measure it
Using analytical tools, the number of unique users per month can be identified and collated and this is the monthly average figure across Q4.

2009 Actual	1.3m
2010 Target	1.7m
2010 Actual	**2.2m**
2011 Target upgraded	2.5m
2012 Target upgraded	3.0m

Up by 69%

KPI exceeded

Video streams per month (Q4 monthly average)

Why it's important
Video streams are a key advertising currency and are directly related to generating advertising revenues.

How we measure it
Using analytical tools, the number of video streams across all platforms can be identified and collated and this is the monthly average figure across Q4.

2009 Actual	0.7m
2010 Target	1.0m
2010 Actual	**2.0m**
2011 Target upgraded	2.7m
2012 Target upgraded	3.5m

Up by 186%

KPI exceeded

Peak time audience v ITV Network

Why it's important
Our programme strategy results in more Scottish based content appearing on screen and savings being made in programme costs but it is key that an audience share is delivered at least equivalent to that of the ITV Network.

How we measure it
Peak audience (1800-2230) for all adults is compared to ITV Network.

2009 Actual	In line
2010 Target	In line
2010 Actual	**+0.24pts**
2011 Target	In line
2012 Target	In line

Outperformed by 0.24 share points

KPI exceeded

Broadcast margin

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

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

2009 Actual	10%
2010 Target	10%
2010 Actual	**14.8%**
2011 Target upgraded	15%
2012 Target upgraded	16%

Up by 48%

KPI exceeded

Value of external commissions

Why it's important
In conjunction with the growth in production hours it is also important that the value of content produced also grows and this KPI evidences this.

How we measure it
It is the value of new external commissions.

2009 Actual	£5.6m
2010 Target	£11.2m
2010 Actual	**£7.0m**
2011 Target	£16.8m
2012 Target	£21m

Up by 25%

KPI missed

Content margin

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

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

2009 Actual	12.0%
2010 Target	10.0%
2010 Actual	**10.2%**
2011 Target	10.0%
2012 Target	10.0%

KPI exceeded

Page impressions per month (Q4 monthly average)

Why it's important
Page impressions are a key advertising currency and are directly related to generating advertising revenues.

How we measure it
Using analytical tools, the number of page impressions per month can be identified and collated and this is the monthly average figure across Q4.

2009 Actual	4.8m
2010 Target	6.7m
2010 Actual	**11.0m**
2011 Target upgraded	14.0m
2012 Target upgraded	18.0m

Up by 129%

KPI exceeded

Digital revenue value

Why it's important
Digital revenue growth is a key strategic objective and this measure tracks evidence of this growth being delivered.

How we measure it
It is the value of revenues generated from the group's various digital operations.

2009 Actual	£2.7m
2010 Target	£5.2m
2010 Actual	**£4.2m**
2011 Target	£7.3m
2012 Target upgraded	£10.5m

Up by 50%

KPI missed

Ventures margin

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

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

2009 Actual	16%
2010 Target	25%
2010 Actual	**nil%**
2011 Target	30%
2012 Target	35%

Breakeven

KPI missed

Performance Review

2010 has seen broadcasting revenues recover strongly

2010 has seen broadcasting revenues recover strongly from the recessionary levels seen in the prior year and this has resulted in a very significant improvement in the Group's financial performance.

This airtime sales recovery combined with growth in our content business has resulted in profit before tax and exceptional items increasing to £12.5m (2009: £5.5m). The strong operational performance was also reflected in our KPIs, with seven exceeded, one met and only three not achieved. Last year also saw the disposal of Pearl & Dean which concluded the corporate disposal programme which commenced in 2007. The most significant impact from this disposal will be an end to the large cash losses which were being incurred by this business and were a major negative on the Group's cash flows.

We look forward to 2011 where we expect to see positive cash generation and debt reduction as our businesses continue to grow.

Revenue

Total revenue, which comprises both continuing and discontinued activities, amounted to £111.7m (2009: £110.2m). The total figure was impacted by the disposal of Pearl & Dean and adjusting for this revenues were up by £14.5m – (16%) due to growth in all 3 divisions.

Broadcasting revenues at £90.3m (2009: £77.8m) were up 16% with the main driver being national airtime revenues which were up by 21%.

Content revenues grew by 21% to £9.8m (2009: £8.1m) as production hours delivered increased. In Ventures, total revenues were up 7% at £4.7m (2009: £4.4m) with digital revenues up 50% at £4.2m (2009: £2.8m) reflecting continued growth in our online audiences.

Operating profit

Operating profit before exceptional items increased by £5.2m (57%) to £14.4m (2009: £9.2m) as the revenue growth converted strongly to profit. This resulted in margins increasing very strongly in broadcasting from 10% to 15% and the 2010 target of 10% being significantly exceeded.

Content margins exceeded target at 10.2% (2009: 12%) while Ventures breakeven outturn was below the 25% target reflecting investment in new digital initiatives including STV Local.

Finance costs

Net finance expenses decreased by £1.8m to £1.9m (2009: £3.7m) which was mainly due to the anticipated change in the IAS19 non cash pension charge in 2009 of £1.9m becoming a credit of £0.4m. This benefit was partly offset by higher cash interest costs due to higher average debt balances in 2010.

Exceptional items

Exceptional items resulted in a net charge of £7.2m (2009: £13.8m). These included the final accounting on sale of Pearl & Dean (£nil), a writedown to film stock inventory values (£2.7m) and a write off of bank facility fees due to amendments made in H1 2010 (£1.5m). Items with a cash impact were litigation costs (£3.5m) and a cost of change provision (£0.9m) related to restructuring in our sales operation and a change of the Group's core business from three divisions to two – Consumer and Production to take effect from January 2011.

The statutory result for the year after tax and exceptional items amounted to a profit of £5.3m (2009: loss of £8.8m).

Earnings Per Share

EPS before exceptional items increased by 140% to 32.9p (2009: £13.7p) reflecting the increase in profit before tax and the effective tax rate reducing to nil% from 10% due to the release of prior year provisions and use of brought forward losses.

EPS on a statutory basis, including exceptional items, amounted to 13.9p (2009: loss of 24.1p).

Balance Sheet

The principal balance sheet movements over the last 12 months were a reduction in stock as ITV Network reduced stock levels and a reduction in the pension deficit.

The pension deficit on an IAS19 basis net of deferred tax decreased to £16.2m (2009: £25.7m) reflecting a higher discount rate as gilt yields rose and improved equity asset values. Work on the key mortality assumption project in the Caledonian Pension Scheme continues and we now anticipate this project concluding in Q2 2011.

Cashflow

Net debt amounted to £52.2m at the year end (2009: £49.4m) with the increase due to the final year of cash losses at Pearl & Dean offsetting cash generated in the core businesses. As I highlighted earlier, with the disposal of Pearl & Dean now completed, the cash generation of the continuing businesses will become much clearer and net debt will quickly decrease. The continuing businesses converted 138% of operating profit into free cashflow (2009: 118%), well above the target of 100% which remains in place going forward. Capital expenditure amounted to £0.8m (2009: £1.0m) with the major investments being in HD transmission capability and support for the online operations. We will continue our strategy of reducing risk by entering into partner relationships to deliver key strategic growth.

Dividends

The Board has previously stated that no dividends will be declared for 2010. With the improved trading position of the Group, we would normally expect to reinstate dividend payments during 2011, however, the Board have decided that while the intention is to resume dividend payments this will only occur when the outcomes of ongoing legal disputes are known.

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 internet services. The Group continues to focus upon its television and new media business.

Shares and other interests

As at 23 February 2011, the Company had been notified of the following interests of 3% or more in its ordinary shares:

	Total Shares	%
UBS Global Asset Mgt	6,232,970	16.26
Fidelity International (UK)	5,159,669	13.46
Odey Asset Mgt	3,937,275	10.27
Gartmore Invest. Mgt	3,205,802	8.36
Granada Media plc	2,650,961	6.91
Hanover Investors Partners	2,154,496	5.62
Investec Asset Management	1,800,000	4.70
STV Employee Share Trust	1,751,795	4.57
Murray International Holdings Ltd	1,465,383	3.82

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 2010 were equivalent to 46 days of purchases (2009: 49 days).

Compliance

Part of the information that fulfils the Companies Act requirements of the Directors' Report 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 on pages 27 and 28.

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.

Performance Review continued

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.

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 regulations.

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 profit 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

We have rigorous internal systems to identify, monitor and manage any risks to the business

Risks and uncertainties 2010

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.

All of the risks identified have been fully evaluated and taken into account in preparing the budgets and forecasts which support going concern and impairment assessments. The risks have also been reviewed and agreed with both internal and external auditors.

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 Broadcasting 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 £14.2m should STV be unsuccessful in all claims and a related unprovided contingent liability for accounting purposes of £6.9m. STV has a potential contingent asset of £7.3m 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

Principal Risks and Uncertainties continued

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. 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.

Everyone has a contribution to make in **strengthening our relationships** with our audiences and advertisers

Our audience

STV places a great emphasis on the importance of our all of our audiences, from viewers of our on-air broadcasts and programming to users of our websites and followers of our social media presence.

We continue to engage with them and always both welcome and encourage their feedback on our on-air and online content. For this purpose, STV's dedicated viewer enquiries team can be contacted via both phone and email and the website features a dedicated online comments section. www.stv.tv is publicised regularly using on-air announcements, ensuring that our audiences know how to access online content where they can provide feedback to us easily and readily.

Our marketing department conducted focus groups in both the north and central regions in 2010 to gain an insight into our audience's thoughts on our brand, their views on our programming and their own viewing habits.

In 2010 we hosted two audience surveys – one specifically relating to the new series of our flagship drama, *Taggart*, in October and one just after Christmas looking at our viewer's thoughts for 2011. The findings of these surveys will go on to inform future programming decisions.

STV's schedule is discussed at regular meetings by our Commissioning Group, comprising senior staff from across the business. We have a vigilant compliance process and dedicated announcers, ensuring that all of our programming is clearly signposted and that the content is clear, enabling audiences to make informed decisions about which programmes they choose to watch.

Digital switchover has already taken place in the north which was successful for STV and, as a trusted media brand, we continue to work with Digital UK to raise awareness of the forthcoming switchover in the STV Central licence area during 2011.

Our community

STV believes community relations are of paramount importance and staff across Scotland regularly connect with members of the public to increase understanding about the company and the wider media industry. We regularly facilitate studio tours at our Aberdeen and Glasgow studios for schools, community groups and businesses.

STV has developed strong links with educational institutions over our 50 years in existence, shedding light into what many regard to be a hugely competitive and exciting industry to work in.

Edinburgh Napier University's new degree programme, BA (Hons) Television was a key industry partner in 2010 and STV offered a comprehensive programme of industry support including student mentorship, work placement and shadowing opportunities, master classes and guest speakers.

Throughout the year we have facilitated tours of the STV studios for a range of community groups, media students and school classes.

We recently offered work placements to students across Scotland to carry out work experience placements on the *Taggart* set with each student spending one week working with various departments and their second week in an area of their choice, be that wardrobe, make up, post production, direction or script editing.

We hosted a skills development day for Skillset academies in March, providing opportunities for shadowing, industry 'master class' style lectures and workshop based learning.

STV continued its long-running partnership with youth organisation Common Purpose and their regular educational course, 'Your Turn', which aims to encourage leadership, raise aspirations and increase confidence among young people. In October, 30 participants visited STV where they met with members of the team to learn more about news and sports production.

The Prince's Trust's 'Get Started in Presenting' programme, designed to help young people improve communication skills and confidence using the media, was a key project for STV in 2010. As part of this partnership, we have organised six visits to STV across the year, offering participants a greater insight into the work that goes on

Corporate Social Responsibility continued

behind the scenes, as well as a chance to meet with our newsreaders and learn more about the day-to-day running of a television company.

STV North has an annual placement scheme in place with Robert Gordon University where we take one of their media students in for a six week period. The company also offers media studies students at Aberdeen College week long work experience placements on a regular basis. We also welcome regular visits from school parties from throughout the STV North transmission area. Work experience placements are also regularly available at STV's studios in Inverness and Dundee.

In 2010, our weather presenter, Sean Batty, conducted educational presentations for school pupils on weather, meteorology and weather presenting. The feedback on these experiences is very positive and the continued high level of interest from schools suggests this is a successful and fun method of learning.

STV has now installed several weather stations at schools in Lanarkshire which puts us in the early stages of setting up our planned STV Weather Network. It is expected that this will be rolled out across the country in the coming years to enhance STV Local's weather content along with on-air broadcasts.

Our advertisers

STV continues to offer a wide variety of high profile broadcast sponsorship campaigns across all daytime, peak and late night schedule allowing brands to feature their brand logo and commercial message in an around key programming guaranteeing sponsors a prime position and maximum visibility across a mass viewing audience.

Innovative propositions include a range of sponsored one minute programmes within our schedule which bring commercial opportunities as well as allowing lesser known minority groups or topics to benefit from exposure on a national platform.

In 2010 we broadcast a series of one minute programme showcasing the nominees and winners of the Big Hearted Scots Charity Awards Event, which honours unsung Scots heroes from all walks of life who have made extraordinary personal sacrifices to help others. The event also honours personalities from the worlds of Stage, Screen, Sport and Business who have made a significant contribution towards helping others less fortunate.

We also ran a series of one minute programmes to coincide with Remembrance Day, interviewing veterans young and old from a variety of the services. The interviewees spoke of their experiences and challenges after the forces, from coping with their memories to seeking employment and starting a new life with the support of friends and family members.

Our people

The talent, capability and commitment of our people have been key contributors to our ability to respond positively to the challenges of the market and deliver the progress achieved during 2010.

Our culture is based on the core 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 KPIs.

We have continued to attract key talent across all areas of the business and in particular through the launch of STV Local, we have recruited staff of the highest calibre to form a highly effective and engaged team to drive this key growth area.

In 2010 we confirmed a number of organisational changes to our Sales and Commercial teams to further improve our service to our clients and ensure we are in the strongest position to maximise revenue opportunities across all platforms. Under the direction of Peter Reilly, appointed from ITV during 2010, the team are in an excellent position to build on their successes to date and to continue to dominate the Scottish marketplace with renewed focus.

At the end of the year we formed the STV Channels business bringing together our broadcasting business and the editorial resources of our digital to maximise our ability to exploit content across all platforms. We also confirmed the appointment of Steven Walker, formerly of News International, to lead the development and growth of our online classified businesses in 2011 and beyond.

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 remains key to our success. During 2010 we conducted an employee opinion survey to assess motivation and obtain feedback to identify areas for continued improvement to ensure that STV continues to be an engaging, inspiring and rewarding place to work as we will undertake a further survey during 2011 to track progress.

We have an open culture based on face-to-face communication. 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. 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.

Performance driven culture

During 2010 we have continued to improve the alignment of the contribution of our people to the goals and KPIs of the business. Our talent and performance management system, mystv, provides 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 and opportunities are presented in new business areas and platforms.

Through mystv, performance and development goals related to the KPIs 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.

Talent and capability

As the profile of STV's brand continues to evolve and new business activities are developed, our ability to attract and retain the most innovate and creative talent available is key to our success. In addition to our core staff of 380, we have engaged over 550 freelance staff, demonstrating our role in supporting a vibrant creative hub and an emerging digital sector in Scotland.

We have continued to foster closer relationships with the higher and further education sectors supporting the talent of the future. We work in close partnership with Skillset Scotland, the sector skills body for the creative industries.

The recruitment of a high calibre editorial team to develop STV Local has represented the creation of new skilled roles and an investment in talent. To ensure that we are delivering consistent content of the highest quality, we have made a significant investment in a training programme which will be delivered in partnership with the National Union of Journalists.

Reward and recognition

In line with our competitors across the media sector, our reward strategy continued to be defined by the challenges of the market conditions. 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 2010 was consistent with the sector in general.

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

Equal opportunities and diversity

We are committed to maintaining a working environment where all employees are treated with respect and dignity and their full potential can be realised. We monitor our performance against our policies to

Corporate Social Responsibility continued

ensure that we are engaging effectively with our audiences and attracting a diverse pool of creative talent. Applications are encouraged from disabled candidates 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 2010 no employees became disabled during their employment.

We have continued our rolling programme of management coaching to ensure awareness and compliance with equal opportunities and our diversity obligations.

We were re-accredited with the "Disability Two Ticks" symbol recognising our commitment to the employment; retention; training and career development of disabled employees.

In December 2010 we committed to support the Government's "Get Ready for Work" programme, providing mentored training programmes and for young people not in education, employment or training.

Health and safety

STV is committed to compliance with all workplace health and safety laws and regulations. We continue to strive to provide a safe and healthy working environment. We monitor employee 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.

STV has continued to encourage participation in e-learning via the BBC cd-rom safety course for our journalists and production teams. Fifty percent of our Journalists have completed News Assignment and Locations Safety Training with a Chartered Health and Safety Consultant who specialises in media safety training. The remaining 50% will complete the training during 2011.

This year, STV has introduced a programme of Health and Safety Induction for new members of staff covering fire and emergencies, office ergonomics, first aid and other health and safety procedures.

STV has a proactive and responsible attitude towards occupational road risk management with clear procedures in place that are reviewed regularly so that they remain appropriate and to a high standard. Our clear driving standards and rules are communicated to staff through STV's Drivers Manual and this helps maintain our low accident rates:

	2010	2009	2008
Total accidents	26	18	30
Number attributable to driver error	14	11	12
Percentage attributable to driver error	54%	61%	40%

Health and safety performance in 2010

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

	2010	2009	2008
RIDDOR three-day reportable accidents	1	–	–
Total of all accidents	11	11	6

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.

As the Scottish Government has launched its Zero Waste Plan – aiming to increase Scotland's recycling to 70% by 2025 – our business needs to improve year-on-year to help achieve this goal and increase our recycling figures.

On average we have recycled approximately 63% of our waste during 2010.

During 2010 we continued to raise staff awareness and encourage participation in our recycling schemes and will continue with this going forward.

We participated in 'Green Office Week' in April. During this event STV encouraged staff to recycle and conserve energy wherever possible.

In 2011, we will remove desk bins around the office and encourage staff to recycle more.

STV has a Green Travel Plan at our Glasgow headquarters to encourage staff to use more sustainable means of transport to commute. 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. There are currently 40 members of staff taking part in this initiative.

In 2010 STV joined The Prince's May Day Network. This was founded by HRH The Prince of Wales, and is a collaboration of businesses addressing climate change.

We actively monitor our emissions and always seek to reduce these. In 2010 our transport CO_2 emissions were reduced by 14.5% from the previous year and our energy CO_2 emissions increased slightly by 5.2%. Our travel agent provides us with the Company's CO_2 emissions for all air and rail travel. Our CO_2 emissions have increased from 188.37 tonnes in 2009 to 236.12 tonnes in 2010 – an increase of 25% year-on-year. This is due to international travel taken for programming.

STV was awarded the 'Bronze' award from the National Recycling Stars (Environment Media Group) for our efforts in recycling in 2010 and we hope to repeat or better this accolade in 2011.

Charitable donations

During 2010, the Company made charitable donations of £6,000 (2009: £19,000). The Company's policy is not to make donations which are of a political nature.

Rob Woodward
Chief Executive Officer

Board of Directors

Richard Findlay (67)
Chairman [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 for Scotland; Chairman of the Royal Scottish Academy of Music & Drama Foundation; Innovate Financial Services Ltd; and, a growing life sciences company.

Rob Woodward (51)
Chief Executive

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.

George Watt (43)
Chief Financial Officer

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.

David Shearer (51)
Senior Independent Director [1,3]

Appointed to the Board in February 2007. David is an experienced corporate financier and was previously Senior Partner of Deloitte LLP for Scotland & Northern Ireland and a UK Executive board member of Deloitte. He 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 and Mithras Investment Trust plc. He was previously Chairman of Crest Nicholson plc where he stood down after successfully completing the financial restructuring of that business, was a non-executive director of Scottish Financial Enterprise and a Governor of the Glasgow School of Art. He served one term ending in early 2007 as non-executive director of HBOS plc.

Vasa Babic (44)
Non Executive Director [1,2]

Appointed to the Board in February 2007. Vasa works as an independent advisor to large European companies and is a non-executive Director of the Hanover Fund. Previously, he was Group Director of Business Integration at Vodafone plc and a partner in the London office of consulting firm Oliver Wyman. Vasa works in a broad range of sectors, with a focus on Telecoms, Internet, Media and Technology industries. He has an MA in Economics from King's College, Cambridge.

Jamie Matheson (56)
Non Executive Director [1,2]

Appointed to the Board in March 2007. Jamie is Executive Chairman of Brewin Dolphin Holdings PLC, a leading private client investment manager. 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.

Matthew Peacock (49)
Non Executive Director [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 20 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. He is also Chairman of Regeneris PLC.

Michael Jackson (53)
Non Executive Director [2]

Appointed to the Board on 1 May 2009, Michael is an advisor, investor and director for digital and television businesses in the US and UK. Previously he was President of Programming at InterActiveCorp, the internet conglomerate, where he was 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, FilmFour 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.

Key
1 Audit Committee
2 Remuneration Committee
3 Nomination Committee

left to right, from above
Rob Woodward
Richard Findlay
Mathew Peacock
Michael Jackson
George Watt
Vasa Babic
Jamie Matheson
David Shearer

Corporate Governance Report

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 (2008), 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 provision A.4.1 in relation to the constitution of the Nomination Committee. While it is acknowledged that it would be preferable to have this Committee 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 54, describes how, in respect to the financial year ended 31 December 2010, 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 and up to the date of signing the financial statements 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

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 non-executives mix of skills and wide ranging business experience is a major contribution to the proper functioning of the Board and its committees, ensuring that matters are debated and that no individual or group dominates the Board's decision making processes. Non-Executive Directors have a particular responsibility for ensuring that the business strategies proposed are fully discussed and critically reviewed and their collective experience and broad range of skills gained through a range of industries means they can constructively challenge management in relation to both the development of strategy and performance against the goals set by the Board.

The Board of Directors is committed to the highest standards of Corporate Governance and believes that such standards are vital to overall business integrity and performance. It recognises that it is accountable to the Company's shareholders for good governance to ensure efficient and effective management in order to deliver shareholder value over the long-term.

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:	**9**	**3**	**2**	**2**
Number attended:				
Richard Findlay	9			2
David Shearer	9	3		2
Rob Woodward	9			
George Watt	9			
Matthew Peacock	8			2
Vasa Babic	9	3	2	
Jamie Matheson	8	3	2	
Michael Jackson	7		1	

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 Annual General Meeting 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 Annual General Meeting.

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 within the Company through the separation of the roles of the Chairman and the Chief Executive which is set out in writing and has been approved by the Board. The Chairman is responsible for leadership of the Board, ensuring its effectiveness and setting its agenda. He ensures effective communication with shareholders and that the Board is aware of the views of major shareholders. He facilitates the contribution of the non-executive directors and constructive relations between the executive and non-executive directors. The Chief Executive is responsible for the day-to-day management of the Company, and executing the strategy, once agreed by the Board. He creates a framework of strategy, values, organisation and objectives to ensure the successful delivery of results, and allocates decision making and responsibilities accordingly. 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. She 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. 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.

Corporate Governance Report continued

- 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.

The Board sets the strategic objectives of the Company, determines investment policies, agrees on performance criteria and delegates to management the detailed planning and implementation of those objectives and policies in accordance with appropriate risk parameters. Compliance with policies and achievement against objectives is monitored by the Board through monthly and quarterly performance reporting and budget updates.

Board meetings involve reviews of financial and business performance against the plan and budgets approved by the Board, both at a company and a divisional level. The Board also receives regular presentations from key areas, 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.

Each year a Strategy Day is held offsite, which is attended by the Board and the Leadership Team. The Leadership Team has been restructured during 2010 to reflect the growth and changing priorities of the business. This comprises the executive directors; Chief Operating Officer; Commercial Director; Director of Corporate Development; Chief Technology and Platforms Officer; Director of Channels; Deputy Director of Channels; Director of Content and HR and Communications Director. The purpose of the team is to drive the implementation of the Company's strategic priorities whiles addressing critical business issues and opportunities. The team 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. At the Strategy Day, each member of the Leadership Team presents on the future plans and opportunities for their respective area of the business and in addition to building consensus on the direction the Company is taking, this allows all comments to be taken on board and gives the non executive directors the opportunity to question the Leadership Team. The Strategy Day is an important tool in communicating goals and objectives so that the most effective use can be made of STV's resources by focusing on the key priorities. It provides a clear focus for the Company, thereby producing more efficiency and effectiveness.

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.

Performance evaluation

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, the non-executive directors meet separately 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 2010 performance evaluation found the performance of each director to be effective and concluded that there was a strong, cohesive Board which provided the effective leadership and control required for a listed company.

The Chairman and other members of the Board recommend that the directors retiring be re-elected. The Chairman has confirmed that all Directors retiring and seeking re-election have been subject to performance evaluation and as part of this evaluation the Chairman confirms that they continue to demonstrate commitment to their role and in his view continue to fulfil their functions responsibly. The other members of the Board have evaluated the performance of the Chairman and recommend his reappointment.

Board Committees

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 Chairmen. 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 39 to 41.

Remuneration Committee

The members of the Committee during the year were:

Vasa Babic (Chairman)
Jamie Matheson
Michael Jackson

The activities of the Remuneration Committee are described within the report by the directors on remuneration which can be found on pages 44 to 54.

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

Corporate Governance Report continued

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:

- Monitor the integrity of the Company's published financial statements, ensuring that they meet statutory and associated legal and regulatory requirements and review significant financial reporting judgements contained in them.
- 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.
- Review the operation of the risk management process.
- Review the scope of work and reports produced by the internal auditors

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 both the external auditors and the internal auditors. The Committee also meets separately with senior management and the external auditors.

The Chairman of the Audit Committee reports to the subsequent meeting of the Board on the Committee's work and the Board receives a copy of the minutes of each meeting. The papers considered by the Committee are available to any Director who is not a member, should they wish to receive them. The Committee's effectiveness is reviewed annually as part of the Board evaluation process. In 2010 the Board concluded that it continues to operate effectively.

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 advice in relation to tax and the disposal of Pearl & Dean. 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 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 auditors 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. In 2009, Deloitte was appointed as the Group's Internal Auditor and the Board considers this appointment 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 primary focus of Deloitte's comprehensive internal audit programme is to provide assurance over key revenue streams and operating costs. Over the course of the three year programme Deloitte will review systems and processes and will ensure that the Company is operating effectively, efficiently and economically and in accordance with legislative requirements and professional standards. Its work is designed to provide insights into the internal control environment and efficiencies of key processes, as well as providing feedback on the effectiveness of interfaces between the business and enabling functions.

Deloitte attend all meetings of the Audit Committee and prepare a paper which they present at each meeting. The first meeting paper sets out the internal audit plan for that year with subsequent meeting papers taking the form of a "status update" reporting on what specific areas have been reviewed, an overall evaluation of the current controls and the key findings and recommendations.

The Board reviews the internal control process and its effectiveness on an ongoing basis to ensure it remains robust and to identify any control weaknesses and can confirm that no significant failings or weaknesses were identified in relation to the review.

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 partner responsible for the Group and subsidiary audits every five years and the current lead audit partner has been in place for two years. 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.

Corporate Governance Report continued

Risk management and internal control

The directors of the Company 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 re-forecasting 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 Whistleblowing Policy through which staff can, in confidence, raise concerns about possible improprieties either in the conduct of others in the business or in the way the business is run. Concerns can relate to actual or potential breaches of law or company policy, including those relating to accounting, risk issues, internal controls, auditing issues and related matters. All matters raised will be investigated and reported to the Committee. No such concerns were raised by staff during the year.

Risk is inherent in the Group's business and activities and the review of risk and risk management is embedded throughout the Group. 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 comprises risks specific to the divisional activities of the business, as well as environmental, social, governance, financial and human resources risks. It 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 process includes multiple opportunities for rigorous discussion and debate to assess the relative profile of each risk to the other. Risks are linked to business objectives and KPIs to ensure that all key risks are considered and adequately managed. Each risk is scored on both an inherent (gross) basis and residual (net) basis to provide assurance that the controls are operating as intended and both the inherent and residual scores are calculated by multiplying the risk likelihood by the risk impact to ensure that more accurate evaluations are taken.

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 Board recognises the importance of two-way communication with the Company's shareholders, ensuring that all directors are fully aware of their views. As well as giving a balanced report of results and progress at each Annual General Meeting, the Company meets with, and responds to questions and issues raised by institutional and retail shareholders.

The Chairman, the Senior Independent Director and other non-executive directors are available to meet with major shareholders to discuss governance and strategy, and to understand any issues and concerns. Communication with major shareholders, analysts and the financial press is maintained throughout the year and feedback from major shareholders is regularly sought and reviewed by the Board. Copies of analysts' research relating to the Group are circulated to all directors upon publication and a brief analysis of the shareholder register is prepared quarterly and made available to the Board.

Detailed reviews of the Company's performance and financial position 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 Company's position and prospects. Such communication is designed to establish a mutual understanding of objectives.

STV's corporate website at www.stvplc.tv has information for institutional and retail shareholders alike and shareholders seeking information may contact the Company directly throughout the year. In addition, STV 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 Annual General Meeting.

The Company's Registrar, Capita, operates an internet access facility for shareholders, providing details of their shareholding at www.capitashareportal.com.

Remuneration Report

Remuneration Committee Report

Introduction

This report has been prepared in accordance with Schedule 8 Quoted Companies: Directors' Remuneration Report Regulations 2008, (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 UK's Combined Code (2008) 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 2010

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 within 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 interests of executives are closely aligned with those of the Company's shareholders through the provision of equity 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.

Remuneration of executives is linked to a range of business performance measures relating to strategic objectives; operational targets and performance against the Company's 11 KPI targets. Progress and performance against these measures is reviewed on a periodic basis by the Remuneration Committee. This process ensures that when determining executive remuneration the Committee takes into account the risk profile of the Company and its long-term sustainability.

The Company's 11 KPIs are detailed on pages 22 and 23 of the Annual Report.

Every year, the Remuneration Committee reviews whether the 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;
- pay and conditions throughout the Company. The Remuneration Committee has access to information on the pay and conditions of other employees in the Group when determining the remuneration packages for Executive Directors. The Remuneration Committee actively considers the relationship between general changes to employees pay and conditions and any proposed changes in the remuneration packages for Executive Directors to ensure it can be sufficiently robust in its determinations in light of the position of the Company as a whole.

Components of Executive Directors' remuneration

The individual components of the remuneration package for 2010 are outlined below:

Base salary

The base salary is reviewed annually by the Committee. 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 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.

In January 2010 base salary was re-instated to previous levels following the implementation of voluntary reductions during 2009 in response to market conditions. Base salary levels have not been adjusted since 2007 and the Committee has agreed that they will remain at current levels in 2011.

Benefits allowance

Executives are entitled to receive a taxable, cash allowance in lieu of benefits in kind, including car and private medial insurance. 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.

Performance related bonus plan

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.

A performance related bonus plan was operated in 2010. Bonus payments are not guaranteed and are dependent on achievement of performance targets relating to financial and personal performance measures.

The 2010 performance related bonus plan was designed to:

Remuneration Report continued

- ensure 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 in shares;
- support executives in building up a shareholding in the business through rewards made in both 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 equity based rewards.

Bonus payments have been triggered in 2010 as a result of strong financial performance delivered against the financial performance targets relating to the bonus plan, all of which have been met in full. As a result, bonus payments at 75% of bonus potential maximum have been earned. The bonus performance measures and the extent to which these have been satisfied is outlined below:

2010 Performance related bonus plan

Performance targets	% Target satisfied	Bonus payable
Group PBT	175%	25% (max)
EPS	189%	25% (max)
Operating Profit	120%	25% (max)
Personal objectives	Executive directors voluntarily agreed to waive entitlement to this element	0% (by voluntary agreement)

In recognition of the need for continued restraint in remuneration at the present time, the Chief Executive Officer volunteered and subsequently has agreed with the Committee and the Board that he will not receive any payment of bonus earned in 2010 and that this will be deferred for a period of 24 months and will be payable wholly in shares and partially subject to performance conditions being met.

Under the rules of the performance related bonus plan, payments are due to 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 payable in March 2011 is payable in cash. The second tranche payable in March 2012, 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, in shares.

The Committee has agreed that the 2011 performance related bonus plan will remain based on financial performance targets relating to Group PBT; Operating Profit and EPS. Bonus potential maximum payments will be a maximum of 125% of base salary (2010: 150%) and 25% of bonus payments will become payable upon achievement of performance target (2010: 40%) with bonus potential maximum being payable upon performance targets being exceeded by 25% (2010: 20%). A straight line mechanism will operate between 100% and 125% of budgeted financial performance targets.

Share incentives

No share based incentive awards were granted in 2010.

The Remuneration Committee does not intend to award an LTIP in 2011.

Dilution

The Company operates all of its share arrangements within the ABI Guidelines on dilution. The ABI Guidelines provide that 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 only issue 5% to satisfy awards under discretionary or executive plans.

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	3.73%	(0.02%)
5% dilution in ten years	3.73%	(0.02%)

Pension

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.

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.

Rob Woodward is not a member of any Company pension scheme and receives a taxable cash allowance. George Watt was a participating member of the Scottish and Grampian Television Retirement Benefits Scheme, which is an Inland Revenue approved defined benefit occupational pension scheme, until 31 March 2010, when he decided to become a deferred member of the scheme. From 1 April 2010 to 31 December 2010 George Watt received a taxable cash allowance in lieu of pension contributions.

Fixed and variable compensation

The chart below demonstrates the balance between fixed and variable performance-based compensation for each executive director for the year ended 31 December 2010:

R Woodward

55% Performance Compensation
45% Fixed Compensation

G Watt

55% Performance Compensation
45% Fixed Compensation

Key
Fixed Compensation is calculated as: - Salary, - Benefits
Performance Compensation is calculated as: - Bonus available

Remuneration Report continued

Directors interests in shares

The beneficial interests of the directors and their families in the ordinary shares of the Company as of 1 January 2010 and as at 31 December 2010 were, other than in respect of options or other rights to acquire ordinary shares, as follows:

	1 January 2010		31 December 2010	
	Ordinary shares	Share Incentive Plan	Ordinary shares	Share Incentive Plan
Executive directors				
Rob Woodward	30,000	-	177,097	-
George Watt	17,634	1,070	102,349	1,070
Non-executive directors				
Richard Findlay	15,000	-	15,000	-
David Shearer	12,500	-	40,000	-
Jamie Matheson	12,500	-	12,500	-
Vasa Babic*	3,803,825	-	2,154,496	-
Matthew Peacock*	3,803,825	-	2,154,496	-
Michael Jackson	-	-	-	-

* These 2,154,496 STV Group plc shares are held by Hanover. The interests of both Matthew Peacock and Vasa Babic are by reference to the same shareholding.

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

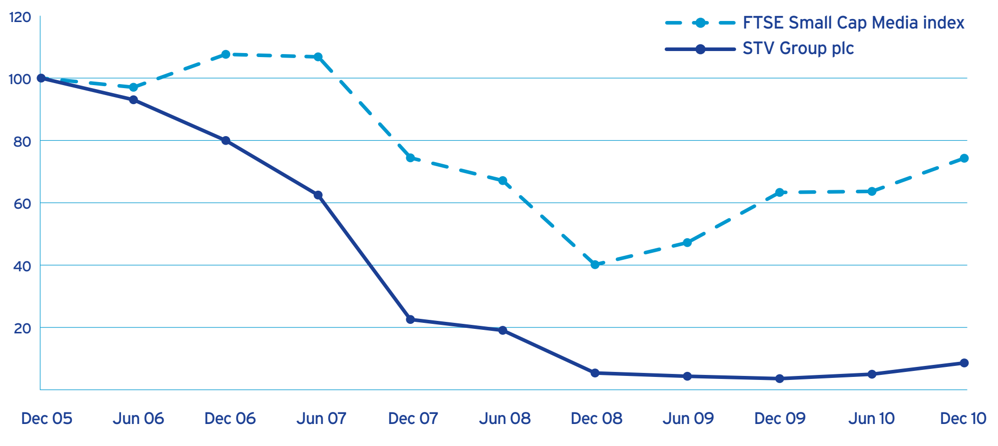
The remuneration of the non-executive directors is determined by the Board based upon recommendations from the Chairman and Chief Executive Officer (or, in the case of the Chairman, based on recommendations from the Senior Independent non-executive director and the Chief Executive Officer) and is within the limits set by the Articles of Association. For non-executive directors, the basic fee is paid only 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.

There will be no changes to the fees paid to the non-executive directors in 2011.

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.



Remuneration Report continued

2010 audited information

The total of directors' emoluments in the year was £1,097,000 (2009: £909,000).

The remuneration of each director, excluding long-term incentive awards, during the year ended 31 December 2010 compared with 2009 is set out in the table below.

	Basic salary/fees		Benefits (1)		Annual performance related bonus (2)		Compensation for loss of office		Total	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Executive directors										
Rob Woodward	380	329	92	89	–	–	–	–	472	418
George Watt	214	193	52	32	80	–	–	–	346	225
Non-executive directors										
Richard Findlay	85	85	–	–	–	–	–	–	85	85
David Shearer	48	48	–	–	–	–	–	–	48	48
Matthew Peacock	38	38	–	–	–	–	–	–	38	38
Vasa Babic	38	38	–	–	–	–	–	–	38	38
Jamie Matheson	35	35	–	–	–	–	–	–	35	35
Michael Jackson	35	22	–	–	–	–	–	–	35	22
Total (£000)	873	788	144	121	80	0		0	1,097	909

(1) This is an allowance to cover standard company benefits such as a car and medical insurance. In addition, this includes a taxable cash allowance in lieu of a pension contribution (see pension section below for more information).

(2) Under the terms of the 2010 bonus plan, bonus is payable in three equal tranches, with performance conditions attached to the final tranche. The first tranche is payable in cash in 2011, the second tranche is payable in shares in 2012, and the final tranche is payable in shares in 2013 subject to the fulfilment of performance conditions relating to 2011 financial performance. The Chief Executive Officer has agreed with the Board that he will not receive any payment of bonus earned in respect of 2010 and that this will be deferred for up to 24 months and paid wholly in shares with financial performance conditions relating to future financial performance applying to two thirds of his bonus payment.

2010 Performance related bonus plan (share elements)

Name	Date of grant	Number of Bonus Shares granted in respect of 2010	Share price	Vesting date
Rob Woodward				
	31.03.11	114,919	£1.24	31.03.12
	31.03.11	229,838	£1.24	31.03.13*
George Watt				
	31.03.11	64,516	£1.24	31.03.12
	31.03.11	64,516	£1.24	31.03.13*

* vesting subject to satisfaction of 2011 performance condition (see unaudited section of the report).

Pension entitlements

For further information on pensions refer to the unaudited part of the Remuneration Report.

Rob Woodward is not a member of any Company pension scheme and receives a taxable cash allowance of £76,000, equivalent to 20% of base salary (2009: £76,000: 20% of base salary).

George Watt was a participating member of the Scottish and Grampian Television Retirement Benefits Scheme until 31 March 2010. For the period of his participation in the scheme, George Watt made contributions of 10% of base salary up to the Earnings Cap (2009: 9% from 1 January 2009 until 31 July 2009, and 10% thereafter). A cash pension allowance of £32,130 (2009: Nil) was paid to George Watt in respect of the period from 1 April 2010 to 31 December 2010 following his voluntary cessation of his membership of the final salary pension scheme.

Final salary scheme

	Change in accrued pension over the year (1) £	Accrued pension at 31 December 2010 £	Transfer value at 31 December 2010 (2) £	Transfer value to 31 December 2009 £	Change in transfer value over the year less director's contributions £
George Watt	1,395	25,995	266,570	243,692	19,788

(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.

Directors' interests in the Company's share plans

Long Term Incentive Plan

This plan is operated under the rules of the LTIP arrangement approved by Shareholders on 3 June 2005. The following awards were granted under the Company's long-term incentive plans:

2007 Long Term Incentive Plan

The award was approved by shareholders on 3 June 2007. The award was granted on 12 July 2007 and lapsed on 12 July 2010.

	Interests at 1 January 2010	Awarded in year	Released in year	Lapsed in year	31 December 2010	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

2005 Long Term Incentive Plan

This plan is operated under the rules of the LTIP arrangement approved by shareholders on 3 June 2005. The award was granted on 11 April 2008.

	Interests at 1 January 2010	Released in year	Lapsed in year	31 December 2010	Award date	Release date
Rob Woodward	365,452	-	-	365,452	11.04.08	11.04.11
George Watt	206,000	-	-	206,000	11.04.08	11.04.11

Remuneration Report continued

Performance conditions

2008 award

50% of the Award is subject to comparative TSR performance against a competitor and comparator group. 50% of the Award is subject to the average annual ROCE performance of the Company.

Competitor TSR group		Comparator TSR group		Average annual ROCE performance	
Position	% of award	Quartile	% of Award	Group ROCE	% of Award
Position 5	0%	<Median	0%*	10%	10%*
Position 4	25%	Median	25%*	50%	50%*
Position 3	50%	Upper Quartile	100%*	20%	100%*
Position 2	75%				
Position 1	100%				

*Straight line release between these points.

Competitor group
B Sky B plc, Chrysalis plc, EMAP plc, ITV plc, Maiden Group plc, Ulster Television plc.

Comparator group
Aegis Group plc, British Sky Broadcasting plc, Chrysalis plc, EMAP plc, Euromoney Institutional Investor plc, Future Network plc, 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.

2009 Long Term Incentive Plan

This award was approved by shareholders on 22 April 2009. The award was granted on 7 May 2009.

	Number of units awarded under 2009 LTIP	Award date	Release date
Rob Woodward	330,000	7.05.09	7.05.12
George Watt	190,000	7.05.09	7.05.12

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

Performance conditions of 2009 LTIP

In March 2010 the Committee approved minor changes to the LTIP Rules to allow a proportion of the value of awards to be provided under an HMRC approved option plan structure. In addition, participants were also able to acquire interests over shares under a joint ownership arrangement which also provides the ability to receive part of the award value.

It should be noted that the gross potential benefit to participants and the dilutive cost to shareholders under the 2009 LTIP remains unchanged.

The Company Employee Benefit Trust facilitated the operation of the joint ownership arrangement by assisting participants in the acquisition of the interests. The Committee believes the cost to the Company of the joint ownership arrangement is more than outweighed by the savings made by not providing an LTIP award during 2010.

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 into 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 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

Remuneration Report continued

Basis of Performance Condition Selection and Measurement

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 Resources 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

Vasa Babic
Remuneration Committee Chairman
Pacific Quay
Glasgow G51 1PQ
23 February 2011

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STV Group plc Consolidated Financial Statements

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 2010 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 26, 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 and express an opinion on 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 2010 and of its profit 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 matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report 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 26, 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;
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of STV Group plc for the year ended 31 December 2010 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

24 February 2011

Consolidated Income Statement

Year ended 31 December 2010

	Note	2010 Underlying results £m	2010 Exceptional items £m	2010 Results for year £m	2009 Underlying results £m	2009 Exceptional items £m	2009 Results for year £m
Continuing operations							
Revenue	5	**104.8**	**-**	**104.8**	90.3	-	90.3
Net operating expenses before exceptional costs		**(90.4)**	**-**	**(90.4)**	(81.1)	-	(81.1)
Litigation matters	8	**-**	**(3.5)**	**(3.5)**	-	-	-
Writedown of inventory	8	**-**	**(2.7)**	**(2.7)**	-	-	-
Cost of change	8	**-**	**(0.9)**	**(0.9)**	-	-	-
Pension service credit	8	**-**	**-**	**-**	-	4.0	4.0
Onerous lease contracts	8	**-**	**-**	**-**	-	(3.4)	(3.4)
Net operating expenses		**(90.4)**	**(7.1)**	**(97.5)**	(81.1)	0.6	(80.5)
Operating profit		**14.4**	**(7.1)**	**7.3**	9.2	0.6	9.8
Finance income		**0.2**	**-**	**0.2**	0.7	-	0.7
Finance costs – borrowings	9	**(2.5)**	**(1.5)**	**(4.0)**	(2.5)	-	(2.5)
– IAS 19 pension	9	**0.4**	**-**	**0.4**	(1.9)	-	(1.9)
		(1.9)	**(1.5)**	**(3.4)**	(3.7)	-	(3.7)
Profit before tax		**12.5**	**(8.6)**	**3.9**	5.5	0.6	6.1
Tax credit/(charge)	11	**-**	**1.4**	**1.4**	(0.5)	(1.1)	(1.6)
Profit for the year from continuing operations		**12.5**	**(7.2)**	**5.3**	5.0	(0.5)	4.5
Discontinued operations							
Profit/(loss) for the year from discontinued operations	10	**-**	**-**	**-**	-	(13.3)	(13.3)
Profit/(loss) for the year		**12.5**	**(7.2)**	**5.3**	5.0	(13.8)	(8.8)
Earnings/(loss) per share							
From continuing operations – basic and diluted	13	**32.9p**		**13.9p**	13.7p		12.3p
From continuing and discontinued operations – basic and diluted	13	**32.9p**		**13.9p**	13.7p		(24.1p)

The notes on pages 62 to 89 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Note	2010 £m	2009 £m
Profit/(loss) for the year		**5.3**	(8.8)
Actuarial gain/(loss) on post employment benefit obligations	29	**9.1**	(8.0)
Deferred tax (charge)/credit	21	**(2.9)**	2.2
Other comprehensive income/(expense) for the year net of tax		**6.2**	(5.8)
Total comprehensive income/(expense) for the year		**11.5**	(14.6)

Consolidated Balance Sheet

At 31 December 2010

	Note	2010 £m	2009 £m
Non-current assets			
Goodwill and other intangible assets	14	**7.9**	8.2
Property, plant and equipment	15	**10.1**	12.1
Deferred tax asset	21	**11.1**	11.8
		29.1	32.1
Current assets			
Inventories	16	**35.8**	47.0
Trade and other receivables	17	**26.4**	22.4
Cash and cash equivalents	18	**7.6**	14.3
Short term bank deposits	18	**0.1**	0.5
		69.9	84.2
Assets classified as held for sale	10	**-**	12.1
Total assets		**99.0**	128.4
Equity attributable to owners of the parent			
Ordinary shares	23	**19.2**	18.3
Share premium	23	**111.4**	111.3
Merger reserve		**173.4**	173.4
Other reserve		**0.8**	0.5
Accumulated losses		**(324.6)**	(335.4)
Total equity		**(19.8)**	(31.9)
Non-current liabilities			
Borrowings	20	**54.9**	-
Trade and other payables	19	**2.5**	1.2
Retirement benefit obligation	29	**22.9**	36.0
Provisions	22	**3.1**	3.7
		83.4	40.9
Current liabilities			
Borrowings	20	**5.0**	67.5
Trade and other payables	19	**29.0**	28.7
Current tax liabilities		**-**	0.9
Provisions	22	**1.4**	1.1
		35.4	98.2
Liabilities directly associated with assets classified as held for sale	10	**-**	21.2
Total liabilities		**118.8**	160.3
Total equity and liabilities		**99.0**	128.4

The notes on pages 62 to 89 are an integral part of these consolidated financial statements.
The consolidated financial statements on pages 58 to 89 were approved by the Board on 24 February 2011 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 2010

	Equity attributable to owners of the parent					
	Ordinary shares £m	Share premium £m	Merger reserve £m	Other reserve £m	Accumulated losses £m	Total Equity £m
Balance at 1 January 2010	18.3	111.3	173.4	0.5	(335.4)	(31.9)
Profit for the year	–	–	–	–	5.3	5.3
Actuarial gain	–	–	–	–	9.1	9.1
Deferred tax thereon	–	–	–	–	(2.9)	(2.9)
Total comprehensive income for the year	–	–	–	–	11.5	11.5
Own shares issued and acquired	0.9	0.1	–	–	(1.0)	–
Own shares awarded	–	–	–	–	0.3	0.3
Equity-settled share based payments	–	–	–	0.3	–	0.3
Balance at 31 December 2010	**19.2**	**111.4**	**173.4**	**0.8**	**(324.6)**	**(19.8)**
Balance at 1 January 2009	18.0	111.3	173.4	0.7	(320.5)	(17.1)
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 issued and 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)

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Note	2010 £m	2009 £m
Operating activities			
Cash generated/(used) by operations	24	**6.3**	(1.2)
Interest paid		**(3.4)**	(3.4)
Pension deficit funding – Recovery plan payment		**(3.7)**	(3.9)
– One off disposal proceeds contribution		**–**	(4.0)
Net cash used by operating activities		**(0.8)**	(12.5)
Investing activities			
Interest received		**0.2**	0.5
Purchase of property, plant and equipment		**(0.8)**	(1.0)
Net cash used by investing activities		**(0.6)**	(0.5)
Financing activities			
Release of cash on deposit		**0.4**	0.5
Net borrowings (repaid)/drawn		**(9.0)**	13.7
Net cash (used)/generated by financing activities		**(8.6)**	14.2
Net (decrease)/ increase in cash and cash equivalents		**(10.0)**	1.2
Cash and cash equivalents at beginning of year		**17.6**	16.4
Cash and cash equivalents at end of year	24	**7.6**	17.6

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

Reconciliation of movement in net debt

Year ended 31 December 2010

	Note	2010 £m	2009 £m
Opening net debt		**(49.4)**	(36.4)
Net (decrease)/ increase in cash and cash equivalents		**(10.0)**	1.2
Movement in debt financing		**7.6**	(13.7)
Movement in escrow cash		**(0.4)**	(0.5)
Closing net debt	24	**(52.2)**	(49.4)

Notes to the Financial Statements

for the year ended 31 December 2010

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. Adoption of new and revised standards

There are no new standards, amendments to standards or interpretations mandatory for the first time for the financial year beginning 1 January 2010 which are relevant to the Group's results.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2010 and are not relevant to the Group or had no material impact on the financial statements.

IFRS 3 (revised)	Business combinations
IAS 27 (revised)	Consolidated and separate financial statements
IAS 28 (amendment)	Investments in associates
IAS 31 (amendment)	Interests in joint ventures
IFRIC 17	Distribution of non-cash assets to owners
IFRIC 18	Transfers of assets to customers
IFRS 1 (amendment)	Additional exemptions for first-time adopters
IFRS 2 (amendment)	Group cash-settled share-based payment transactions
IAS 32 (amendment)	Classification of rights issues

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:

IFRS 9	Financial instruments: classification and measurement
IFRS 7 (amendment)	Transfers of financial assets
IAS 24 (revised)	Related party disclosures
IFRIC 19	Extinguishing financial liabilities with equity instruments
IFRIC 14 (revised)	Prepayments of a minimum funding requirement

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.

3. 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 and on a going concern basis.

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.

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.

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. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group on consolidation. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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.

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 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 results 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.

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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Notes to the Financial Statements
continued

3. **Significant accounting policies** continued

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:

Leasehold buildings	between 5% and 10%
Plant, technical equipment and other	between 10% and 20%

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.

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 spread on a straight-line basis over the lease term.

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.

Current 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
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.

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
Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Cost of change
Cost of change provisions are recognised when the Group has a detailed formal plan for the reorganisation that has been communicated to affected parties.

Notes to the Financial Statements
continued

3. **Significant accounting policies** continued

Onerous contracts
Provisions for onerous contracts are recognised when the Group has a detailed forecast of future losses from the contract.

Share-based payments
The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value of the equity instruments at the grant date. The fair value excludes the effect of non market-based vesting conditions.

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 equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit and loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

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.

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.

Financial assets
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.

Investments
Immaterial investments are recorded as current assets. Investments are measured at reporting dates at fair value.

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.

Financial liabilities and equity
Bank borrowings
Interest-bearing bank loans and overdrafts are initially recorded at the proceeds received, net of direct issue costs. They are subsequently measured at amortised cost using the effective interest rate. 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.

Trade payables
Trade payables are not interest bearing and are stated at their nominal value.

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

Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments to hedge its exposure to fluctuations in interest. 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 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.

4. Critical accounting estimates and judgements

In the application of the Group's accounting policies, which are described in note 3, 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.

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.

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 29.

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 an 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.

Inventory

The carrying value of stock is assessed each year at the balance sheet date. Recorded programme and film inventory is based on contractual values with an estimated useful life, and is amortised on that basis.

Notes to the Financial Statements
continued

4. Critical accounting estimates and judgements continued

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). The Group sold its Cinema business on 14 May 2010.

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.

	External sales	
Segment revenues	**2010 £m**	2009 £m
Continuing operations		
Broadcasting	**90.3**	77.8
Content	**9.8**	8.1
Ventures	**4.7**	4.4
	104.8	90.3
Discontinued operations		
Cinema	**6.9**	19.9
	111.7	110.2

Turnover in 2010 includes £1.6m of revenues from sources outside the UK (2009: £1.6m).

Segment result	Underlying segment result 2010 £m	2009 £m	Exceptional items 2010 £m	2009 £m	Segment result 2010 £m	2009 £m
Continuing operations						
Broadcasting	**13.4**	7.6	**(3.1)**	–	**10.3**	7.6
Content	**1.0**	0.9	**(0.2)**	–	**0.8**	0.9
Ventures	**-**	0.7	**(0.3)**	–	**(0.3)**	0.7
	14.4	9.2	**(3.6)**	–	**10.8**	9.2
Exceptional legal costs incurred in litigation with ITV Network plc and ITV plc					**(3.5)**	–
Exceptional onerous lease provision attributable to Group					**-**	(3.4)
Exceptional past service pension credit attributable to Group					**-**	4.0
Operating profit					**7.3**	9.8
Financing					**(1.9)**	(3.7)
Exceptional financing costs					**(1.5)**	–
Profit before tax					**3.9**	6.1
Tax credit/(charge)					**1.4**	(1.6)
Profit for the year from continuing operations					**5.3**	4.5
Discontinued operations						
Cinema	**-**	–	**-**	(13.3)	**-**	(13.3)
Attributable tax credit	**-**	–	**1.5**	–	**1.5**	–
	-	–	**1.5**	(13.3)	**1.5**	(13.3)
Exceptional loss on disposal of discontinued operations					**(1.5)**	–
Loss for the year from discontinued operations					**-**	(13.3)
Profit/(loss) attributable to equity shareholders					**5.3**	(8.8)

Operating profit in 2010 includes £0.7m arising outside the UK (2009: £0.9m).

In 2010, the exceptional items in Broadcasting relate to a writedown of film stock of £2.7m and a £0.4m cost of change provision. The exceptional item in Content of £0.2m and Ventures £0.3m relates to a cost of change provision.

In 2009, the exceptional item in Cinema of £13.3m related to an increase in the Vue onerous contract provision reflecting weaker than anticipated trading.

Notes to the Financial Statements
continued

5. Business segments continued

Segment assets and liabilities	Assets 2010 £m	Assets 2009 £m	Liabilities 2010 £m	Liabilities 2009 £m
Broadcasting	**42.9**	61.7	**34.0**	18.2
Content	**34.1**	32.2	**2.9**	1.8
Ventures	**1.4**	2.6	**0.9**	0.5
Cinema	**-**	12.1	**-**	21.2
Total of all segments	**78.4**	108.6	**37.8**	41.7
Unallocated corporate	**20.6**	19.8	**81.0**	118.6
Consolidated	**99.0**	128.4	**118.8**	160.3

Other segment information	Broadcasting 2010 £m	Broadcasting 2009 £m	Content 2010 £m	Content 2009 £m	Ventures 2010 £m	Ventures 2009 £m	Cinema 2010 £m	Cinema 2009 £m
Capital additions	**0.6**	0.6	**-**	-	**0.2**	0.4	**-**	-
Depreciation	**2.3**	2.4	**-**	-	**0.2**	0.2	**-**	-

Segment assets consist primarily of goodwill, property, plant and equipment, inventories and 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 2009 and 2010 were held in the UK and therefore operate in a single geographical segment.

6. Operating expenses by nature

	2010 £m	2009 £m
Changes in inventories	**8.5**	(5.1)
Other external charges	**66.3**	86.9
Staff costs	**16.4**	16.4
Depreciation	**2.5**	2.6
Operating lease charges:		
– plant and machinery	**1.0**	2.2
– other	**2.4**	2.1
Other operating charges	**0.2**	0.2
	97.3	105.3
Attributable to:		
Continuing	**90.4**	81.1
Discontinued	**6.9**	24.2
	97.3	105.3

Services provided by the Group's auditor

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

	2010 £m	2009 £m
Group		
Fees payable to Company auditor for the audit of parent company and consolidated financial statements	**0.1**	0.1
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**	0.1
– Other services pursuant to legislation	**0.1**	0.1
– Tax services	**0.3**	0.2
– Other	**0.1**	0.1
	0.7	0.6

Included in the audit fees payable is £5k (2009: £5k) paid in respect of the parent company.

Other services pursuant to legislation include fees for disposal of Pearl & Dean.

Other non-audit services comprise employee benefit advisory services.

Notes to the Financial Statements

continued

7. Staff

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

	2010 Number	2009 Number
Broadcasting, Content & Ventures		
Established	**346**	349
Contract	**23**	20
	369	369
Cinema		
Established	**16**	39
Contract	**1**	1
	17	40
Total	**386**	409

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

Their aggregate remuneration comprised:

	2010 £m	2009 £m
Wages and salaries	**12.9**	11.9
Social security costs	**1.1**	1.2
Retirement benefit obligation (see note 29)	**2.4**	3.3
	16.4	16.4

Included within the retirement obligation above is a £2.8m pension cost (2009: £1.4m) and a £0.4m interest credit (2009: £1.9m charge). The interest element is included within finance costs on the face of the income statement.

Details of directors' remuneration is provided in the Remuneration Committee Report on pages 44 to 54.

8. Exceptional items

i) Litigation matters

As was disclosed in our 2009 Annual Report, ITV plc and other ITV entities launched a claim against STV Group and subsidiaries for £15–£20m (net) primarily in relation to opt-out programming. STV is vigorously defending this claim and in addition has launched further counter claims. The £3.5m exceptional represents legal costs incurred to 31 December 2010 in respect of these claims.

ii) Writedown of inventory

A stock writedown of £2.7m has been recognised during the year in relation to film stock as a result of new information received.

iii) Cost of change

A provision of £0.9m has been recognised during the year in relation to restructuring within the business.

iv) Pension service credit

A past service pension credit (net of pension costs) of £4.0m was recognised in 2009 in relation to changes made to the Scottish and Grampian Television Retirement Benefit Scheme.

v) Onerous lease contracts

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

vi) Finance costs

A loss on extinguishment of debt of £1.5m was recognised during the year. On 3 February 2010, the Group renegotiated its banking facilities in part to enable a disposal of Pearl & Dean and the £1.5m loss represents the write off of unamortised fees in respect of the original debt obligations.

9. Finance costs

	2010 £m	2009 £m
Bank borrowings	**2.5**	2.5
Pension finance (credit)/charge	**(0.4)**	1.9
Interest expense excluding exceptional items	**2.1**	4.4
Exceptional finance costs (see note 8)	**1.5**	–
Total interest expense	**3.6**	4.4

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10. Discontinued operations

The disposal of the Group's cinema business, Pearl & Dean, completed on 14 May 2010.

	2010 £m	2009 £m
Post tax results from discontinued operations (see note 5)	–	(13.3)

Exceptional items included within the results are as follows:

Loss on disposal of discontinued operations

Pearl & Dean Limited was sold to Image Ltd ("Image") for a gross cash consideration of £1 resulting in a £nil post tax result on disposal. Pearl & Dean paid the 2010 minimum income guarantee of £17.6m to Vue Cinemas by way of an intercompany loan from STV. As part of the deal agreed with Image, Pearl & Dean will repay the portion of this loan relating to the period from 1 May 2010 to 31 December 2010 amounting to £9.1m. The first repayment of £2.5m was received upon completion, further payments of £5.1m were received to 31 December 2010 and the balance was fully repaid in January and February 2011.

Onerous contract provision

A provision of £13.3m was made in 2009 to cover future losses expected from the Vue contract within Cinema division.

Cash flows from discontinued operations	2010 £m	2009 £m
Net cash flows from operating activities	**(9.5)**	(9.1)
Net cash flows from investing activities	–	–
	(9.5)	(9.1)

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

	2010 £m	2009 £m
Trade and other receivables	–	8.8
Cash and cash equivalents	–	3.3
Total assets classified as held for sale	–	12.1
Trade and other payables	–	6.9
Provisions for liabilities and charges	–	14.3
Total liabilities associated with assets classified as held for sale	–	21.2
Net liabilities of disposal group	–	(9.1)

The net liabilities of Pearl & Dean at the date of disposal were as follows:

	30 April 2010 £m
Property, plant and equipment	0.5
Intangible assets	0.2
Trade and other receivables	22.9
Trade and other payables	(4.3)
Tax liabilities	(1.5)
Working capital adjustment agreed as part of disposal	1.4
	19.2
Onerous contract provision released	(11.9)
Loan due to STV Group plc	(9.1)
	(21.0)
Net liabilities	(1.8)
Disposal expenses	1.8
Gain/(loss) on disposal	–
Total consideration	–
Net cashflow arising on disposal:	
Cash consideration	–

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11. Tax

	2010 £m	2009 £m
Current tax:		
UK corporation tax on profit for the year	–	–
UK corporation tax adjustment in respect of prior years	(0.7)	(1.1)
	(0.7)	(1.1)
Deferred tax:		
Origination and reversal of timing differences	(2.2)	2.7
Tax (credit)/charge for the year	(2.9)	1.6
Attributable to:		
Continuing operations	(1.4)	1.6
Discontinued operations	(1.5)	–
	(2.9)	1.6

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

	2010 £m	2009 £m
Profit before tax from continuing operations	3.9	6.1
Loss before tax from discontinued operations	(1.5)	(13.3)
Profit/(loss) before tax	2.4	(7.2)
Tax at the UK corporation tax rate of 28% (2009: 28%)	0.7	(2.0)
Other expenses not deductible for tax purposes	–	0.4
Utilisation of tax losses brought forward from prior periods	(1.2)	–
Tax losses for which no deferred tax is recognised	–	2.8
Adjustments to tax charge in respect of previous periods	(3.8)	(0.7)
Tax effect of exceptional items	1.4	1.1
Tax (credit)/charge for the year	(2.9)	1.6

12. Dividends

No dividend is proposed by the Board for the years ended 31 December 2009 and 2010.

13. Earnings/(loss) 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.

	Earnings £m	2010 Weighted average number of shares (m)	Per share Pence	Earnings £m	2009 Weighted average number of shares (m)	Per share Pence
Basic underlying EPS:						
Earnings attributable to ordinary shareholders	**12.5**	**38.0**	**32.9p**	5.0	36.5	13.7p
Basic underlying EPS from continuing operations	**12.5**	**38.0**	**32.9p**	5.0	36.5	13.7p
Basic EPS including exceptional items:						
Earnings attributable to ordinary shareholders (including exceptional items)	**5.3**	**38.0**	**13.9p**	(8.8)	36.5	(24.1p)
EPS from continuing operations						
Basic EPS	**5.3**	**38.0**	**13.9p**	(8.8)	36.5	(24.1p)
Pre-tax loss from discontinued operations	**1.5**		**3.9p**	13.3		36.4p
Tax relating to discontinued operations	**(1.5)**		**(3.9p)**	–		–
Basic EPS from continuing operations	**5.3**	**38.0**	**13.9p**	4.5	36.5	12.3p
EPS from discontinued operations						
Basic EPS						
Pre-tax (loss) from discontinued operations	**(1.5)**	**38.0**	**(3.9p)**	(13.3)	36.5	(36.4p)
Tax relating to discontinued operations	**1.5**		**3.9p**	–		–
Basic EPS from discontinued operations	**-**	**38.0**	**-**	(13.3)	36.5	(36.4p)

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

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14. Goodwill and other intangible assets

Goodwill at 1 January and 31 December 2010 was £7.9m (2009: £7.9m). It comprises capitalised goodwill on acquisitions completed since 1 January 1998 and the cost and amortisation is split £10.6m and £2.7m respectively.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

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

Other intangible assets of £0.3m relating to capitalised software costs were disposed of during the year.

15. Property, plant and equipment

	Land and buildings leasehold £m	Plant, technical equipment and other £m	Total £m
Cost			
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 1 January 2010	0.2	22.9	23.1
Additions	–	0.8	0.8
Fully written down	–	(0.1)	(0.1)
At 31 December 2010	**0.2**	**23.6**	**23.8**
Accumulated depreciation and impairment			
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 1 January 2010	0.1	10.9	11.0
Charge for year	–	2.5	2.5
Disposals	–	0.3	0.3
Fully written down	–	(0.1)	(0.1)
At 31 December 2010	**0.1**	**13.6**	**13.7**
Net book value at 31 December 2010	**0.1**	**10.0**	**10.1**
Net book value at 31 December 2009	0.1	12.0	12.1

During the year £0.3m of depreciation previously written back under IFRS 5, was written off as part of the Pearl & Dean disposal.

16. Inventories

	2010 £m	2009 £m
Film rights	**9.2**	12.8
Recorded programmes and films	**26.6**	34.2
	35.8	47.0

Included within recorded programmes and films is a provision of £0.8m (2009:£nil).

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

The directors consider that the carrying amount of inventories approximates its fair value.

17. Trade and other receivables

	2010 £m	2009 £m
Trade receivables	**10.6**	8.2
Less: Provision for impairment of receivables	**-**	-
Trade receivables - net	**10.6**	8.2
Prepayments and accrued income	**8.7**	8.6
Other receivables	**7.1**	5.6
	26.4	22.4

As of 31 December 2010, trade receivables of £0.7m (2009: £0.6m) are past due. These are net of a provision for bad debts of £nil (2009: £nil). 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:

	2010 Gross £m	Provision £m	2009 Gross £m	Provision £m
Up to 3 months	**10.5**	**-**	7.9	-
3 to 5 months	**-**	**-**	0.1	-
Over 5 months	**0.1**	**-**	0.2	-
	10.6	**-**	8.2	-

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

	2010 £m	2009 £m
Cash and cash equivalents	**7.6**	14.3
Short-term deposits	**0.1**	0.5

The short-term bank deposit relates to £0.1m (2009: £0.5m) placed in Escrow in relation to certain planning consents currently being sought by Primesight.

Notes to the Financial Statements

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19. Trade and other payables

	2010 £m	2009 £m
Amounts falling due within one year		
Trade and other payables	**15.0**	12.7
Social security and other taxes	**5.2**	2.7
Other payables	**8.8**	13.3
	29.0	28.7
Amounts falling due after one year		
Trade and other payables	**2.5**	1.2

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 2010 were equivalent to 46 days of purchases (2009: 49 days).

20. Borrowings

	2010 £m	2009 £m
Bank loans	**59.9**	67.5

The borrowings are repayable as follows:

	2010 £m	2009 £m
Expiring within 1 year	**5.0**	67.5
Expiring in 2 to 5 years	**54.9**	–

All undrawn committed borrowing facilities are repayable within two to five years (2009: two to five years).

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

The effective interest rates were as follows:

	2010 %	2009 %
Bank loans (floating)	**4.0**	5.0

As at 31 December 2010, the Company had bank facilities in place totalling £70.0m consisting of a £55.0m term facility, £10.0m revolving credit facility and £5.0m overdraft. The facilities expire on 31 December 2012 with the revolving credit facility amortising by £5.0m on 31 December 2011. Security is provided to the debt provider by way of cross-guarantees and a share pledge.

At 31 December 2010 £10.0m (2009: £5.0m) of the bank facility remains undrawn.

21. 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:

	Tax trading losses £m	Accelerated tax depreciation £m	Retirement benefit obligations £m	Total £m
At 1 January 2010	–	(1.5)	(10.3)	(11.8)
(Credit)/Charge to income	(1.5)	(1.4)	0.7	(2.2)
Charge to equity	–	–	2.9	2.9
At 31 December 2010	**(1.5)**	**(2.9)**	**(6.7)**	**(11.1)**

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

	2010 £m	2009 £m
Deferred tax asset:		
Deferred tax to be recovered after more than one year	**(2.0)**	(11.6)
Deferred tax to be recovered within one year	**(9.1)**	(0.2)
	(11.1)	(11.8)
Net deferred tax asset	**(11.1)**	(11.8)
Deferred tax asset not recognised	**(14.7)**	(19.0)
Based on:		
Trading losses	**(14.7)**	(18.3)
Short term timing differences	**–**	(0.7)
	(14.7)	(19.0)

The deferred tax asset of £14.7m which has not been recognised relates to a combination of trading tax losses and non trade debits.

During the year, a change in the UK corporation tax rate from 28% to 27% was substantively enacted and the reduced rate will be effective from 1 April 2011. The relevant deferred tax balances have been re-measured accordingly.

Further reductions to the UK corporation tax rate have been announced which will reduce the UK corporation tax rate by 1% per annum until this reaches 24% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

The overall effect of the further changes from 27% to 24%, if these applied to the deferred tax balance recognised at 31 December 2010, would be to reduce the deferred tax asset by £1.2m.

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22. Provisions

	Cost of change Provisions 2010 £m	Cost of change Provisions 2009 £m	Other Provisions 2010 £m	Other Provisions 2009 £m	Total Provisions 2010 £m	Total Provisions 2009 £m
At 1 January	**0.1**	0.7	**4.7**	4.7	**4.8**	5.4
Provided during the year	**0.9**	-	**-**	3.4	**0.9**	3.4
Utilised during the year	**(0.2)**	(0.6)	**(1.0)**	(3.4)	**(1.2)**	(4.0)
At 31 December	**0.8**	0.1	**3.7**	4.7	**4.5**	4.8

The provisions are expected to be utilised:

	Cost of change Provisions 2010 £m	Cost of change Provisions 2009 £m	Other Provisions 2010 £m	Other Provisions 2009 £m	Total Provisions 2010 £m	Total Provisions 2009 £m
Within one year	0.8	0.1	0.6	1.0	1.4	1.1
Greater than one year	–	–	3.1	3.7	3.1	3.7
	0.8	0.1	3.7	4.7	4.5	4.8

A cost of change provision of £0.9m has been recognised during the year in relation to restructuring within the business.

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

23. Share capital and premium

	Number of shares (thousands)	Ordinary shares £m	Share premium £m	Total £m
At 1 January 2010	36,719	18.3	111.3	129.6
Issued during the year	1,617	0.9	0.1	1.0
At 31 December 2010	**38,336**	**19.2**	**111.4**	**130.6**

The total authorised number of ordinary shares is 63 million shares (2009: 63 million shares) with a par value of £0.50 per share (2009: £0.50 per share). All issued shares are fully paid.

The Group issued 1,617,301 shares during the year (4% of the total ordinary share capital issued) to be held for the distribution of employee loyalty awards.

24. Notes to the consolidated statement of cash flows

	2010 £m	2009 £m
Continuing operations		
Operating profit (before exceptional items)	**14.4**	9.2
Depreciation and other non-cash items	**2.5**	2.8
Operating cash flows before exceptional items and movements in working capital	**16.9**	12.0
Decrease/(increase) in inventories	**8.5**	(5.1)
(Increase)/decrease in trade and other receivables	**(6.0)**	1.6
Increase in trade and other payables	**1.1**	3.4
	20.5	11.9
Litigation costs	**(3.5)**	-
Costs of change and onerous property costs	**(1.2)**	(4.0)
Cash generated by continuing operations	**15.8**	7.9
Discontinued operations		
Operating profit (before exceptional items)	**-**	-
Depreciation and other non-cash items	**-**	-
Operating cash flows before exceptional costs and movements in working capital	**-**	-
(Increase)/decrease in trade and other receivables	**(6.1)**	2.8
(Decrease)/increase in trade and other payables	**(2.6)**	1.1
	(8.7)	3.9
Onerous contract costs	**(0.8)**	(13.0)
Cash used by discontinued operations	**(9.5)**	(9.1)
Cash generated/(used) by operations	**6.3**	(1.2)

Analysis of movements in net debt

	At 1 January 2010 £m	Cash flow £m	At 31 December 2010 £m
Cash and cash equivalents (note 18)	14.3	(6.7)	**7.6**
Cash and cash equivalents included in the disposal groups held for sale (note 10)	3.3	(3.3)	**-**
	17.6	(10.0)	**7.6**
Bank borrowings (note 20)	(67.5)	7.6	**(59.9)**
Short term deposits (note 18)	0.5	(0.4)	**0.1**
Net debt	**(49.4)**	**(2.8)**	**(52.2)**

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25. Capital commitments
At 31 December 2010 the Group had no contracted for but not provided capital commitments (2009: nil).

26. Operating lease commitments

	2010 £m	2009 £m
Operating lease payments recognised in the income statement for the year	**3.4**	4.3

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

	2010 £m	2009 £m
Within one year	**2.3**	2.3
Between two and five years	**8.8**	8.2
After five years	**15.2**	16.5
	26.3	27.0

27. Contingent liabilities
In September 2009, ITV plc and other ITV entities launched a claim against STV Group 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 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 launching a third in relation to significant prejudicial behaviour by ITV network and ITV plc against STV Group and its subsidiaries. The various legal claims result in a maximum potential cash outflow of £14.2m should STV be unsuccessful in all claims and a related unprovided contingent liability for accounting purposes of £6.9m. STV has a potential contingent asset of £7.3m 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.

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

28. 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:

	2010 £m	2009 £m
Salaries and short-term employee benefits	**1.0**	0.9

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

29. Retirement benefit schemes

Defined contribution schemes

The Group operates two money purchase schemes, the STV Pension Scheme and the Pearl & Dean Cinemas Pension Scheme, for which the pension cost charge for the year amounted to £0.4m (2009: £0.4m).

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.

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 2010 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31 December 2010	At 31 December 2009
Rate of increase in salaries	**1.00%**	1.00%
Rate of increase of pensions in payment	**3.30%**	3.40%
Discount rate	**5.55%**	5.70%
Inflation	**3.30%**	3.40%

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 2010 Years	At 31 December 2009 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	**2010 £m**	2009 £m
Current service cost – defined benefit	**(2.4)**	(1.0)

The total amount charged to profit from operations is £2.8m (2009: £1.4m), which also includes the defined contribution charge of £0.4m (2009: £0.4m).

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29. Retirement benefit schemes continued

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

Amount credited/(charged) to net finance costs	At 31 December 2010 £m	At 31 December 2009 £m
Expected return on scheme assets	**16.0**	14.4
Interest cost	**(15.6)**	(16.3)
	0.4	(1.9)

Amount recognised in consolidated statement of comprehensive income	2010 £m	2009 £m
Actual return less expected return on pension assets	**13.2**	21.1
Experience gains and losses	**3.4**	(1.7)
Changes in assumptions	**(7.5)**	(27.4)
	9.1	(8.0)

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 2010 £m	At 31 December 2009 £m	At 31 December 2008 £m	At 31 December 2007 £m	At 31 December 2006 £m
Equities	**132.7**	122.9	108.6	143.2	145.9
Bonds	**129.6**	120.9	106.7	121.9	114.7
Fair value of schemes' assets	**262.3**	243.8	215.3	265.1	260.6
Present value of defined benefit obligations	**(285.2)**	(279.8)	(253.6)	(279.1)	(307.3)
Deficit in the schemes	**(22.9)**	(36.0)	(38.3)	(14.0)	(46.7)
Equities	**8.0%**	8.0%	8.0%	8.0%	8.4%
Bonds	**4.2%- 5.6%**	4.5%- 5.7%	3.7%- 6.6%	4.4%- 6.1%	4.6%- 5.2%

A related offsetting deferred tax asset of £6.7m (2009: £10.3m) is included under non-current assets. Therefore the net pension scheme deficit amounts to £16.2m at 31 December 2010 (£25.7m at 31 December 2009).

The movement in the aggregate scheme deficits during the year was principally due to the favourable movement in asset values.

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

	2010 £m	2009 £m
At 1 January	**243.8**	215.3
Expected return on plan assets	**16.0**	14.3
Actuarial gains/(losses)	**13.2**	21.1
Employer contributions	**6.0**	9.0
Employee contributions	**0.1**	0.3
Benefits paid from plan/ Company	**(16.8)**	(16.2)
At 31 December	**262.3**	243.8

Movement in the defined benefit obligation is as follows:

	2010 £m	2009 £m
At 1 January	**279.8**	253.6
Current service cost	**2.4**	1.0
Interest cost	**15.6**	16.3
Contributions from plan participants	**0.1**	0.3
Past service cost	**-**	(4.3)
Actuarial losses/(gain)	**4.1**	29.1
Benefits paid from plan/ Company	**(16.8)**	(16.2)
At 31 December	**285.2**	279.8

The actual return on plan assets for the year was £29.2m (2009: £35.4m).

History of experience gains and losses	At 31 December 2010	At 31 December 2009	At 31 December 2008	At 31 December 2007	At 31 December 2006
Difference between the expected and actual return on scheme assets:					
Amount (£m)	**(13.2)**	21.1	(58.2)	(8.2)	(1.9)
Percentage of scheme assets	**(5%)**	9%	(27%)	(3%)	(1%)
Experience gains and losses on scheme liabilities:					
Amount (£m)	**3.4**	(1.7)	(28.0)	(32.9)	(7.1)
Percentage of the present value of scheme liabilities	**1%**	10%	(11%)	(12%)	(2%)
Total amount recognised in statement of recognised income and expense:					
Amount (£m)	**9.1**	(8.0)	(30.2)	24.7	4.1
Percentage of the present value of scheme liabilities	**3%**	(3%)	(16%)	9%	1%

The estimated amount of contributions expected to be paid to the schemes during 2011 is £5.2m.

30. Share-based payments

Equity-settled share option plans

There are no Company share options outstanding at 31 December.

	Company share option scheme			
		2010		2009
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at 1 January	12,614	57.20	17,874	51.79
Expired	12,614	57.20	5,260	38.69
Outstanding at 31 December	–	–	12,614	57.20
Exercisable at 31 December	–	–	–	–

The Company scheme options outstanding at 31 December 2010 have a weighted average exercise price of £nil (2009: £57.20), and a weighted average remaining contractual life of nil (2009: nil) months.

Notes to the Financial Statements
continued

30. Share-based payments continued

The fair value of the above Company share option scheme was calculated using the Black & Scholes model. 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.

No new awards were made during 2009 and 2010.

Other share-based payment plans

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.

31. Financial instruments

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 capital structure of the Company consists of debt, which includes the bank loans disclosed in note 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings.

The Group monitors capital on the basis of the gearing ratio.

Gearing ratio

This ratio is calculated as net debt divided by total capital.

	2010 £m	2009 £m
Total borrowings (note 20)	**59.9**	67.5
Cash and cash equivalents	**(7.7)**	(18.1)
Net Debt	**52.2**	49.4
Total equity	**(19.8)**	(31.9)
Total capital	**32.4**	17.5
Gearing ratio	**161%**	282%

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

Covenants

The Group is subject to three financial covenants in respect of its committed borrowing facilities at the balance sheet date. The terms of the Facility Agreement contain the following covenants (i) the ratio of average net debt to adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) and (ii) the ratio of adjusted EBITDA to cash interest, both of which are tested quarterly, and (iii) the ratio of adjusted EBITDA to balance sheet net debt which is tested annually. The Group complied with all the covenants in each of the test periods to the balance sheet date.

Financial risk management objectives

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.

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.

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 2010 the Group had no forward foreign exchange contracts in place (2009: nil).

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.

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 20) and cash and cash equivalents (note 18)) 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.

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.

A monthly sensitivity analysis is carried out, and on the level of borrowings of the Group at 31 December 2010, a movement of 0.25% in interest rates would change the level of interest paid in the year by +/- £0.1m (2009: £0.2m).

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. An interest rate swap was entered into on 31 December 2010 for a period of 12 months.

Embedded derivatives

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.

STV Group plc Company Financial Statements

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 2010 which comprise the balance sheet, statement of total recognised gains and losses 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 Statement of Directors' Responsibilities set out on page 26, 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 and express an opinion on 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 2010;
- 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 Directors' Report 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 consolidated financial statements of STV Group plc for the year ended 31 December 2010.

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

24 February 2011

Company Balance Sheet

At 31 December 2010

	Note	2010 £m	2009 £m
Fixed assets			
Investments	2	**27.3**	250.8
Current assets			
Debtors			
-due within one year	3	**78.0**	80.3
-due after one year	3	**111.2**	4.2
Cash at bank and in hand		**0.1**	0.2
Cash in Escrow		**0.1**	0.5
		189.4	85.2
Creditors: amounts falling due within one year			
Other creditors	4	**(31.8)**	(9.1)
Bank loans	5	**(5.0)**	(67.5)
		(36.8)	(76.6)
Net current assets		**152.6**	8.6
Total assets less current liabilities		**179.9**	259.4
Creditors: amounts falling due after more than one year			
Bank loans	5	**(54.9)**	-
Other creditors	6	**-**	(136.0)
Net assets excluding pension liability		**125.0**	123.4
Pension liability	9	**(10.7)**	-
Net assets including pension liability		**114.3**	123.4
Capital and reserves			
Called up share capital	7	**19.2**	18.3
Share premium account	7	**111.4**	111.3
Profit and loss reserves	7	**(17.1)**	(6.7)
Other reserve	7	**0.8**	0.5
Total equity shareholders' funds		**114.3**	123.4

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 £16.1m (2009: loss £40.3m).

The financial statements on pages 92 to 99 were approved by the Board on 24 February 2011 and were signed on its behalf by:

Rob Woodward
Director

George Watt
Director

Statement of Total Recognised Gains and Losses

For the year ended 31 December 2010

	Note	**2010 £m**	2009 £m
Loss for the financial year		**(16.1)**	(40.3)
Unrealised gain on sale of investment	7	**17.1**	–
Total recognised gains/(losses) in the year		**1.0**	(40.3)

Notes to the Company Financial Statements

for the year ended 31 December 2010

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 consistently from year to year, under the historical cost convention, in accordance with applicable accounting standards on a going concern basis.

Basis of consolidation

As permitted under Section 408 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 2010.

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

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value of the equity instruments at the grant date. The fair value excludes the effect of non market-based vesting conditions.

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 equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit and loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

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.

Full disclosure of share based payment awards is provided within the Group 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 initially recorded at the proceeds received, net of direct issue costs. They are subsequently measured at amortised cost using the effective interest rate. 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.

Pension costs

Employees of the Company are eligible for membership of the main retirement benefits schemes operated by STV Group plc. For the defined benefit scheme, assets are measured at fair value. Pension scheme liabilities are measured on an actuarial basis using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme's liabilities. The increase in the present value of the liabilities of the defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities arising from the passage of time are included in net interest payable and similar charges. Actuarial gains and losses are recognised in the statement of recognised gains and losses.

For defined contribution schemes the amount charged to the profit and loss account is the contributions payable in the year.

2. Investments

	£m
Cost	
At 1 January 2010	481.6
Additions	27.3
Disposals	(481.6)
At 31 December 2010	**27.3**
Provisions for impairment	
At 1 January 2010	230.8
Impairment during year	135.3
Disposals	(366.1)
At 31 December 2010	–
Net book value at 31 December 2010	**27.3**
Net book value at 31 December 2009	250.8

As part of a Group restructure and rationalisation of intercompany debt exercise carried out during the year, the carrying values of the Company's investments were reviewed 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 £135.3m. The review carried out in 2009 resulted in impairment writedowns of £51.0m and were made primarily in relation to Pearl & Dean.

In addition, as part of the Group restructure during the year, the Company acquired investments in STV News Service Limited and Rise & Shine Limited from fellow group undertakings for a nominal amount.

Also as part of the Group restructure, the Company disposed of investments in SMG (Jersey) Limited, STV Publishing Limited and STV Out of Home Limited to a fellow group undertaking for nil consideration. The Company disposed of its investment in STV Television Limited to a fellow group undertaking for a consideration of £133.0m, consisting of £33.0m shares and £100.0m intercompany interest-bearing loan resulting in an unrealised gain on disposal of £17.1m.

Notes to the Company Financial Statements

continued

2. Investments continued

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

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.

Dividends

The Company received dividends of £25.0m in the year (2009: £48.0m).

3. Debtors

	2010 £m	2009 £m
Due within one year		
Amounts owed by group undertakings	**77.2**	80.0
Prepayments and accrued income	**0.8**	0.3
	78.0	80.3
Due after one year		
Amounts owed by group undertakings	**106.7**	–
Prepayments and accrued income	**4.5**	4.2
	111.2	4.2

Included within amounts owed by group undertakings due after one year is a loan of £100.0m to a subsidiary undertaking. Interest on the loan accrues at a rate of 9% and is payable from 1 April 2010. Interest accrued is capitalised and added to the principal amount. Interest will also accrue on interest which is capitalised in this way. The loan is repayable on 31 March 2020.

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

4. Creditors: amounts falling due within one year

	2010 £m	2009 £m
Trade creditors and accruals	**0.9**	1.9
Corporation tax	**-**	0.8
Amounts due to subsidiary undertakings	**30.9**	6.4
	31.8	9.1

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

5. Bank loans

	2010 £m	2009 £m
Bank loans	**59.9**	67.5

The borrowings are repayable as follows:

	2010 £m	2009 £m
Expiring within 1 year	**5.0**	67.5
Expiring in 2 to 5 years	**54.9**	-
	59.9	67.5

All undrawn committed borrowing facilities are repayable within two to five years (2009: two to five years).

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

The effective interest rates were as follows:

	2010 %	2009 %
Bank loans (floating)	**4.0**	5.0

As at 31 December 2010, the Company had bank facilities in place totalling £70.0m consisting of a £55.0m term facility, £10.0m revolving credit facility and £5.0m overdraft. The facilities expire on 31 December 2012 with the revolving credit facility amortising by £5.0m on 31 December 2011. Security is provided to the debt provider by way of cross-guarantees and a share pledge.

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

	2010 £m	2009 £m
Amounts due to subsidiary undertakings	**-**	136.0

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

Notes to the Company Financial Statements

continued

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 2010	18.3	111.3	(6.7)	0.5	123.4
Own shares acquired and issued	0.9	0.1	(1.0)	–	–
Retained profits for the year	–	–	1.0	–	1.0
Equity settled share based payments	–	–	–	0.3	0.3
Own shares awarded	–	–	0.3	–	0.3
Pension scheme deficit	–	–	(10.7)	–	(10.7)
At 31 December 2010	**19.2**	**111.4**	**(17.1)**	**0.8**	**114.3**

Included within profit and loss reserves is an unrealised amount of £17.1m.

The Company included the Caledonian pension scheme deficit for the first time in 2010 following an agreement in principle for it to be guarantor for the scheme. The scheme has been within the Group in prior years and therefore the historic information is included below (note 9).

8. Transactions with related parties

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

9. Retirement benefit schemes

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

The scheme is the Caledonian Publishing Pension Scheme and is a closed scheme 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 scheme was carried out at 1 January 2009 and updated to 31 December 2010 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31 December 2010	At 31 December 2009
Discount rate	**5.55%**	5.70%
Inflation	**3.30%**	3.40%

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 2010 Years	At 31 December 2009 Years
Retiring at balance sheet date:		
Male	**14.6**	14.6
Female	**17.5**	17.5
Retiring in 20 years:		
Male	**15.4**	15.4
Female	**18.3**	18.3

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

	At 31 December 2010 £m	At 31 December 2009 £m	At 31 December 2008 £m	At 31 December 2007 £m	At 31 December 2006 £m
Equities	**55.5**	52.3	48.6	65.5	65.1
Bonds	**53.3**	50.2	46.8	53.5	51.2
Fair value of scheme's assets	**108.8**	102.5	95.4	119.0	116.3
Present value of defined benefit obligations	**(123.4)**	(122.7)	(107.0)	(117.8)	(131.0)
(Deficit)/surplus in the scheme	**(14.6)**	(20.2)	(11.6)	1.2	(14.7)
Equities	**8.0%**	8.0%	8.0%	8.0%	8.4%
Bonds	**4.2%- 5.6%**	4.5%- 5.7%	3.7%- 6.6%	4.4%- 6.1%	4.6%- 5.2%

A related offsetting deferred tax asset of £3.9m is included under fixed assets. Therefore the net pension scheme deficit amounts to £10.7m at 31 December 2010.

History of experience gains and losses

	At 31 December 2010	At 31 December 2009	At 31 December 2008	At 31 December 2007	At 31 December 2006
Difference between the expected and actual return on scheme assets:					
Amount (£m)	**(5.6)**	(7.9)	25.7	2.1	1.1
Percentage of scheme assets	**(5%)**	(8%)	(27%)	2%	1%
Experience gains and losses on scheme liabilities:					
Amount (£m)	**0.7**	2.9	(0.9)	(13.8)	2.2
Percentage of the present value of scheme liabilities	**1%**	2%	(1%)	(12%)	2%
Total amount recognised in statement of recognised gains and losses:					
Amount (£m)	**4.8**	(9.3)	(15.2)	11.6	1.2
Percentage of the present value of scheme liabilities	**4%**	(8%)	(14%)	10%	1%

Five Year Summary

For the year ended 31 December 2010

	IFRS				
	2006 £m	2007 £m	2008 £m	2009 £m	**2010 £m**
Results					
Revenue					
Continuing operations	125.6	120.3	111.2	90.3	**104.8**
Discontinued operations	65.6	65.0	33.3	19.9	**6.9**
	191.2	185.3	144.5	110.2	**111.7**
Profit from operations before exceptional items					
Continuing operations	15.8	11.1	13.2	9.2	**14.4**
Discontinued operations	2.6	9.0	1.5	-	**-**
	18.4	20.1	14.7	9.2	**14.4**
Profit on ordinary activities before taxation and exceptional items	10.0	8.1	12.8	5.5	**12.5**
Assets					
Non-current assets	146.5	28.5	34.7	32.1	**29.1**
Current assets	90.2	88.2	79.9	84.2	**69.9**
Assets classified as held for sale	76.7	79.6	18.8	12.1	**-**
Total assets	313.4	196.3	133.4	128.4	**99.0**
Equity and liabilities					
Current liabilities	61.0	34.6	32.5	100.8	**35.4**
Non-current liabilities	197.1	78.5	96.1	38.3	**83.4**
Liabilities directly associated with assets held for sale	9.8	19.5	21.9	21.2	**-**
Equity	45.5	63.5	(17.1)	(31.9)	**(19.8)**
Minority interests	-	0.2	-	-	**-**
Total equity and liabilities	313.4	196.3	133.4	128.4	**99.0**
Key statistics					
Earnings per ordinary share* - basic and diluted	60.0p	42.0p	25.7p	13.7p	**32.9p**
Dividends per ordinary share*	24.0p	-	-	-	**-**

* The 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.

Shareholder Information

Registrars
Capita Registrars,
The Registry, 34 Beckenham Road
Beckenham, Kent BR3 4TU
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
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Chartered Accountants and Statutory Auditors
141 Bothwell Street
Glasgow G2 7EQ

Solicitors
Herbert Smith LLP
Exchange House
Primrose Street
London EC2A 2HS

Burness LLP
120 Bothwell Street
Glasgow G2 7JL

Principal Bankers
Bank of Scotland plc

Stockbrokers
Peel Hunt
111 Old Broad Street
London EC2N 1PH

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 2010 Annual Report of STV Group plc including the financial statements is available at: www.stvplc.tv

Shareholder Information

continued

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:
The Company Secretary
STV Group plc
Pacific Quay
Glasgow G51 1PQ
Tel: 0141 300 3000

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.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Pacific Quay, Glasgow G51 1PQ on Wednesday 20 April 2011 at 11am for the purpose of considering the resolutions below.

Resolutions 1 to 8 (inclusive) will be proposed as ordinary resolutions and Resolutions 9 to 11 (inclusive) shall be proposed as special resolutions.

Ordinary resolutions

1. To consider and adopt the annual accounts of the Company for the financial year ended 31 December 2010 which includes the report by the directors, the Remuneration Report by the directors and the report by the auditors on the annual accounts and the auditable part of the Remuneration Report.

2. To approve the report by the directors on remuneration for the financial year ended 31 December 2010.

   The remuneration report by the directors, which may be found on pages 44 to 54, gives details of the directors' remuneration for the year ended 31 December 2010 and sets out the Company's overall policy on directors' remuneration during the year.

   As required by the Directors' Remuneration Report Regulations 2002, the Company's auditors, PricewaterhouseCoopers LLP, have audited those parts of the report capable of being audited.

3. To re-elect Richard Findlay as a director of the Company.

   The Articles of Association require that every year a proportion of our directors retire and that all directors have to stand for re-election on the third anniversary of their election or re-election. This gives you the chance to confirm their appointments.

   Biographical details of Richard Findlay can be found on page 34 and the Board confirms that he meets the independence criteria as set out in A.3.1 of the revised Combined Code. Following formal performance evaluation, Mr Findlay's performance is considered to be effective and demonstrates commitment to the role.

4. To re-elect Rob Woodward as a director of the Company.

   The Articles of Association require that every year a proportion of our directors retire and that all directors have to stand for re-election on the third anniversary of their election or re-election. This gives you the chance to confirm their appointments.

   Biographical details of Rob Woodward can be found on page 34. Following formal performance evaluation, Mr Woodward's performance continues to be effective and to demonstrate commitment to the role.

5. To re-elect Jamie Matheson as a director of the Company.

   The Articles of Association require that every year a proportion of our directors retire and that all directors have to stand for re-election on the third anniversary of their election or re-election. This gives you the chance to confirm their appointments.

   Biographical details of Jamie Matheson can be found on page 34 and the Board confirms that he meets the independence criteria as set out in A.3.1 of the revised Combined Code. Following formal performance evaluation, Mr Matheson's performance continues to be effective and to demonstrate commitment to the role

6. To re-appoint PricewaterhouseCoopers LLP as the auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid and to authorise the Audit Committee to fix the remuneration of the auditors.

Notice of Annual General Meeting
continued

7. To grant the directors authority to allot shares.

We will be asking you to vote on the following ordinary resolution:

"That for the purpose of Section 551 of the Companies Act 2006 (the "Act"), the directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities (within the meaning of Section 560 of the Act) up to an aggregate nominal amount of £6,389,406 provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of the resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to any such offer or agreement as if the authority conferred by this resolution had not expired and further:

That the directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities (within the meaning of Section 560 of the Act) in connection with a rights issue in favour of ordinary shareholders of the Company where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them in the Company, or in favour of the holders of other equity securities as required by the rights of those securities; up to an aggregate nominal amount of £6,389,406 provided that this authority shall expire on the date of the next Annual General Meeting of the Company after the passing of the resolution, but so that the directors may at any time prior to such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to any such offer or agreement as if the authority conferred by this resolution had not expired."

The directors require the authority of shareholders to allot the Company's shares and the first part of this resolution extends for a further year the general authority for the directors to allot a limited number of ordinary shares (12,778,812 shares representing one third of the ordinary issued share capital at 23 February 2011, excluding treasury shares, none of which are held by the Company) to provide the flexibility to take advantage of business opportunities as they arise. The second part of this resolution allows the directors to allot a limited number of ordinary shares 12,778,812 (shares representing one third of the ordinary issued share capital at 23 February 2011, excluding treasury shares, none of which are held by the Company) pursuant to a fully pre-emptive rights issue of the Company. The authority will terminate at the next Annual General Meeting of the Company, which must be held no later than 30 June 2012. The directors do not have any present intention of exercising this authority except to satisfy awards of shares under the Company's employee share schemes and no issue of ordinary shares will be made which would effectively alter control of the Company without the prior approval of the Company in general meeting. The directors confirm that, if this further authority were utilised during the year, they intend to follow the guidance of the Association of British Insurers and would all stand for re-election at the next AGM.

8. To amend the rules of the STV Group plc Sharesave Scheme.

We will be asking you to vote on the following ordinary resolution:

"That the amendment to the rules of the STV Group plc Sharesave scheme (formerly the SMG plc Sharesave scheme) (the "Scheme"), contained in the amended rules of the Scheme produced in draft to this meeting and, for the purposes of identification, initialled by the Chairman, be approved and the Directors be authorised to adopt the amended Scheme and to do all such acts and things as they consider necessary or expedient for the purposes of implementing it including making any amendments required by HM Revenue & Customs in order to obtain approval of the Scheme under Schedule 3 of the Income Tax (Earnings and Pensions) Act 2003."

The Company's Sharesave Scheme which was adopted by the shareholders on 26 May 2000 and amended by the Company on 6 April 2001 currently does not permit the grant of options after 18 May 2007. The Remuneration Committee is proposing to amend the Scheme to allow options to continue to be granted until the 20th anniversary of the original date of adoption by the Company on 26 May 2000. All other aspects of the Scheme will remain unchanged.

Special resolutions

9. To dis-apply statutory pre-emption rights.

   We will be asking you to vote on the following special resolution:

   "That subject to the passing of resolution 7, the directors be and are hereby empowered, pursuant to Section 570 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by resolution 7 as if Section 561 of the Act did not apply to any such allotment, provided that this power shall be limited to:

   (a) the allotment of equity securities in connection with a rights issue, open offer or other offer of securities in favour of the holders of the ordinary shares of 50p each in the capital of the Company where the equity securities respectively attributable to the interest of all such holders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws or requirements of any recognised regulatory body or any Stock Exchange or otherwise in any territory; and

   (b) the allotment of equity securities (otherwise than pursuant to sub-paragraph (a) above) having, in the case of ordinary shares (as defined in Section 560 of the Act) a nominal value or, in the case of other securities giving the right to subscribe or convert into ordinary shares having a nominal value, not exceeding in the aggregate £958,410;

   The authority shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to any such offer or agreement as if the authority conferred by this resolution had not expired."

   When ordinary shares are issued for cash, they normally have to be offered, in the first instance, to existing holders of ordinary shares in proportion to their respective shareholdings. This resolution extends for a further year the authority granted to the directors to allot a limited number of ordinary shares (1,916,821 shares representing 5% of the ordinary issued share capital at 23 February 2011) other than to existing shareholders in proportion to their existing shareholdings. This again is to provide directors with the flexibility to take advantage of business opportunities as they arise. The authority will terminate at the next Annual General Meeting, which must be held no later than 30 June 2012. No issue of ordinary shares will be made which would effectively alter control of the Company without the prior approval of the Company in general meeting. The Board also confirms that no more than 7.5% of the issued share capital would be issued on a non pre-emptive basis in any three-year period.

10. To purchase the Company's own shares.

    We will be asking you to vote on the following special resolution:

    "That the Company be and is hereby generally and unconditionally authorised pursuant to Section 701 of the Act to make market purchases (as defined in Section 693(4) of the Act) of ordinary shares of 50p each in the capital of the Company ("Shares") and the directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to purchase the Shares, provided that:

    (a) the nominal value of maximum number of Shares acquired pursuant to this authority shall not exceed £1,916,821;

    (b) the minimum price which may be paid by the Company for a Share purchased pursuant to this authority shall be 50p;

    (c) the maximum price which may be paid by the Company for a Share purchased pursuant to this authority shall not be more than the higher of: (i) 5% above the average of the middle market quotations for a Share derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such Share is purchased; and (ii) the price stipulated by Article 5(1) of the Buy-Back and Stabilisation Regulation (EC2273/2003); and

Notice of Annual General Meeting

continued

(d) unless renewed, the authority conferred by this resolution shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company after passing of this resolution and the expiry of 12 months from the date of passing this resolution, save that the Company may before such expiry make a contract to purchase which will or may be executed wholly or partly after the expiry of such authority and the Company may make a purchase of such Shares after such expiry pursuant to such contract."

This resolution seeks the authority of shareholders to allow the Company to purchase its own shares. The authority sought extends to 3,833,643 shares, representing 10% of the ordinary issued share capital in issue at 23 February 2011. The maximum price, which may be paid, amounts to not more than 5% above the average of the middle market quotations of the Company's shares for the five business days immediately preceding the date of purchase. The power will only be used if the Board is satisfied that it will be in the best interests of shareholders generally.

In exercising the authority to purchase the Company's shares, the directors intend to cancel any shares purchased but may, however, treat the shares that have been bought back as held in treasury and to the extent that any such shares are held in treasury, earnings per share will only be increased on a temporary basis, until such time as the shares are resold out of treasury stock.

As at 23 February 2011 warrants and options to subscribe for 1,455,614 of the Company's shares were outstanding, representing 3.80% of the ordinary shares in issue at 23 February 2011 (excluding treasury shares held by the Company) and 4.22% of the ordinary shares in the Company (excluding treasury shares held by the Company) following the exercise in full of this authority to purchase shares.

11. To allow general meetings to be held on 14 days notice.

    We will be asking you to vote on the following special resolution:

    "That the Company be entitled to hold general meetings of the shareholders of the Company (with the exception of annual general meetings) on the provision of 14 clear days notice to the Company's shareholders."

    The Companies Act (following the implementation of the EU Shareholder Rights Directive) permits the holding of general meetings on 14 days notice provided a special resolution is passed at the Company's annual general meeting approving this notice period.

By order of the Board

Jane E A Tames
Company Secretary

STV Group plc
Pacific Quay
Glasgow G51 1PQ
23 February 2011

Notes

1. Information regarding the meeting, including the information required by Section 311A of the Companies Act 2006, is available from the Investor Centre at www.stvplc.tv.

2. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact Capita Registrars on 0871 664 0300 or ssd@capitaregistrars.com (calls cost 10p per minute plus network extras; lines are open 8.30am to 5.30pm Monday

to Friday). Alternatively, you may appoint a proxy electronically at www.capitashareportal.com. Please see the notes to the form of proxy for further details. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

3. To be valid any proxy form or other instrument appointing a proxy must be received by post or online or (during normal business hours only) by hand at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11am on 18 April 2011 or 48 hours before the time of any adjournment of the meeting.

4. The return of a completed proxy form, in writing or online or any CREST Proxy Instruction (as described in paragraph 10 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.

5. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

6. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 2 and 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

7. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), Shareholders must be registered in the Register of Members of the Company at 6pm on the date two days before the meeting (or, in the event of any adjournment, at 6pm on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

8. As at 23 February 2011 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 38,336,436 ordinary shares of 50p each, carrying one vote each. Therefore, the total voting rights in the Company as at 23 February 2011 are 38,336,436.

9. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

10. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message ("a CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK and Ireland ("EUI") specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's Registrars, Capita Registrars (ID RA10) by 11 am on 18 April 2011 or 48 hours before the time of any adjournment of the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

11. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that EUI does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

Notice of Annual General Meeting

continued

12. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

13. Under Section 319A of the Companies Act 2006, the Company must answer any question asked which relates to the business being dealt with at the meeting unless:

    - answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
    - the answer has already been given on a website in the form of an answer to a question; or
    - it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

14. Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

15. Members satisfying the thresholds in Section 338 of the Companies Act 2006 may require the Company to give, to members of the Company entitled to receive notice of the Annual General Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Annual General Meeting. A resolution may properly be moved at the Annual General Meeting unless (i) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (ii) it is defamatory of any person; or (iii) it is frivolous or vexatious. The business which may be dealt with at the Annual General Meeting includes a resolution circulated pursuant to this right. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given, must be authenticated by the person(s) making it and must be received by the Company not later than 6 weeks before the date of the Annual General Meeting.

16. Except as provided above, members who have general queries about the Annual General Meeting should call our shareholder helpline on 0871 664 0300.

    You may not use any electronic address provided either:

    - in this notice of Annual General Meeting; or
    - any related document (including the chairman's letter and proxy form)

    to communicate with the Company for any purposes other than those expressly stated.

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Company Registration Number SC203873

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