



Annual Report and Accounts 2011

The Digital STV

## Highlights of 2011

### Directors' Report

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Delivering UK's most comprehensive news service

EBITDA (million)\*

£17.4m

2010: £16.9m

+3%

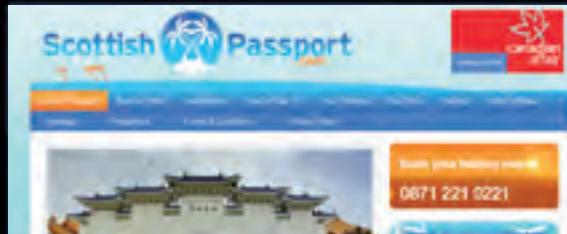


Investment in new local media services

\* Pre exceptional

**Turnover (million)****£102.0m**

2010: £104.8m

**-3%**

Launch of new digital consumer services

Innovative content partnerships  
with growth**Pre-tax Profit (million)\*****£14.0m**

2010: £12.5m

**+12%****Operating Profit (million)\*****£15.0m**

2010: £14.4m

**+4%**Delivery of a distinct and relevant  
schedule for Scotland

► To download a pdf of this  
report visit [www.stvplc.tv](http://www.stvplc.tv)

## Our business at a glance

Our business has successfully evolved from its roots as the commercial public service broadcaster for Scotland to become a **leading digital innovator** with a strong commitment to the delivery of **high quality content**

### Our strategic aims



By 2015, we will:

Grow non-broadcast earnings to represent 33% of Group earnings

Be the most used digital service in Scotland

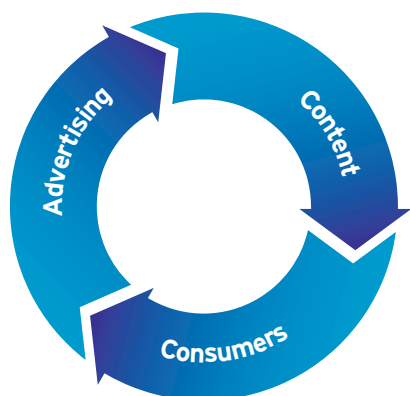
Double STV Productions' revenues

Launch two new market-leading digital consumer propositions

STV is focused on:

- Building **consumer** relationships
- Delivering great **content**
- Connecting with **communities**

### STV Business Model



#### STV Productions

Creates and produces high quality content for broadcast networks in the UK and overseas.

Profit is made on initial sale and on the exploitation of back end rights in the UK secondary and overseas markets.

#### STV Consumer

Delivers unique, high quality content to attract mass audiences which are sold to advertisers to generate revenues. The content is delivered across multiple platforms including digital terrestrial, cable and satellite, online and through connected devices such as games consoles.

The business aims to use its unique content to create communities of interest and to engage consumers.

The key corporate KPIs detailed on pages 30 to 33 are used to monitor and measure the progress of each division in fulfilling its strategy.

## Chairman's Statement



**Richard Findlay**  
Chairman

“Our commitment to delivering high quality **public service content** in innovative ways continues to enable us to strengthen our relevance and connection with audiences.”

► For financial updates  
on STV visit [www.stvplc.tv](http://www.stvplc.tv)

The company has delivered a robust financial performance in a year that has been dominated by the challenges of the macro-economic environment and the associated impact on consumer confidence. We continue to implement rigid cost control, whilst investing in key growth areas, to innovate in content production and engage with consumers across multi-platforms.

Our results in 2011 demonstrate the increasingly robust position of the company and that actions taken in recent years to scale the business appropriately are improving underlying profitability, despite a slight reduction in turnover.

### Market leader in Scotland

Profit before tax and exceptional items is £14.0m and earnings before exceptional items, tax, depreciation and amortisation is £17.4m. National airtime revenues performed in line with expectations, down 3% at £67.9m. The regional airtime revenue market was weaker reflecting the impact of the downturn on the Scottish economy and ended down 13% at £12.9m. We do, however, continue to be the market leader in the Scottish market and, in 2011, we have consolidated our leading edge position, through our targeted and strategic investment in the key digital initiative, STV Local. As this platform is developed with the launch of further sites, we are providing opportunities for a new portfolio of advertisers and commercial partners to reach their target markets in a cost effective way.

At the beginning of 2011 we made carefully considered organisational changes which have successfully positioned the company as a consumer focused content business and of course all our services are now delivered via digital platforms, broadcast, online and mobile. These services offer our audiences various ways in which to connect with us while at the same time delivering solutions for advertisers and commercial partners.

### Diversifying our content offering

Our content business - STV Productions - has continued to broaden its activities across genres and extend the customer base it supplies during 2011, working with a wider range of broadcasters than ever before including a significant pipeline of programmes from the BBC. The business enters 2012 with a strong portfolio of commissions across a wide range of channels.

In April we announced the cessation of legal actions with ITV plc and ITV Network and the establishment of a settlement agreement which has served to clarify a number of the differences between the parties. We continue to work with ITV under existing networking agreements and in December we confirmed the financial details of the agreement reached with ITV whereby we will pay £10.8m over 18 months, all of which is provided for within our banking facilities and will be partly offset by opt out programme savings in the future. We believe there

are better ways of arranging the current network agreements and hope that within the improved atmosphere a consensus on this will be reached very soon.

Our commitment to delivering high quality public service content in innovative ways continues to enable us to strengthen our relevance and connection with audiences. We have made significant enhancements to our service during 2011 with the introduction of new programmes delivered across our various platforms. Investment in new technology allows us to deliver a more relevant news service to audiences across Scotland. We now provide the most locally focused news and current affairs TV services in the UK and we are achieving increased audience share and engagement in response. This important development differentiates STV from many of our competitors at a time when commercial pressures are causing them to significantly reduce their commitments and ambitions in this area.

As a leading provider of locally focused services, we welcome the Government's decision to proceed with the introduction of local television services and we are participating in the consultation exercise to determine the process through which licences will be awarded. We believe that such services will by their very nature be financially fragile and that the key to the success of these licences in Scotland will be to ensure that they are complementary to the existing comprehensive service provided by STV.

#### **Digital is in our DNA**

Our digital and online strategy is now firmly embedded across STV and this has transformed from being a new business venture to a deep rooted core business activity. We have delivered a strong performance against our digital KPIs and achieved significant year on year revenue growth of 69%. As we continue to leverage our investment in content across all platforms, I am confident that we will continue to deliver further growth and create value across our entire inventory. Our strategy is underpinned by a culture of innovation and in 2011 we have launched a number of new services and introduced new opportunities to grow transactional revenues.

In addition to our strong public service ethos, we are committed to being a good corporate citizen and to give something back to the communities we serve. In 2011 we launched the inaugural STV Appeal, a major charity run in partnership with The Hunter Foundation, initially to support children and young people affected by poverty in Scotland. Working closely with six major Scottish charities, we raised over £1.2m - including generous financial support from the Scottish Government - to underpin local projects all across Scotland. We have confirmed our long term commitment to the STV Appeal and planning is now underway for the 2012 Appeal which will continue to focus on youth poverty in Scotland.

During 2012 the Secretary of State will begin to consider the position of the Channel 3 licences which will expire at the end of 2014. We continue to engage with Ofcom and the Government on this matter and believe that the underlying strength of our business; the extent of our connection with our audiences; the significant positive impact the company makes to the creative industries sector in Scotland and our strong commitment to the delivery of high quality public service content at a local, regional and national level, all serve to demonstrate our unrivalled credentials to continue to hold the licences for STV Central and STV North in the long term.

#### **A clear strategy for growth**

In our 2011 interim trading update I confirmed our long-term strategic vision to be a consumer focused business which will generate over one-third of its earnings from non broadcast activities by 2015. Through the significant progress already achieved this year coupled with our track record in delivery of our commitments and targets, evidenced by achieving or exceeding the majority of our KPI targets; and a supportive board and highly capable leadership team and staff, I am confident that we will deliver this goal.

With a clear strategy for growth mapped out, a strong and focused team delivering on our targets, an exciting pipeline of programmes both from ourselves and others, together with our strong news performance locally, regionally and nationally, 2012 looks to be another busy and exciting year for STV.

All this would not be possible without our dedicated staff and management team led by our chief executive officer, Rob Woodward. My thanks to them and to my board colleagues for their achievements over the last year.



**Richard Findlay**  
Chairman

## Chief Executive's Review

### Building tomorrow's STV

# A conversation with Rob Woodward and Charles McGhee on how innovation will deliver performance in the changing media landscape

The imposing structure of Glasgow University shimmers in the winter sun as STV's Chief Executive Rob Woodward takes in the spectacular view across the Clyde from the company's Pacific Quay headquarters. "You soon won't be able to see that," he points out as Scotland's new national arena takes shape next to the SECC.

The impressive ultra-modern addition to Glasgow's skyline will eventually eclipse the view of the ancient university, but nothing is obscuring Woodward's vision for STV as he reflects enthusiastically on a year of progress in the face of tough trading conditions and against a backdrop of rapid and radical change in the media landscape.

"We're definitely very pleased with the performance of the company," he says allowing himself a faint smile of approval. "We've increased our underlying operating profit level year on year by 4%, and underlying earnings per share have increased by 11%. Those are pretty strong indicators, in terms of the actions that we continue to take as a management team, of our ability to weather any storm in the external advertising market."

Weathering storms has been a regular feature of STV's voyage in recent years – and perhaps even inspired the decision to give their popular weather presenter, Sean Batty, his own show – but few would question that the company has emerged stronger, leaner and fitter from the experience.

For example, STV knew it would suffer from the advertising downturn in the last quarter of 2011, but flagged it to the market early and dealt with it effectively. Settling its long-running legal dispute with the ITV network last year also sent a strong signal that STV was back on track. Although the company will have to shoulder the £18 million settlement costs over the next few years, it removed a major financial uncertainty and, together with the new banking deal announced before Christmas, gives Woodward and his team the stability they need to execute their strategic plans for the future.

"We were delighted to reach the settlement with ITV," said Woodward. "What we are focusing on now is agreeing a

longer-term working relationship. There remains a strong opportunity to have a simplified and more commercial relationship which would allow us to continue to get sovereign access to ITV1 programmes in our territory. And that's what we're striving to agree."

Will such an agreement mean an end to dropping ITV blockbusters such as the first series of *Downton Abbey*? Woodward insisted however that "blockbusters" tend to be defined retrospectively: "*Downton Abbey* did end up being an absolute blockbuster and that's why we reversed our decision. But I would argue strongly – based on audience feedback and looking at audience numbers – that the balance we're now achieving feels appropriate.

"We will still opt out of some ITV programming, but by and large we will take most of ITV's peak-time schedule and from time to time insert some of our own programming, which is what we have been doing consistently over the last three years."

The ITV relationship will also be dependent, of course, on the outcome of the new commercial broadcasting licensing round. Ofcom begins consultations this year on the 2014 renewals, but the STV Chief Executive remains confident about the renewal or extension of STV's licences as well as a refreshed and flourishing future association with ITV. The persistent rumours that STV, together with its Northern Ireland equivalent UTV, would ultimately be swallowed by the ITV behemoth appear finally to have receded, particularly with the political climate increasingly favouring the local incumbents.

"We are confident about our position," says a buoyant Woodward. "We continue to put content at the heart of the company. We have over-delivered on most if not all of our licence obligations and have been consistent in our commitment to provide more, not less, public service. In terms of the licence renewal process – given our performance and commitments – we believe we are in a very strong position. And that gives us confidence in continuing the on-going negotiations with ITV."

As if to underline the point, he returns to the company's performance figures, rattling off targets successfully met in



“We continue to put content at the heart of the business. We have overdelivered on licence obligations and have been consistent in our commitment to provide more public service content.”

**Rob Woodward**  
Chief Executive in  
conversation with  
**Charles McGhee**



## Chief Executive's Review

### Building tomorrow's STV continued

# We are moving away from talking about **audiences** to a world where we talk about **consumers**

quick-fire succession. "We've ended up performing extremely well against our set of operational KPIs. In particular, I'd point you towards our digital business. We only just missed one digital revenue KPI (by £200k and we set a pretty stiff target), and digital margin was only narrowly missed due to investment in STV Local. We've increased revenues by 69% and any business which grows its revenues to this extent is clearly performing well."

While accepting the impressive growth may have been from a low base, Woodward insists: "We've created this business from scratch and we are now getting around three million unique visitors to our site every month – and that's continuing to grow. That's nearly a 40% uplift in usage year on year. People are flocking to these services."

"The next milestone is to get more people to come for longer, to explore more, to spend more, and to increase the overall level of engagement."

To help reach that milestone, STV has enlisted the help of Experian, the global information services group and one of the world's leading credit reference agencies. The company collects detailed information on businesses and individuals, including lifestyle data, and Woodward hopes the link with Experian will help STV acquire a more intimate understanding of its customers.

"We are moving away from talking about audiences – where we basically knew very little – to a world where we talk about consumers," he said. "In this world a direct relationship between the media company and the end consumer is fundamental, so we are using developments online to enable us to capture data and build a relationship literally with the individual."

"I believe this will be very powerful for STV. It will enable us to offer advertisers a combination of mass market coverage, which is clearly what television has been so strong at over the years, but in conjunction with highly-targeted marketing and advertising. And it's that combination which will make us distinctive."

STV's distinctive digital offering also includes local, of course, and last year STV Local – an online community news and information service – was rolled out with high expectation. Although that momentum has slowed a little to allow STV to re-configure its service to better meet the differing needs of Scotland's larger towns and cities and rural communities, the commitment remains solid.

"We are 100% committed to STV Local," said Woodward. "It's innovative, nobody else is providing a similar level of service, and in around a month's time we will launch completely revamped sites to cover Glasgow and Edinburgh, as well as continuing the roll-out across the country (the target is to cover 80% of Scotland). We believe what we've come up with will build on our success to date and take STV Local to the next level."

Other local developments could also be on the horizon. The STV chief stressed that "local media excites us" and confirmed they are watching closely the UK government's plans for local commercial TV. Although Glasgow and Edinburgh will be among the first 20 UK locations to get licences, the STV chief believes that until the government publishes its detailed proposals, it is too early to assess the full business potential.

Meanwhile alongside local and digital, STV also wants to be distinctive in content, one of the main pillars of its growth strategy for 2012; a strategy which includes a target to deliver 33% of total earnings from non-broadcast activities by the end of 2015. This includes selling content to other broadcasters through STV Productions and there's a slight tinge of regret in Woodward's voice as he admits the company would have liked to have shown more progress in this area. He quickly counters any sense of disappointment, however, by pointing out STV Productions has been "transformed".

"This was a business that was around 80% reliant on deliveries to the ITV network. We've now grown a business where we're selling and producing programming for the BBC, for ITV and for Channel 4. We also have a joint venture established in the US and produced our first programme commission, *Perez Hilton* for ITV2, last year. So, if I look at the pipeline for content then we have a lot to give us cause for strong confidence."

And, as if on cue, the STV boss suddenly reveals: “We will shortly be confirming a new two-year deal with the BBC to produce another four series of *Antiques Road Trip*.” But Woodward wants to do more, much more right across the spectrum, whether it’s breaking new ground with productions like *Fast Freddie*, the festive special for ITV, or resurrecting old favourites such as *Scottish Passport*.

He is also pleased with the ratings for STV’s new nightly news programme, *Scotland Tonight*, which he claims has quickly established an audience double that of BBC rival *Newsnight Scotland*. Its success is in sharp contrast to the short-lived weekly version of the magazine programme, *The Hour*. “It just didn’t produce the audience we were expecting,” said Woodward.

One factor which has prevented STV Productions from reaching its full potential is STV’s unfulfilled ambition to obtain independent producer status says Woodward: “It is costing jobs in Scotland and it has an overall negative impact on the strength of the Scottish creative sector. It’s something we will continue to campaign for.”

As an independent producer, STV would be eligible to bid for more commissions from the BBC. At present they are excluded from tendering for the 25% of BBC commissions which are ring-fenced for independents. Any BBC work STV currently bids for therefore has to be won in open competition against the independents – and the BBC itself.

“With independent producer status our ability to sell to the BBC would be hugely enhanced,” adds Woodward, “and that is why we feel so strongly about it.”

He also feels strongly that governments – at Westminster and Holyrood – could do much more to support the creative industries. Woodward argues forcefully that only two countries in Europe – Germany and the UK – do not provide any form of fiscal incentive for television production companies.

And he points out that even in “free economies, such as the United States”, a considerable amount of support is available.

“My argument is that I believe there is an opportunity for Scotland to become a strong creative hub that is recognised on a world stage. I think we have the talent here in Scotland, but unless there is some kind of fiscal incentive my prediction is that it is unlikely to happen.”

In the absence of such incentives, however, STV has been pursuing alternative options, including successful strategic partnerships, within Scotland’s creative industry sector. These have included projects such as *Scotland’s Greatest Album* (with the Scottish Sun and Real Radio) and the STV Appeal (with the Hunter Foundation). Other collaborations will almost certainly follow.

Woodward was delighted at the success of the STV Appeal, which raised £1.2 million for 48 children’s charity projects in Scotland, and confirmed it will be repeated this year in aid of the same cause. But he pointed out: “It wasn’t just about the money, it was also about us being able to highlight the simply horrific story of child poverty in Scotland. To be able to shine a light on initiatives which are really making a difference, to me was just as important as the £1.2 million.”

The appeal topped a period of positive progress and helped the company end its year on a high, prompting the tongue-in-cheek suggestion that there is ‘life after *Taggart*’ for STV, to which Woodward responded intriguingly: “*Taggart* isn’t necessarily dead. We continue to look at innovative ways of bringing that back.”

*Memo to DS Jackie Reid: “The body’s probably hidden in that fancy new building across the Clyde. Check it out.”*

Media consultant **Charles McGhee** is a former editor of *The Herald* and *Evening Times* newspapers.

## Chief Executive's Review

### Consumer

STV's growth strategy remains clear, with investment in **strategic partnerships** and an **ambitious digital strategy**

**From top:**  
STV News  
X Factor  
In Search of Bible John  
Scotland Debates  
Underbelly  
Downtown Abbey



► Watch your favourite STV programmes on STV Player  
[www.stv.tv/player](http://www.stv.tv/player)





## Chief Executive's Review

### Consumer continued

# This is an exciting time for STV, with a number of strategic initiatives underway and a true **connection** **with our audience across platforms**

STV is Scotland's digital media company with an ambitious strategy for growth. We have transformed STV from a traditional broadcaster to a digital media company that engages with consumers across multiple platforms offering a compelling range of must-have digital services.

The creation of innovative, high quality and relevant content remains key to our business. We are excited by new technological developments that allow us to significantly extend our reach, effectively building consumer relationships and connecting with communities. We continue to work with partners to deliver unique, compelling content that can be accessed anywhere, anytime.

Following the transformation of STV and the consistent achievement of its growth KPIs, STV set out strategic aims to grow non-broadcast earnings from 11% in 2011 to represent 33% of Group earnings in 2015. This will involve:

- Doubling STV Productions' revenues;
- Becoming the most used digital service in Scotland;
- Launching two new market-leading consumer propositions.

We remain committed to growing a strong, successful and dynamic STV, delivering value for shareholders and cementing our position as Scotland's most popular peak time TV station and leading commercial website, and as the provider of unique digital content.

#### Consumer Channels

Through 2011, STV has continued to extend its reach across Scotland. We delivered a schedule comprising the best Network material and strong home grown productions, alongside our dedicated and popular news service. Our average peak time audience share tracked ahead of the ITV Network in 2011, demonstrating the success of our programming strategy and our position as Scotland's most popular peak-time TV station, reaching over 4.2m viewers per month.

Despite the challenging marketplace and a reduction in regional advertising revenues; we have exceeded our upgraded broadcasting margin target of 15%, demonstrating the underlying profitability of the business and the positive impact of our relentless focus on cost control and operational excellence.

We continue to be the market leader in Scotland and we have further increased our market share in 2011. This strong position is maintained by offering innovative solutions for our advertisers. Earlier this year, we restructured the commercial team to ensure maximum client focus and satisfaction, offering a fully integrated service incorporating digital and broadcast opportunities.

#### Commitment to Public Service Broadcasting

We are fully committed to our Public Service Broadcasting ("PSB") obligations and as well as delivering these via our broadcast window we seek to deliver PSB innovatively across multi-platforms.

In May 2011 we launched a pilot news service for Edinburgh and the East, and confirmed that this would become permanent in November 2011, making STV News the most comprehensive local news service in the UK, with dedicated programmes for the East, West and North of Scotland, alongside a bulletin for Tayside.

In October, we increased our commitment to news and current affairs with our nightly programme, *Scotland Tonight*, bringing viewers an in-depth look at the important news stories of the day along with sports, politics, business, art, entertainment, live studio guests and special features. The programme also engages viewers via social media, allowing them to guide the editorial content, interact and comment on the issues raised.

In other programming, we have delivered a range of high quality, relevant and exciting programmes for our audience. *Scotland's Greatest Album* was a truly interactive proposition, delivered in partnership with Real Radio and the Scottish Sun, and saw viewers voting for their top 12 tracks from Scottish artists over the past four decades. The series reached 1.2m people and the

## Case Study: STV News

Delivering a high quality, comprehensive and relevant service

News content is at the heart of STV provision, both on air and online. In 2011 we improved this service, embracing new technology and committing to a commercially sustainable approach to delivery of news across platforms.

STV has a nationwide approach to news provision, offering the most comprehensive and local service in the UK. We extended our total on-air news offering in 2011 and STV now provides three distinct, dedicated and relevant 30 minute programmes at 6pm - one for the East, West and North of the country and a separate bulletin for Tayside.

STV is responding to audience demand with investment in STV Local, allowing us to engage with communities across the country at a hyper local level.

### Impact

- News share at 6pm increased **7%\***
- On-air news service reaches over **1.7m viewers** per week
- Over **half a million unique users** visit [stv.tv/news](http://stv.tv/news) per month
- Over **50%** of traffic to STV News is from mobile devices

\* YOY (June to December)

► For the latest news visit [stv.tv/news](http://stv.tv/news)



## Chief Executive's Review

### Consumer continued

collaborative venture attracted 125,000 online votes and 23,000 new registrations to stv.tv.

One-off documentary, *In Search of Bible John*, revealed a unique new development in the theory linking Bible John to Peter Tobin and delivered a strong 19% average audience share, outperforming the Network by 8 share points. *Born Fighting* was a two-part series following American Senator Jim Webb charting the story of the Scots-Irish who helped build one of the most powerful nations in the world. This unique collaboration between STV, UTV and the Smithsonian Channel in the US is a clear example of STV's commitment to providing high quality and relevant public service broadcasting to its audience.

We delivered a second series of our successful *Football Years* series, which achieved an average 14% share, with 10,000 views via catch-up on the STV Player. In addition, we produced a two-part *Football Years: Walter Smith Special*, which delivered an impressive 20% audience share. Additional related content, including STV Player, online and mobile material, increased the total audience for the programme by 15%.

At the start of the year, we announced the arrival of our STV+1 service, allowing viewers to catch up on a range of programmes from STV one hour later via two regional variations - one for the north and one for central Scotland.

#### Connecting with audiences

In February 2011 STV launched ScotPulse, an online market research panel designed to provide direct access to valuable consumer insights. Over 5,500 panel members have been recruited. This is supported by a dedicated website - [www.scotpulse.com](http://www.scotpulse.com) - that encourages community and helps to deliver higher engagement levels. STV has built a strong connection with audiences over the last five decades. ScotPulse allows a further enhancement of this relationship by providing consumers with the opportunity to have their voice directly heard on issues that matter.

We continue the roll-out of our strategic digital initiative, STV Local, which allows us to leverage our investment in content across multi platforms. This network of hyper-local websites, online and on mobile, currently covers 45% of the Scottish population by local authority area and presents a platform for highly targeted local advertising, allowing us to generate revenue from a new advertising community. With sites from Motherwell to Peterhead, Edinburgh to Glasgow, there are now over 20 sites covered across seven local authorities. The launch of STV Local has created a significant number of employment opportunities across Scotland, with the current editorial team standing at 25.

In 2011 STV, in partnership with The Hunter Foundation, launched the STV Appeal - a major new charitable venture for Scotland. With support from some of Scotland's leading Scottish businesses and a commitment to match-funding from the Scottish Government, the charity in its inaugural year raised over £1.2m for children affected by poverty in Scotland. With a range of bespoke programming and activities, we successfully connected with communities across Scotland to raise funds for an excellent cause and we have high hopes for the 2012 Appeal.

STV Creative is our in-house commercial production team. It has delivered continued growth, producing award-winning creative content for both Scottish based and Network advertising clients, including commercials and sponsorship bumpers as part of a full offering from creative design to production of the end product. The team received two commendations and three awards at the 2011 Scottish Creative Awards; and a Dadi Award in late 2011.

#### Digital

Digital is in our DNA and our investment in new digital services is delivering growth for the business.

Through 2011, we have been consistently building traffic and revenue, with 36% growth in unique users year on year and 69% growth in digital revenue, in line with our targets.



We have exceeded three of our KPIs in this area and only narrowly missed our revenue target. The margins target was missed due to our investment in STV Local, which is demonstrating growth as it rolls out across Scotland.

Our TV-on-demand service, STV Player, allows viewers to catch up on their favourite STV programmes and watch highlights from our vast archives. STV Player continues to build traffic, delivering an average of over 2.9m streams per month in the final quarter of 2011.

#### **STV across multi-platforms**

Following the success of the STV News iPhone app, STV launched its first Android app in August 2011, providing news, sport, entertainment and weather. By the end of 2011, the STV News app accounted for over 50% of all news traffic. This was closely followed by the launch of the STV Player on Android devices, making this popular service now available via computer, smart phones and PS3.

STV recognises that opportunistic brand extensions of our core businesses are key to driving revenues. In January 2011, Steven Walker joined the business as Director of Corporate Development, with the primary responsibility of growing STV's classified businesses, and has been central to a number of initiatives focused on generating additional revenue.

STV Live Casino launched in the summer with technical partner, VueTec, offering users a live, real-time casino experience via their computers. During the year we launched Scottishpassport.com in partnership with Scotland's leading travel firm, Barrhead Travel. In August, we trialled an exciting new digital venture offering locally targeted deals via email called STV Daily Deals. This service is being honed at present and will offer a potential new customer base for advertisers and exciting new offering for consumers.

#### **Gaining consumer insight**

In August, we retained Experian as our Data Partner to help build our customer database capability and evolve and deepen our relationship with our audience as consumers of STV services, which is key to our growth strategy. This is reflected in the addition of a new KPI focused on registrations to STV's digital services which targets over half of the Scottish population being registered by 2015.

## Chief Executive's Review

### Production

Creating compelling content and **diversifying** the range of genres we produce is key to the **growth** of STV Productions



**Antiques Road Trip**  
produced for BBC



**Born Fighting**  
produced for STV, UTV and Smithsonian Channel



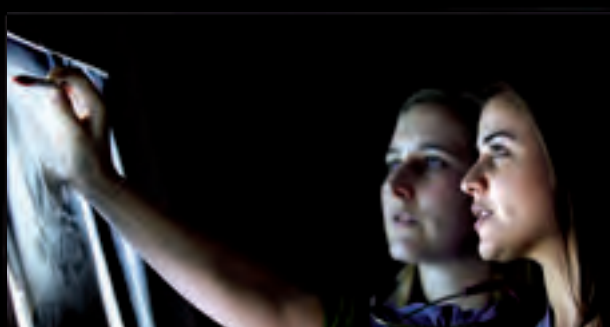
**Scotland's Greatest Album**  
produced for STV



**Fast Freddie, The Widow and Me**  
produced for ITV1



**Perez Hilton Super Fan**  
produced for ITV2



**Vet School**  
produced for STV

## Chief Executive's Review

### Production continued

#### STV Productions

Creating compelling content is at the very heart of our business and the Productions team is committed to achieving its strategic aim of doubling STV Productions' revenues by 2015. To achieve this, we will continue to successfully diversify the range of genres we currently produce and extend our customer base, securing commissions in UK and US markets. This strategy places us in a strong position as we enter 2012 with a good pipeline for commissions and growth.

2011 saw STV Productions produce programmes for Channel 4, ITV1, ITV2 and BBC2; and saw the further development of our ambitions to expand internationally.

The impact of the economic downturn on the programming budgets of broadcasters has resulted in our Productions KPIs being missed in 2011.

Our daytime series *Antiques Road Trip* continues to be a ratings success for BBC2 and we have recently announced a two-year deal for a further four series, which clearly exemplifies the success of this production, and is valuable returning business for STV. Secondary sales have also been successful with the series now airing on Discovery.

Our drama department continues to develop productions for various broadcasters. A key commission for 2011 was 90-minute film, *Fast Freddie, The Widow and Me*, for ITV1 which aired on 27 December and attracted a consolidated audience of over 5 million.

Our strategic partnership with Kinetic Content in the US saw us working together with the LA-based production company to develop a format, *Perez Hilton Super Fan*. This became a four-part series commissioned by ITV2 and co-produced by GroupM Entertainment, and featured international stars Lady Gaga, Kelly Rowland, Katy Perry and Enrique Iglesias. We also developed a pilot entitled *The Kids Aren't Alright* with Kinetic for a US broadcaster.

In August we announced a programming and content partnership with GroupM Entertainment, part of GroupM – the world's leading media management investment group, with our first project being the successful Perez Hilton series. We aim to deepen our relationship with this leading group during 2012.

Five episodes of daytime factual entertainment show, *Quiz Trippers*, were delivered to Channel 4 in July, achieving a healthy 10% audience share.

We continue to seek the necessary legislative change to provide STV Productions with independent status.

#### Conclusion

STV has an ambitious plan for growth and our strategy remains clear going forward, with investment in strategic partnerships, helping extend the STV brand in our core Scottish market and beyond.

We are committed to innovative public service broadcasting and the production of creative content across all platforms, alongside our ambitious digital strategy, and to delivering shareholder value.

This is an exciting time for STV, with a number of strategic initiatives underway and a true connection with our audience, we are confident in our position as Scotland's leading digital media company.



**Rob Woodward**  
Chief Executive Officer

## Case Study: STV Productions

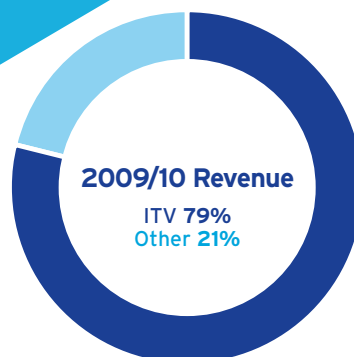
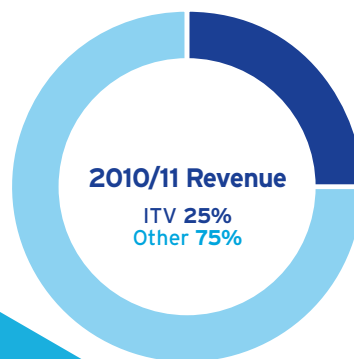
### Diversifying the range of content and market we supply

Our Content business is transforming as we continue to diversify our revenues away from our historic dependence on ITV to becoming a more balanced provider of programming to UK and international broadcasters, firmly establishing STV Productions as a substantial content producer.

Working in partnership has also been key to growth in this area and 2011 has seen us working with GroupM Entertainment and US based Kinetic Content on projects, including Perez Hilton Super Fan for ITV2.

### Impact

- **Commissions secured** for BBC2, ITV1, ITV2 Channel 4, Sky Real Lives and Crime & Investigation Network
- **Successful returning business** from the BBC with Antiques Road Trip (eight series commissions for daytime)
- **First production for ITV2** delivered in 2011 via partnership deals



### 2010/11 Revenue

75% of revenue from a range of broadcasters.



## Corporate Social Responsibility

# We recognise the need to give something back and make a **positive difference** in the communities we serve

As Scotland's digital media company we take our responsibility all our stakeholders seriously.

### Our Consumers

Our STV Anywhere strategy delivers 'must-have' content wherever and whenever consumers want it – including broadcast, the 'catch-up' service STV Player, stv.tv, stvlocal.com, PS3, mobile apps and social media platforms. This extended reach allows STV to develop more engaged relationships with consumers and gain a better understanding of their needs.

We place great emphasis on audience engagement and encourage 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](http://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.

STV has very strong social media presence and engages with the public via sites such as Twitter and Facebook on a daily basis across a range of topics. We see a high level of interaction, particularly via our presenter and programming-focused account and regard this as a valuable source of public input.

Our online market research panel, ScotPulse, is designed to provide direct access to valuable consumer insights.

STV has built a strong connection with audiences over the last five decades and ScotPulse allows a further enhancement of this relationship, providing consumers with the opportunity to have their voice directly heard on issues that matter.

ScotPulse surveys to date include research into programming formats which directly influenced the design of *Scotland Tonight*, our new flagship current affairs programme.

STV has a robust 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. In 2011, STV launched an online compliance training system to ensure staff comply with media laws and regulations and build their knowledge in these areas.

Digital switchover (DSO) completed in 2011 and we are confident that via our on-screen promotions and continued engagement with Digital UK, we provided profile and helped drive understanding and facilitation of DSO across Scotland.

### Our Advertisers

STV's commercial team offers innovative packages for clients including sponsored programmes, generating commercial opportunities for the business whilst offering exposure to lesser known minority groups or topics on a national television platform.

In March 2011 we ran an inspirational series of one minute programmes on behalf of Quarriers, a Scottish charity dedicated to helping children, families and adults overcome adversity. The series, titled *A Better Life*, was made up of interview style programmes with prominent Scottish figures, including Michelle Mone OBE, Gary Lewis and Graeme Obree, documenting their experiences through troubled periods in their lives and the ways in which they survived these and through hard work, went on to realise their ambitions.

Additionally, during November 2011, we built on our previous annual campaigns marking Remembrance Day, with a new and emotive series of one minute programmes titled *And On We Fight* sponsored by The Scottish Sun. Interviewing veterans who have faced injury and emotional hardship, the programmes showcase the inspirational attitude of the individuals and their determination in overcoming any challenges they have faced since returning home, in order to lead a happy and fulfilled life.

### Our Community

2011 saw STV join forces with The Hunter Foundation to launch a brand new charity, STV Appeal 2011. Through a dedicated campaign, engaging with corporate Scotland, the Scottish Government and STV viewers, over £1.2m was raised for children and young people affected by poverty in Scotland.

Working closely with six major Scottish charities who are recognised as well established experts in the area of child poverty (Aberlour; Action for Children; Barnardo's Scotland; Children 1st; Save the Children Scotland; and One Parent Families Scotland), the STV appeal seeks to create long-term sustainable change in the lives of Scotland's most at risk children and young people.

We developed a raft of programming to support this initiative. This original programming included a *Big Launch* with Lorraine Kelly; a 7.30 for 8 Celebrity Special; hard hitting documentary *One in Four*; and two live shows on the evening of the grand finale, where the final total was unveiled. The programming featured a range of Scottish celebrities committed to the STV Appeal; it engaged with local people who fundraised on its behalf; and told some of the difficult stories of those affected by poverty.

Throughout 2011, we continued the roll-out of STV Local, our network of hyper-local news and information websites for communities across Scotland. Over 20 sites, including metropolitan areas such as Glasgow, Edinburgh and Aberdeen and more rural locations such as Elgin, Lossiemouth and Buckie, have been launched.

Placing journalists at the very heart of communities, STV Local works closely with individuals, groups and organisations in the towns in which they serve. Listening to the concerns and needs of groups, STV Local community editors host regular social media workshops, regular events teaching people how to get the most from not only the STV local sites, but social media sites such as Twitter and Facebook. Regional editors facilitate work experience programmes for students studying at colleges and universities in their area.

The importance of STV Local as a community hub is reflected in its format and editorial style. The sites offer a blend of traditional journalism and user generated content. This helps reinforce a sense of community ownership and allows people to see the difference that they can make. STV Local also offers charities and organisations their own dedicated page on the sites, giving these groups a way to effectively communicate with their hometown audience.

In May 2011, STV worked with pupils from high schools in Ullapool, Gairloch, Plockton and Portree as part of the NESTA's idiscover educational programme. The programme aims to help today's young people develop the skills and talents needed to face the uncertain and challenging world of tomorrow and explore ways to increase the innovative capacity of young people. Four members of the STV north news team delivered an STV session in each school, putting the pupils in charge of news, helping to drive understanding and taking STV out into the community.

STV has strong links within the communities across Scotland and we regularly welcome members of the local community and students into our studios for informative tours. Our weather presenter, Sean Batty, provides 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.

We have also undertaken a strong programme of engagement with elected representatives at Holyrood and Westminster, providing an important opportunity for feedback and dialogue with MSPs and MPs.

In support of its public service broadcasting status, STV plays a prominent role engaging at all levels with a variety of stakeholders. We support organisations such as BAFTA Scotland, RTS, CBI, SCDI and Scottish Chambers of Commerce.



**Corporate Social Responsibility** continued

## We maintain an open culture underpinned by the philosophy that everyone can make a difference

**Our People**

As a creative and consumer focused business, the contribution of our people is a key driver and differentiator of our performance and underpins the relationships we hold with our audiences and customers.

The commitment and capability of our people have been significant factors in the performance we have delivered in 2011 as we have continued to connect with a wider audience and increased the profile of our brand across multiple platforms. In early 2011 we announced a strategic re-organisation of the business to establish two distinct operating businesses: Consumer and Productions. Within the Consumer business we have established STV Channels incorporating all of our channels and platforms through which we connect with audiences and enabling us to leverage our investment in content across all platforms.

During 2011 we have successfully attracted new talent to our Commercial team to support the growth in our digital business and as we have extended the reach of STV Local. Our Commercial team now has the skills and experience to sell across all platforms and to maintain our unrivalled market position in Scotland.

**Engagement**

The transformation of the business from a traditional broadcaster to a multi-platform consumer focused content business requires all staff to have a clear vision of our strategic aims; key performance indicators and goals and an understanding of the contribution they can make in delivery of these.

We maintain an open culture underpinned by the philosophy that everyone can make a difference and should strive for continuous improvement to achieve operational excellence. We continue to conduct regular staff briefing sessions with the Chief Executive Officer to provide updates on business performance, strategy and developments affecting the business and to obtain feedback and suggestions on the development and growth of the business.

We have established a senior leadership management forum, comprising the staff responsible for key growth and revenue targets, which meets on a monthly basis to encourage collaborative working and build up knowledge of future trends impacting our sector.

Our relationship with trade unions is based on a partnership approach and we enjoy open dialogue and regular consultation which has been important in supporting delivery of organisational change, particularly in the news and current affairs teams during 2011.

All staff joining STV undertake a comprehensive induction process tailored to the requirements of their role and business area. This includes establishing performance and development goals for all staff which are aligned to the KPIs and goals of the business.

In 2012 we will undertake a further employee opinion survey to obtain direct feedback from staff across the business on a wide range of areas impacting on their employment experience. This will highlight areas for future focus to continue to improve our culture and working environment and create an environment where everyone has the opportunity to fulfil their full potential.

**Learning and development**

Ensuring our staff have the capability, skills and confidence to deliver the transformation of the business is achieved through our employee development framework, STV Learning. This is linked to the development goal setting undertaken through our employee performance and development process.

Through STV Learning we provide development opportunities and learning sessions linked to key business priorities and future skills requirements.

As we have continued to extend our relationship with Napier University, we have embarked on a mentoring programme with the BA (Hons) in Television Production – providing experience in coaching for managers across the business and giving an invaluable business and commercial insight for undergraduate students. This 12-month programme has successfully fostered



## Case Study: **STV Appeal 2011**

### Helping to tackle child poverty in Scotland

A staggering one in four children in Scotland are affected by poverty - we want to help change this. In 2011 STV, in partnership with The Hunter Foundation, launched the STV Appeal - a major new charitable venture for Scotland. Working with six major Scottish charities who are recognised as well established experts in the area of child poverty and with the support from some of Scotland's leading businesses and a commitment to match-funding from the Scottish Government, the charity in its inaugural year raised over £1.2m. With a range of bespoke programming and fundraising activities, the Appeal successfully connected with communities across Scotland and will support 48 projects across all 32 local authorities.

#### **Impact**

- STV Appeal 2011 raised over **£1.2m**
- 1.7m people **engaged** with the Appeal programming
- The Appeal has funded **48 projects** across Scotland, directly helping **1,800 children**
- Helping every **local authority** area across Scotland

► Visit [stv.tv/appeal](http://stv.tv/appeal) to find out how you can get involved in the STV Appeal 2012



## Corporate Social Responsibility continued

long term relationships which will provide the participants with a professional mentor as they enter the employment market and begin their early careers in the industry. This initiative will be extended in 2012.

Our commitment to public service broadcasting has created opportunities for our leading news and current affairs team to develop new skills to ensure that we embrace technological developments and maintain our position at the forefront of the industry. During 2011 we piloted a training programme to equip editorial and production staff with the skills to become video journalists to increase our newsgathering capacity and support the increasing demand for locally focused news content. The success of the pilot has resulted in a wider training programme being implemented across our news teams with more staff scheduled to acquire these skills over the forthcoming year.

### Talent and capability

We continue to provide opportunities for freelance production staff and talent in Scotland with over 500 freelance staff engaged during 2011, demonstrating STV's significant contribution to the creative industries in Scotland.

We have continued to develop strong links with educational institutions across Scotland. During 2011 we have provided over 75 work placements ranging from assignments of one week duration for pupils in secondary education and further and higher education to funded internships and work placements of up to twelve months duration.

In late 2011 we were pleased to confirm our support for an ambitious Young Apprenticeship programme organised by BBC Scotland and providing 10 young people with a full apprenticeship in advance of the Commonwealth Games in Glasgow in 2014. STV will provide work placements providing an opportunity to work within a commercial broadcaster.

We are committed to supporting the development of the talent of the future in the creative industries in Scotland. During 2011, along with Channel 4 and BBC Scotland, we entered into partnership with Creative Scotland, agreeing a programme of work which focuses on increasing investment in and promoting Scottish talent, and bringing home-grown culture into every home in Scotland.

### Reward and recognition

We continue to benchmark all areas of reward and benefits through our participation in a cross-industry group of UK media companies to ensure that our benefits structure is effective in attracting the best talent. Our reward strategy in recent years has reflected the restraint applied across the sector, however, we recognise the importance of rewarding the continued commitment and results delivered by our staff and we have relaxed this approach to ensure that we maintain parity with the wider market in this area.

### Equal opportunities and diversity

We remain committed to a culture where everyone is treated with dignity and respect and the opportunity to deliver their full potential. We monitor our performance against our policies to ensure that we are engaging effectively with our audiences and attracting a diverse pool of creative talent.

During 2011 we conducted an extensive training programme for line managers aimed at maintaining awareness of best practice and ensuring compliance in this area.

During 2011 no employees became disabled during their employment.

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

We have continued to support the Government's "Get Ready for Work" programme and we have provided mentored training programmes for young people not in education, training or training.

### Health & 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 continues to provide Health and Safety training where needs are identified and 13 of our Production Team completed the BBC Production Safety Passport during 2011.

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.

During 2011, STV commenced a programme of Defensive Driver Training with an external training provider. As part of this training, the standard of driving of all employees who drive on a regular basis is being assessed. The programme is 50% complete and the remaining 50% will complete the training during 2012.

	2011	2010	2009
Total accidents	28	26	18
Number attributable to driver error	18	14	11
Percentage attributable to driver error	64%	54%	61%

### Health and safety performance in 2011

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

	2011	2010	2009
RIDDOR three-day reportable accidents	–	1	–
Total of all accidents	4	11	11

### Our Environment

STV recognises that its day-to-day activities can, and do, have an effect on the environment. We have an environmental policy in place and reducing our impacts on the environment is part of our culture and the way we do business. We are committed to continuously improving our environmental performance and to reducing pollution.

STV was awarded the 'Bronze' award from the National Recycling Stars (Environment Media Group) for the second year running, for our efforts in recycling.

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.

## Corporate Social Responsibility continued

On average we have recycled approximately 97% of our waste during 2011.

During 2011 we continued to raise staff awareness and encourage participation in our recycling schemes. Shanks Waste visited STV to talk to staff about recycling and what we can do to make a difference.

In 2011, we increased the number of recycle bins and removed all desk bins around our offices to encourage staff to recycle more which has proved very effective, as reflected in the increased percentage of recycled waste - an increase of 35% from 2010.

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 38 members of staff taking part in this initiative. STV also took part in the Walk at Work initiative.

STV is a member of 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 2011 our transport CO<sub>2</sub> emissions have increased by 14% from the previous year and our energy CO<sub>2</sub> emissions increased slightly by 9%. Our travel agent provides us with the Company's CO<sub>2</sub> emissions for all air and rail travel. Our CO<sub>2</sub> emissions have decreased from 236 tonnes in 2010 to 187 tonnes in 2011 - a decrease of 20% year-on-year.

### Charitable donations

During 2011, the Company made charitable donations of £92,834 (2010: £6,000).

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



**Rob Woodward**  
Chief Executive Officer

## Performance Review

# Strong digital revenue growth combined with **strict cost control** has driven profit growth in 2011

A difficult macro economic backdrop has led to a decline in airtime revenues but despite this, underlying profit before tax and exceptional items has increased by 12% to £14.0m (2010: £12.5m). These themes were also reflected in our KPIs, with five exceeded, one met and five not achieved.

2011 also saw the end of the protracted litigation against ITV plc and ITV Network which has removed a key uncertainty over the business but which has impacted cash and profit in the year. A renewal of our £70.0m bank facility which was due to expire on 31 December 2012 was completed shortly after year end and this provides funding certainty for the next three years, with the potential for further extension at the end of 2014.

A new, streamlined, divisional structure was introduced at the beginning of 2011 bringing the Broadcasting and Ventures divisions together under the Consumer division with Content renamed Productions. All comparative figures have been restated where necessary to reflect the new structure.

### Revenue

Total revenue amounted to £102.0m (2010: £111.7m), with 2010 including £6.9m of Pearl & Dean revenues to the date of its disposal. Excluding Pearl & Dean, continuing business revenues were down 3%, due to lower airtime and productions revenues only being partially offset by growth in digital.

Consumer revenues at £93.6m (2010: £95.0m) were impacted by a 3% fall in national and 13% fall in regional revenues. These were partially offset by 69% growth in digital revenues to £7.1m (2010: £4.2m) as our online audience continued to grow and be successfully monetised.

Productions revenue fell by 14% to £8.4m (2010: £9.8m) as the impact of Taggart not being delivered could not be offset by higher production hours for a wider customer base.

### Operating profit

Operating profit before exceptional items increased by £0.6m (4%) to £15.0m. In the Consumer Division, operating profit amounted to £14.5m (2010: £13.4m) as strict cost control ensured the lower revenues did not flow through to profit.

This included managing a planned increase in losses in our STV Local operations to £0.9m (2010: £0.4m) as these services were rolled out more widely across Scotland. As a result of this tight cost management, margins improved in the consumer division to 15.5% (2010: 14.1%).

Productions profit amounted to £0.5m and margins were below target at 6.0% (2010: 10.2%) due to lower revenues.

### Finance costs

Net finance expenses before exceptional items decreased by £0.9m to £1.0m (2010: £1.9m) which was mainly due to a higher IAS19 non cash pension credit of £1.3m (2010: £0.4m).

### Exceptional items

Exceptional items resulted in a net charge of £13.4m (2010: £7.2m). The accounting charge for the settlement of the litigation with ITV Network and ITV plc, including legal costs, amounted to £13.5m and there was a £1.4m cost of change provision to provide for redundancy costs in the Consumer division from headcount reductions, mainly in the news operations.

On 27th April 2011, STV agreed a wide ranging settlement with ITV plc and ITV Network over various longstanding legal disputes. Under the terms of the settlement, STV will pay ITV £18.0m, of which £7.2m was paid in cash in 2011. The remaining £10.8m will be paid in cash from existing bank facilities in 18 equal instalments from January 2012 to June 2013.

### Statutory Result

The statutory result for the year after tax and exceptional items amounted to a profit of £0.6m (2010: £5.3m).

### Earnings per share

EPS before exceptional items increased by 11% to 38.0p (2010: 34.3p) reflecting the increase in profit before tax with a partial offset from the higher number of shares in issue in 2011. EPS on a statutory basis, including exceptional items, amounted to 1.5p per share (2010: 13.9p).

## Performance Review continued

### Balance Sheet

The principal balance sheet movements over the last 12 months were a reduction in inventories and an increase in the pension deficit.

The pension deficit on an IAS19 basis net of deferred tax increased to £23.0m (2010: £16.2m) due to a lower discount rate as gilt yields fell. This more than offset the £5.0m benefit from reduced liabilities following the conclusion of the mortality assumption project in the Caledonian Pension Scheme. The next triennial valuation of the Group's two defined benefit schemes will take place as at 1 January 2012 with the results and new deficit funding pattern likely to be finalised in Q1 2013.

### Cash flow

Net debt amounted to £54.5m at the year end (2010: £52.2m) with the increase due mainly to the litigation settlement and related legal costs. The core operating businesses continued to generate strong cash flows, with 108% of operating profit converted to free cash flow (2010: 138%), again above the target of 100%. We expect some phasing reversals of this position in 2012 but remain confident that on a three year average basis we will meet our 100% conversion target. Capital expenditure amounted to £1.6m (2010: £0.8m) with investment in both our online infrastructure and news operations. Our strategy of partnerships ensures that we require only modest levels of capital expenditure to achieve our growth targets.

### Dividends

The Board has announced its intention to resume dividend payments with a planned progressive dividend policy. After consultation with our major shareholders and given constraints in the new bank facility, we will keep this under review and update at our interim results.

### Principal activities

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

### Shares and other interests

As at 22 February 2012, the Company had been notified of the following interests of 3% or more in its ordinary shares:

	Total Shares	%
UBS Global Asset Mgt	5,526,691	14.15
Henderson Global	5,294,874	13.56
Blackrock	3,852,085	9.86
Odey Asset Mgt	3,389,070	8.68
ITV (Granada Media)	2,650,961	6.79
Fidelity Investments	2,247,451	5.76
Employee Benefit Trust	2,195,450	5.62
Threadneedle Investments	1,800,582	4.61
Investec Asset Mgt	1,800,000	4.61
Murray International Holdings	1,465,383	3.75

### 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 2011 were equivalent to 54 days of purchases (2010: 46 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 34 and 35.

### Auditors and disclosure of information

So far as the directors are aware there is no relevant audit information (that is information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are not aware. Each director has taken all

steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Going concern

After making appropriate enquiries, and taking account of the renewal of the banking facilities in January 2012, 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 and the Group'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 36 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 Company and the Group; 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

## KPIs 2010-2011

Our KPI targets have proved to be highly effective in providing operational focus, clarity and consistency. The existing suite of KPIs has been updated (see pages 32 and 33) and performance against the KPIs in place in 2011 is shown here.

### Consumer

#### Peak time audience v ITV network

##### Why it's important

Our programme strategy results in more Scottish based content appearing on our 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 the ITV Network

2010 Actual	+0.24
2011 Target	in line
2011 Actual	+0.85

### KPI exceeded

#### Monthly unique users (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.

2010 Actual	2.2m
2011 Target	2.5m
2011 Actual	3.0m

### KPI exceeded

#### Increase regional advertising market share

##### Why it's important

Television advertising is core to our consumer 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.

2010 Actual	25%
2011 Target	26%
2011 Actual	26%

### KPI achieved

#### Increase consumer margin

##### Why it's important

Margin improvement across the period provides evidence of profitable growth.

##### How we measure it

It is calculated as underlying operating profit divided by turnover and expressed as a percentage.

2010 Actual	12.5%
2011 Target	15.0%
2011 Actual	15.5%

### KPI exceeded

#### Monthly page impressions (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.

2010 Actual	11.0m
2011 Target	14.0m
2011 Actual	17.0m

### 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.

2010 Actual	£4.2m
2011 Target	£7.3m
2011 Actual	£7.1m

KPI not met

### Monthly video streams (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.

2010 Actual	2.0m
2011 Target	2.7m
2011 Actual	2.9m

KPI exceeded

### Digital 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.

2010 Actual	Nil%
2011 Target	30%
2011 Actual	17%

KPI not met

### Production

#### Production hours

##### Why it's important

A key strategic objective is to grow our productions 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.

2010 Actual	113
2011 Target	130
2011 Actual	121

KPI not met

### 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.

2010 Actual	£7.0m
2011 Target	£16.8m
2011 Actual	£7.0m

KPI not met

### Production margin

#### Why it's important

Margin improvement across the period provides evidence of profitable growth.

#### How we measure it

It is calculated as underlying operating profit divided by turnover and expressed as a percentage.

2010 Actual	10.2%
2011 Target	10.0%
2011 Actual	6.0%

KPI not met

## KPIs 2012-2015

Our KPI targets have been refreshed to be consistent with the Group's 2015 strategic aims. The new suite of KPIs remains broadly unchanged from the previous targets and are set out below.

### Consumer

#### Peak time audience v ITV Network

##### Why it's important

Our programme strategy results in more Scottish based content appearing on our 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 the ITV Network.

**Objective is to exceed the Network performance**

#### Increase consumer margin

##### Why it's important

Margin improvement across the period provides evidence of profitable growth.

##### How we measure it

It is calculated as underlying operating profit divided by turnover and expressed as a percentage.

2011 Actual	15.5%
2012 Target	15.5%
2013 Target	16.0%
2014 Target	16.5%
2015 Target	17.0%

#### Consumer insights

##### Why it's important

Understanding the tastes and preferences of our consumers and audiences is key to developing successful consumer services.

##### How we measure it

Using a platform with our data partner, Experian, we capture key consumer data.

2011 Actual	0.3m
2012 Target	0.7m
2013 Target	1.2m
2014 Target	1.8m
2015 Target	2.4m

#### Monthly unique users (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.

2011 Actual	3.0m
2012 Target	3.3m
2013 Target	3.5m
2014 Target	3.6m
2015 Target	3.7m

#### Monthly page impressions (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.

2011 Actual	17.0m
2012 Target	20.0m
2013 Target	22.0m
2014 Target	24.0m
2015 Target	25.5m

### Monthly video streams (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.

2011 Actual	2.9m
2012 Target	3.3m
2013 Target	3.8m
2014 Target	4.4m
2015 Target	5.0m

### Digital revenue value

#### Why it's important

Digital revenue growth is 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.

2011 Actual	£7.1m
2012 Target	£9.1m
2013 Target	£11.3m
2014 Target	£14.1m
2015 Target	£17.0m

### Digital 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.

2011 Actual	17%
2012 Target	20%
2013 Target	25%
2014 Target	35%
2015 Target	35%

### Production

#### Production hours

##### Why it's important

A key strategic objective is to grow our productions 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.

2011 Actual	121
2012 Target	140
2013 Target	150
2014 Target	160
2015 Target	170

### Production revenues

#### Why it's important

Doubling of Production revenues is a key strategic aim and this measure tracks evidence of this growth being delivered.

#### How we measure it

It is the value of revenues generated from external commission and secondary sales.

2011 Actual	£8.4m
2012 Target	£12.0m
2013 Target	£15.0m
2014 Target	£18.0m
2015 Target	£22.0m

### Production margin

#### Why it's important

Margin improvement across the period provides evidence of profitable growth.

#### How we measure it

It is calculated as underlying operating profit divided by turnover and expressed as a percentage.

**Objective is to exceed 10% (min) in all years**

## Principal Risks and Uncertainties

### Risks and uncertainties 2011

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 measures have been put in place internally to ensure that this occurs. However, it is possible that in certain circumstances these terms may inadvertently be breached and sanctions imposed by Ofcom. In the most serious of circumstances it is within the remit of Ofcom to withdraw licences.

### 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 STV's control. These factors include general economic conditions, conditions specific to general advertising markets, including the commercial television market, 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, STV 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

The majority of STV Consumer's programming content is provided by the ITV Network. Therefore, 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 Consumer 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.

### 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 the Group's leverage and other debt arrangements. An increase in interest rates could have an adverse impact on the financial position and business results. STV is exposed to a variety of financial risks that arise from and apply to its 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 and US dollar. 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 and its income and operating cash flows are substantially independent of changes in market interest rates.

## Board of Directors

### Richard Findlay (68)

#### Chairman<sup>3</sup>

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 community. 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. Richard is also Chairman of the STV Appeal charity.

### Rob Woodward (52)

#### 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. Rob is a trustee of the STV Appeal charity. Rob was appointed Pro-Chancellor and Chair of the Council of City University London in February 2012.

### George Watt (44)

#### 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, an Executive Committee Member of the Scottish Council for Development and Industry, a member of the CBI Scotland Council and a trustee of the STV Appeal charity.

### David Shearer (52)

#### Senior Independent Director<sup>1,3</sup>

Appointed to the Board in February 2007, David is an experienced corporate financier and turnaround specialist and was previously Senior Partner of Deloitte LLP for Scotland & Northern Ireland and a UK Executive Board member of Deloitte LLP. He is Chairman of Mouchel Group plc, Deputy Chairman of Aberdeen New Dawn Investment Trust plc, Senior Independent Director of Martin Currie (Holdings) Limited, Renold plc and Superglass Holdings plc and a

non-executive director of Mithras Investment Trust plc. He was previously Chairman of Crest Nicholson plc and a non-executive director of City Inn Limited where he stood down after successfully completing the financial restructuring of these businesses, 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 a non-executive director of HBOS plc.

### Vasa Babic (45)

#### Non Executive Director<sup>1,2</sup>

Appointed to the Board in February 2007. Vasa works as an independent advisor to large European companies. Previously, he was a Partner of Hanover Investors, 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 (57)

#### Non Executive Director<sup>1,2</sup>

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 Maven Income and Growth VCT5 PLC.

### Michael Jackson (54)

#### Non Executive Director<sup>2</sup>

Appointed to the Board in 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 top

Rob Woodward  
Richard Findlay  
Vasa Babic  
Michael Jackson  
George Watt  
Jamie Matheson  
David Shearer





## Corporate Governance Report

### Principles Statement

STV Group plc is fully committed to the highest standards of Corporate Governance, believing that such standards are vital to overall business integrity and performance and considers it crucial that it conducts itself honestly, transparently and responsibly.

The Board has a central role to play in creating and delivering the long term success of the Company and the long term return for shareholders. This requires it to determine business strategy and the Company's appetite for risk; to monitor management's performance in delivering against that strategy and ensure that the risk management measures and internal controls put in place are appropriate and effective. The Board must ensure that the funding and talent available to the business will support it long term and must remain aware of the Company's obligations to its shareholders and other stakeholders, responding to their needs with transparent reporting and active engagement.

### Statement Of Compliance

In May 2010 the Financial Reporting Council published the United Kingdom Corporate Governance Code which applies to all companies for financial years beginning on or after 29 June 2010 (the "New Code"). 2011 was the first year during which the Company required to comply with the New Code and the directors consider that they complied with all sections of the New Code for the year under review with the exception of provision B.2.1 in relation to Mr Peacock's chairmanship 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. However, the intention is to become compliant over time.

This section, together with the report by the directors on remuneration, set out on pages 48 to 58, describes how, in respect to the financial year ended 31 December 2011, the Company has complied with the principles and provisions of the New Code. A copy of the New Code is publicly available at [www.frc.org.uk](http://www.frc.org.uk).

### Board Of Directors

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 (resigned 19 January 2012)

Vasa Babic

Jamie Matheson

Michael Jackson

### Board Appointment, Balance And Independence

The Board has considered the independence of the non-executive directors and has confirmed that, following the resignation of Matthew Peacock on 19 January 2012, all of the current directors are considered to be of independent character and judgement, with the exception of Vasa Babic, who is an Advisor to and was previously a Partner of, Hanover Investors, which, up until 24 June 2011, held shares in STV.

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

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.

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 services 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.

Genevieve Shore will join the Board on 1 March 2012 and is CIO and Director of Digital Strategy at Pearson PLC, with responsibility for overseeing the strategy, architecture and implementation of all of Pearson's worldwide IT operations: networks, systems for processes from content creation through to sales, systems to manage Pearson's assets such as content, rights and royalties, data and analysis. Previously, Genevieve has worked at Pearson for 10 years where her roles have included group sales director and global digital director. Prior to that, she worked for seven years at Random House.

### Board Responsibilities

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 the agenda. He provides a conduit for communication to and from shareholders and facilitates the contribution of the non-executive directors while ensuring constructive relations between the executive and non-executive directors.

The Board has responsibility for making all key strategic, management and commercial decisions which are necessary for the conduct of the Company's business as a whole, including the approval of corporate strategy, annual budgets, interim and full year financial statements and reports, dividends, accounting policies and all significant capital projects, acquisitions and disposals. The Chief Executive and his management team are responsible for developing the appropriate business strategy and, once approved by the Board, for ensuring that the strategy is effectively implemented in accordance with the approved operating plan and within a sound system of internal controls to achieve the agreed objectives. He creates a framework of strategy, values, organisation and objectives to ensure the successful delivery of results, and allocates decision making and responsibilities accordingly. Compliance with policies and achievement against objectives is monitored by the Board through monthly and quarterly performance reporting and budget updates.

It is the duty of all directors to promote the success of the company for the benefit of its members as a whole, and in doing so, to have regard (amongst other matters) to:

- the likely long term consequences of any decision;
- the interests of the company's employees;
- the need to foster the company's business relationships;
- the impact of the company's operations on the community and the environment;
- the desirability of maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

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 non-executives discussion on the Chairman's performance at the annual performance review.

The Board 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.

**Corporate Governance Report** continued**Board Meetings**

Attendance of Board members at Board and committee meetings held in 2011 is set out below:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
<b>Number of meetings held:</b>	<b>9</b>	<b>3</b>	<b>3</b>	<b>2</b>
<b>Attendance:</b>				
Richard Findlay	9			2
David Shearer	9	3		2
Rob Woodward	9			
George Watt	9			
Matthew Peacock	7			2
Vasa Babic	9	3	3	
Jamie Matheson	8	3	3	
Michael Jackson	9		3	

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 which was revised in December 2011 and can be found on the Company's website at [www.stvplc.tv](http://www.stvplc.tv) under the Investor Centre, the principal matters being approval of:

- Financial statements and shareholder circulars; dividend policy; significant changes in accounting policies or practices.
- Board and committee appointments and terms of reference; terms and conditions of non-executive and executive directors.
- The Group's long-term objectives and commercial strategy; annual operating and capital expenditure budgets.
- Material contracts and significant variations in terms of the Group's borrowing facilities.
- Corporate activity, which is subject to the City Code on Takeovers and Mergers or of a material nature.
- Major changes to the Group's pension schemes, share schemes and treasury policy.
- Risk management, internal control policies and corporate governance arrangements

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 business 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 prior to which, the non executive directors are encouraged to suggest specific topics for discussion. At this year's Strategy Day the future plans for and opportunities open to the Company were reviewed and discussed in detail and a dinner was held in the evening which was attended by the Leadership Team thus providing the non executive directors the opportunity to direct any questions to them on their respective business area. 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, thereby producing more efficiency and effectiveness.

When a director is unable to attend or dial in to 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.

### Board Committees

The Board is supported by the Audit, Remuneration and Nomination Committees.

#### Leadership

Board of Directors

- Determines long term direction and strategic aims
- Sets framework of appropriate and robust controls
- Ensures efficient and effective operation of the business
- Engages with shareholders and stakeholders

#### Audit Committee

- Monitor the integrity of the published financial statements
- Review the effectiveness of Internal financial controls
- Review the operation of the risk management process
- Discuss with the Company's auditors, matters arising from their work
- Review the scope of work and reports produced by the internal auditors

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**Audit Committee Report**

#### Remuneration Committee

- Determine and agree with the Board the framework for the remuneration policy
- Review the ongoing appropriateness and relevance of the remuneration policy
- Approve the design of, targets for and payments from any performance related pay schemes
- Review the design of all share incentive plans
- Determine the remuneration packages for executive directors and other senior executives
- Review and note annually the remuneration trends across the Company

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**Remuneration Committee Report**

#### Nomination Committee

- Review the structure, size and composition of the Board
- Review succession plans and make recommendations to the Board
- Identify and nominate candidates for approval of the Board
- Recommend to the Board membership of the Board Committees

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**Nomination Committee Report**

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.

## Corporate Governance Report continued

### 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 48 to 58. The terms of reference of the Remuneration Committee are available on request and on the Company's website [www.stvplc.tv](http://www.stvplc.tv)

### Report from the Nomination Committee

The members of the Committee during the year were:

Matthew Peacock (Chairman)  
Richard Findlay  
David Shearer

The Nomination Committee has written terms of reference which are available on request and on the Company's website [www.stvplc.tv](http://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. Following discussion of the recommendations of the Lord Davies report on boardroom diversity, the Committee has not at the current time set a specific female Board member quota. Accordingly, appointments to the Board will continue to be based on merit, measured against objective criteria and required competencies, while taking account of the skills and experience the individual can bring to the Board. Genevieve Shore will be appointed as a non executive director on 1 March 2012 and her expertise in developing new digital products and services will be invaluable to STV as it progresses to the next phase of its growth strategy. The assistance of an external search consultant was used for this appointment and a description of the role and capabilities required for the role was prepared following introductory meetings with the Committee and other Board members, her appointment was unanimously agreed by the Board.

### 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. The Audit Committee has written terms of reference which are available on request and on the Company's website [www.stvplc.tv](http://www.stvplc.tv)

Meetings of the Committee are normally attended by the Chief Executive Officer, Chief Financial Officer and the Company Secretary as well as the Group Financial Controller together with 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.

The Audit Committee and the Board place great emphasis on the objectivity of the Group's auditors PricewaterhouseCoopers LLP ("PwC") in their reporting. The audit partner and manager attend all 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 auditors are required each year to confirm in writing to the Committee that they have complied with the independence rules of their profession and regulations governing independence having taken into consideration matters such as the individual independence of members of the engagement team and the firm as whole and the nature of any non audit work undertaken. Before PwC takes on any engagement for other services from the Company, careful consideration is given as to whether the project could conflict with its role as auditors or impair its independence. This includes consideration of the safeguards which are in place to mitigate the risks to independence.

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. In order to seek to preserve auditor objectivity and independence, the Company has a policy regulating the provision of non-audit services by the Auditor. 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 most suitable supplier of services. 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 and the Audit Committee keep this policy under review.

In general, the auditors may not provide a service which:

- a) Creates a mutuality of interest;
- b) Places the auditor in a position to audit their own work;
- c) Results in the auditor acting as a manager or employee of STV;
- d) Puts the auditor in the role of advocate for STV.

Due consideration is given to the award of any non-audit work, and 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 for which PwC is best placed to perform the work to the extent that its skills and experience along with its knowledge of the Company makes it the most appropriate provider. The non-audit work carried out during 2011 related to recent tax developments together with tax compliance and PwC were considered to be the most suitable supplier given that much of the information derived from the audited financial records.

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.

PwC has been the Company's auditors since 2004. The Committee is satisfied with its effectiveness and independence and has not considered it necessary to require an independent tender process in 2011. 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 three 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.

### Internal Audit

Deloitte LLP ("Deloitte") were appointed as the Company's Internal Auditor in 2009 and the primary focus of its 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 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.

## Corporate Governance Report continued

Deloitte attend all meetings of the Audit Committee and provide update reports on what specific areas have been reviewed in terms of the planned internal audit for the year, together with an 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.

### Leadership Team

The Leadership Team comprises the executive directors; Commercial Director; Director of Corporate Development; Chief Technology and Platforms Officer; Director of Channels; Deputy Director of Channels; Director of Content, HR and Communications Director and the Head of Legal and Regulatory Affairs. The purpose of the team is to drive the implementation of the Company's strategic priorities while 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.

### Diversity

STV is fully committed to fostering talent and supporting people from all backgrounds who wish to progress. However, appointments and promotions will continue to be made based on merit and in line with the skills and attributes identified for each post, including those identified by the Nomination Committee for the Board. STV is committed to appointing the best available person to any role within the Group, regardless of gender.

Notwithstanding this, STV will work towards extending the female composition of its Board as vacancies arise and suitable candidates are identified. However the primary focus is the strength of the Board and the overarching aim in any new appointment must always be to select the best candidate to make the Board work better and make better decisions.

Achieving the right mix of talent, skills and experience on the Board is critical for business and STV's aim is to have an appropriate level of diversity in the Boardroom to support the achievement of its strategic objectives. Diversity of perspective is vital and having directors from different backgrounds and with different skill sets ensures that decisions are challenged in a credible manner and "group think" is avoided. Each person is different and diversity is about recognising, respecting and valuing these differences.

While Genevieve Shore joins the STV Board on 1 March 2012 as its first female director, its Company Secretary is female as are three of the 10 members of the current Leadership Team. STV has chosen not to target a specific number or percentage of women for its Board, but to concentrate its efforts on encouraging more women to remain within the Company and progress through the ranks to senior positions and as at 31 December 2011, 47% of STV's staff were female.

### Training And Development

All directors are given a comprehensive introduction to the Group's 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. Directors are also provided with, and encouraged to take up, opportunities to meet major shareholders. During the year, the Directors were provided with information on the Bribery Act 2010 and its implications for both the Board and the Company. The Directors discussed the issues around this legislation and thereafter the revised Business Ethics Policy together with the Hospitality & Gift Register were approved and adopted by the Board.

Development and training of directors is an ongoing process. Throughout their period in office the directors are regularly updated on the Group's business; legal matters concerning their role and duties; the competitive environments in which the Group operates; and any other significant changes affecting the Group and the market sector of which it is a part. In addition, the Board regularly receives presentations from senior managers within the Group and each year Board meetings are scheduled around the Group's business locations to ensure that Director's knowledge, skills and familiarity with the Group's businesses and people are updated and maintained. In addition, Board training and development is considered as part of the annual performance evaluation exercise and during the year the Chairman confirmed with each director that they were content with the level of training and development given with no director requesting additional training.



### 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 without the Chairman present. 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 and the views of the executive directors are taken into account in evaluating the Chairman's performance.

On completion of the 2011 performance evaluation, the performance of each director of the Board was found to be effective and it was concluded that the Board provides the effective leadership and control required for a listed company. It was recognised that the Board functioned well with appropriate Board processes, papers and agendas and that there was good communication and interaction between the Board and the Leadership Team.

The evaluation process further concluded that the Board was made up of strong and independent minded non-executive directors each of whom contributed effectively and demonstrated full commitment to their duties.

The Chairman reported the results of the evaluations at the Board meeting in January 2012. The Nominations Committee confirmed to the Board that the contributions made by the directors offering themselves for election and re-election at the AGM in April 2012 continue to be effective and that the Company should support their election and re-election. In addition, the Board considered recommendations made by directors during the Board performance evaluation for the improvement of Board procedures and its effectiveness. Consequently, some changes in Board practice are being implemented, including extending the duration of Board meetings and allocating more time in the Board schedule for presentations by key senior executives.

### Re-Election

Non-Executive Directors are appointed for a specified period of three years and re-appointment is not automatic. Directors stand for election by shareholders at the first Annual General Meeting following their appointment and thereafter for re-election at intervals of no more than 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 are available for inspection at the Company's registered office and will be available at the Annual General Meeting.

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 continue to fulfil their functions responsibly. With regard to Genevieve Shore who is seeking election, the Board considers that Genevieve's knowledge and experience of digital initiatives and particularly monetisation policies, provides the expertise necessary to help STV further generate audiences and revenues for its content across different platforms. The Board accordingly recommends that shareholders support Genevieve's election as a non executive director.

## Corporate Governance Report continued

### Risk Management and Internal Control

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, the directors have overall responsibility for establishing and maintaining an adequate system of internal controls and risk management policies and also for reviewing the effectiveness of each. 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.

During 2011, these reviews have included an assessment of internal controls (in particular, financial, operational and compliance controls) and risk management and their effectiveness and were supported by reports from the internal auditor as well as from the external auditor on matters identified in the course of its statutory audit work. The system 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. During 2011, all points raised by the internal auditor were addressed and executive management believes that the control environment has been strengthened further by the actions taken.

A key element of the risk management process is the method of profiling risk. This determines the threats to the achievement of business objectives and day to day operations in terms of likelihood and consequence at a residual level, after taking account of mitigating and controlling actions.

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 Turnbull Guidance 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.

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.

An in depth review of the Risk Register will be carried out in the early part of 2012, facilitated by Deloitte. The process will involve one on one structured interviews with senior management followed by a half day workshop with the Leadership Team.

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 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.

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

#### **Relations with Shareholders**

STV's corporate website at [www.stvplc.tv](http://www.stvplc.tv) has information for institutional and private 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.

#### **Institutional shareholders**

STV undertakes a comprehensive programme of meetings and events for institutional investors and research analysts throughout the year and the Board are kept fully informed of feedback given to the Chief Executive and Finance Director in the course of their extensive round of investor meetings. The Board routinely receives, updates on significant movements on the share register, analysts' consensus forecasts and market sentiment.

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 or concerns and various meetings have taken place with major shareholders during the year. Discussions at these meetings are conveyed to all Directors in order that each can develop an understanding of major shareholders views on the Company. 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.

#### **Private shareholders**

We are always pleased to hear the views of our private shareholders and to answer queries by telephone or in writing through emailing our Company Secretary [Jane.Tames@stv.tv](mailto:Jane.Tames@stv.tv). We encourage shareholders to make maximum use of our website to access Company reports, notices of meetings and general shareholder information. Shareholders can also check their shareholding at any time by visiting the Registrar's website at [www.capitashareportal.com](http://www.capitashareportal.com)

## 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 Corporate Governance Code (2010) 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 42 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 105 and on the Company's website, [www.stvplc.tv](http://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 2011

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 interest 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 32 and 33 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 2011 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.

Base salary levels have not been adjusted since 2007 and the executive directors have proposed to and agreed with the Committee that base salary levels will remain at current levels in 2012.

##### **Benefits Allowance**

Executives are entitled to receive a taxable, cash allowance in lieu of benefits in kind, including car and private medical 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 2011. Bonus payments are dependent on the achievement of performance targets relating to financial and personal performance measures.

## Remuneration Committee Report continued

The 2011 performance related bonus plan was designed to:

- 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 2011, 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 2011 only in respect of the discretionary element relating to achievement of personal performance measures. As a result, bonus payments at 12.5% of bonus potential maximum (15% of base salary) have been earned and will be paid in March 2012. The bonus performance measures and the extent to which these have been satisfied are outlined below:

### 2011 Performance related bonus plan

Performance targets	% Target satisfied	Bonus payable
Group PBT	Target not met	0%
EPS	Target not met	0%
Operating Profit	Target not met	0%
	Discretionary payment of 12.5% of this component to be awarded	
Personal objectives		12.5%

In recognition of the need for restraint in remuneration in recent years, the Chief Executive Officer volunteered and subsequently agreed with the Committee and the Board in 2010 that he would not receive any payment of bonus earned in respect of 2010 and that this should be deferred for a period of up to 24 months and payable wholly in shares and partially subject to performance conditions being met. These performance conditions, relating to achieving an increase of 10% in EPS and Group PBT in 2011 relative to 2010, have been fulfilled and these deferred bonus payments will be released.

The Committee has agreed that the 2012 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 100% of base salary (2011: 125%) and 50% of bonus payments will become payable upon achievement of performance targets (2011: 25%) with bonus potential maximum being payable upon performance targets being exceeded by 25% (2011: 25%). A straight line mechanism will operate between 100% and 125% of budgeted financial performance targets.

### Share Incentives

An all-employee share based Save As You Earn (SAYE) scheme was launched in June 2011 to provide an opportunity for employees to participate in the future success of the Group. Under the scheme, employees can each save up to £250 per month over a three year term at the end of which they have the option to acquire shares priced at a discount on the market value at the date of grant.

Approximately 30% of employees took up the invitation and subscribed for a total of 329,788 ordinary shares (at a price of 123 pence per share calculated by discounting the middle market quotation on 3 June 2011 by 10%).

On 29 June 2011 Rob Woodward and George Watt were each granted 7,337 options under the scheme.

No other share based incentive awards were granted in 2011.

The Remuneration Committee has reviewed remuneration arrangements for 2012 and proposes to award an LTIP following the vesting of the 2009 LTIP to ensure that an appropriate balance is maintained between medium and long term incentives.

### 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	5.21%	1.48%
5% dilution in ten years	4.37%	0.64%

### 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.

Neither of the executive directors are members of any Company pension scheme and both receive 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.

### 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 2011:

Rob Woodward



56% Performance Compensation  
44% Fixed Compensation

George Watt



56% Performance Compensation  
44% Fixed Compensation

#### Key

Fixed Compensation is calculated as: Salary, Benefits

Performance Compensation is calculated as: Bonus available



## Remuneration Committee 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 2011 and as at 31 December 2011 were, other than in respect of options or other rights to acquire ordinary shares, as follows:

	1 January 2011		31 December 2011	
	Ordinary shares	Share Incentive Plan	Ordinary shares	Share Incentive Plan
<b>Executive directors</b>				
Rob Woodward	177,097	–	202,679	–
George Watt	102,349	1,070	145,449	1,070
<b>Non-executive directors</b>				
Richard Findlay	15,000	–	15,000	–
David Shearer	40,000	–	50,000	–
Jamie Matheson	12,500	–	12,500	–
Vasa Babic*	2,154,496	–	–	–
Matthew Peacock*	2,154,496	–	–	–
Michael Jackson	–	–	–	–

\* These shares were held by Hanover Investors and the interests of both Matthew Peacock and Vasa Babic were by reference to the same shareholding. Vasa Babic is no longer a partner of Hanover Investors.

### 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
<b>Rob Woodward</b> Chief Executive Officer	12 months	28.02.07	Rolling contract	12 months salary and benefits
<b>George Watt</b> 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**

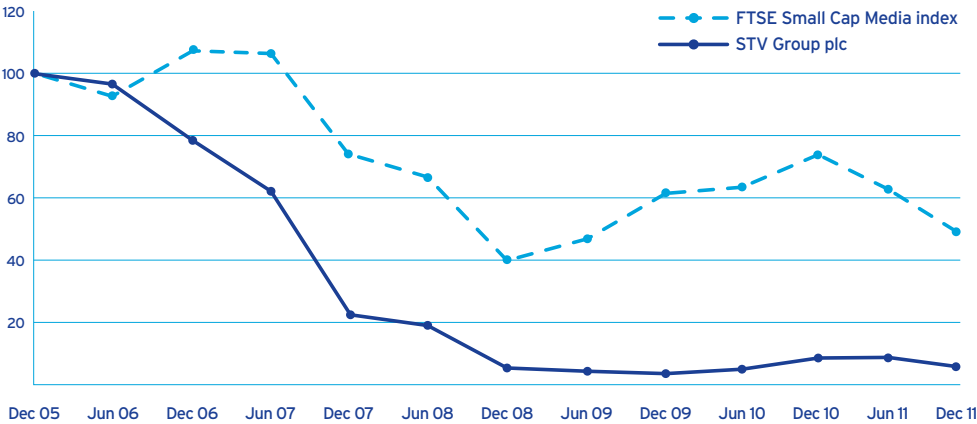
The remuneration of the non-executive directors is determined by the Board based upon recommendations from the Chairman and Chief Executive Officer (or, in the case of the Chairman, based on recommendations from the Senior Independent non-executive director and the Chief Executive Officer) and is within 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, Nomination 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 2012.

**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 Committee Report** continued**2011 audited Information**

The total of directors' emoluments in the year was £1,337,000 (2010: £1,097,000).

The remuneration of each director, excluding long-term incentive awards, during the year ended 31 December 2011 compared with 2010 is set out in the table below.

	Basic salary/fees		Benefits (1)		Annual performance related bonus (2)		Total	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
<b>Executive directors</b>								
Rob Woodward	380	380	92	92	201	–	673	472
George Watt	214	214	58	52	113	80	385	346
<b>Non-executive directors</b>								
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	35	–	–	–	–	35	35
Total (£000)	873	873		144	314	80	1337	1097

(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 was paid in shares 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 which have been achieved in full. 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, which have now been met in full, 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 conditions which have been met in full (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 (2010: £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 when he became a deferred member of the scheme. George Watt now receives a taxable cash allowance of £42,840 equivalent to 20% of base salary (2010: £32,130).

### Final salary pension scheme – benefits in scheme

	Change in accrued pension over the year (1) £	Accrued pension at 31 December 2011 £	Transfer value at 31 December 2011 (2) £	Transfer value to 31 December 2010 £	Change in transfer value over the year less director's contributions £
George Watt	806	26,801	322,108	266,570	55,538

- (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

With the exception of the all-employee Save As You Earn scheme launched in June 2011 (refer to unaudited section of report) no awards were granted under the Company's share plans during 2011. The information disclosed below relates to awards granted in prior years.

### Long-term Incentive Plan

The following awards have been granted under the Company's long-term incentive plans:

#### 2008 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 and vested on 11 April 2011.

	Interests at 1 January 2011	Released in year	Lapsed in year	31 December 2011	Award date	Release date
Rob Woodward	365,452	25,582	339,870	0	11.04.08	11.04.11
George Watt	206,000	14,420	191,580	0	11.04.08	11.04.11

**Remuneration Committee Report** continued**Performance conditions of 2008 award**

50% of the Awards are subject to comparative TSR performance ("TSR Award"). 50% of the TSR Award are subject to the Company's performance against the Competitor Group and fifty percent against the Comparator Group. Fifty percent of the Awards are 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%*	15%	50%*
Position 3	50%	Upper Quartile	100%*	20%	100%*
Position 2	75%				
Position 1	100%				

\* Straight line release between these points

**Competitor group**

Sky plc, Chrysalis plc, EMAP plc, ITV plc, Maiden Group plc, Ulster Television plc.

**Comparator group**

Aegis Group plc, Sky 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.

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.

### Performance Conditions of 2009 LTIP

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 Committee 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**  
Remuneration Committee Chairman  
Pacific Quay  
Glasgow G51 1PQ  
22 February 2012



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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 2011 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 29, 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. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### 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 2011 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.

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**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 29, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance 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 2011 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

23 February 2012

# Consolidated Income Statement

Year ended 31 December 2011

	Note	Underlying results £m	2011 Exceptional items £m	Results for year £m	Underlying results £m	2010 Exceptional items £m	Results for year £m
<b>Continuing operations</b>							
Revenue	5	102.0	–	102.0	104.8	–	104.8
Net operating expenses before exceptional costs		(87.0)	–	(87.0)	(90.4)	–	(90.4)
Litigation matters	8	–	(13.5)	(13.5)	–	(3.5)	(3.5)
Cost of change	8	–	(1.4)	(1.4)	–	(0.9)	(0.9)
Writedown of inventory	8	–	–	–	–	(2.7)	(2.7)
Net operating expenses		(87.0)	(14.9)	(101.9)	(90.4)	(7.1)	(97.5)
<b>Operating profit</b>		15.0	(14.9)	0.1	14.4	(7.1)	7.3
Finance income		0.2	–	0.2	0.2	–	0.2
Finance costs – borrowings	9	(2.5)	–	(2.5)	(2.5)	(1.5)	(4.0)
– IAS 19 pension	9	1.3	–	1.3	0.4	–	0.4
		(1.0)	–	(1.0)	(1.9)	(1.5)	(3.4)
<b>Profit/(loss) before tax</b>		14.0	(14.9)	(0.9)	12.5	(8.6)	3.9
Tax credit	11	–	1.5	1.5	–	1.4	1.4
<b>Profit for the year from continuing operations</b>		14.0	(13.4)	0.6	12.5	(7.2)	5.3
<b>Discontinued operations</b>							
Profit for the year from discontinued operations	10	–	–	–	–	–	–
<b>Profit for the year</b>		14.0	(13.4)	0.6	12.5	(7.2)	5.3
<b>Earnings per share</b>							
From continuing operations							
– basic*	13	38.0p		1.6p	34.3p		14.6p
– diluted	13	36.1p		1.5p	32.9p		13.9p
From continuing and discontinued operations							
– basic*	13	38.0p		1.6p	34.3p		14.6p
– diluted	13	36.1p		1.5p	32.9p		13.9p

\* The 2010 basic EPS has been restated (see note 13).

The notes on pages 66 to 93 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Note	2011 £m	2010 £m
<b>Profit for the year</b>		0.6	5.3
Actuarial (loss)/gain on post employment benefit obligations	29	(13.5)	9.1
Deferred tax credit/(charge)	21	2.9	(2.9)
<b>Other comprehensive (expense)/income for the year net of tax</b>		(10.6)	6.2
<b>Total comprehensive (expense)/income for the year</b>		(10.0)	11.5

# Consolidated Balance Sheet

At 31 December 2011

	Note	2011 £m	2010 £m
<b>Non-current assets</b>			
Goodwill and other intangible assets	14	7.9	7.9
Property, plant and equipment	15	9.5	10.1
Deferred tax asset	21	15.5	11.1
		<b>32.9</b>	29.1
<b>Current assets</b>			
Inventories	16	29.1	35.8
Trade and other receivables	17	24.2	26.4
Cash and cash equivalents	18	0.5	7.6
Short term bank deposits	18	–	0.1
		<b>53.8</b>	69.9
<b>Total assets</b>		<b>86.7</b>	99.0
<b>Equity attributable to owners of the parent</b>			
Ordinary shares	23	19.5	19.2
Share premium	23	112.0	111.4
Merger reserve		173.4	173.4
Other reserve		0.6	0.8
Accumulated losses		(335.2)	(324.6)
<b>Total equity</b>		<b>(29.7)</b>	(19.8)
<b>Non-current liabilities</b>			
Borrowings	20	–	54.9
Trade and other payables	19	0.7	2.5
Retirement benefit obligation	29	30.9	22.9
Provisions	22	2.5	3.1
		<b>34.1</b>	83.4
<b>Current liabilities</b>			
Borrowings	20	55.0	5.0
Trade and other payables	19	25.6	29.0
Provisions	22	1.7	1.4
		<b>82.3</b>	35.4
<b>Total liabilities</b>		<b>116.4</b>	118.8
<b>Total equity and liabilities</b>		<b>86.7</b>	99.0

The notes on pages 66 to 93 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 62 to 93 were approved by the Board on 23 February 2012 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 2011

	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
<b>Balance at 1 January 2011</b>	19.2	111.4	173.4	0.8	(324.6)	(19.8)
Profit for the year	–	–	–	–	0.6	0.6
Actuarial loss	–	–	–	–	(13.5)	(13.5)
Deferred tax thereon	–	–	–	–	2.9	2.9
<b>Total comprehensive expense for the year</b>	–	–	–	–	(10.0)	(10.0)
Own shares issued and acquired	0.3	0.6	–	–	(0.9)	–
Own shares awarded	–	–	–	–	0.3	0.3
Equity-settled share based payments	–	–	–	(0.2)	–	(0.2)
<b>Balance at 31 December 2011</b>	<b>19.5</b>	<b>112.0</b>	<b>173.4</b>	<b>0.6</b>	<b>(335.2)</b>	<b>(29.7)</b>
<b>Balance at 1 January 2010</b>	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)
<b>Total comprehensive income for the year</b>	–	–	–	–	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
<b>Balance at 31 December 2010</b>	<b>19.2</b>	<b>111.4</b>	<b>173.4</b>	<b>0.8</b>	<b>(324.6)</b>	<b>(19.8)</b>

## Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Note	2011 £m	2010 £m
<b>Operating activities</b>			
Cash generated by operations	24	6.4	6.3
Interest paid		(2.9)	(3.4)
Pension deficit funding - Recovery plan payment		(4.2)	(3.7)
<b>Net cash used by operating activities</b>		<b>(0.7)</b>	<b>(0.8)</b>
<b>Investing activities</b>			
Interest received		0.1	0.2
Purchase of property, plant and equipment		(1.6)	(0.8)
<b>Net cash used by investing activities</b>		<b>(1.5)</b>	<b>(0.6)</b>
<b>Financing activities</b>			
Release of cash on deposit		–	0.4
Net borrowings repaid		(4.9)	(9.0)
<b>Net cash used by financing activities</b>		<b>(4.9)</b>	<b>(8.6)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(7.1)</b>	<b>(10.0)</b>
Cash and cash equivalents at beginning of year		7.6	17.6
<b>Cash and cash equivalents at end of year</b>	24	<b>0.5</b>	<b>7.6</b>

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 2011

	Note	2011 £m	2010 £m
<b>Opening net debt</b>		<b>(52.2)</b>	<b>(49.4)</b>
Net decrease in cash and cash equivalents		(7.1)	(10.0)
Movement in debt financing		4.9	7.6
Movement in escrow cash		(0.1)	(0.4)
<b>Closing net debt</b>	24	<b>(54.5)</b>	<b>(52.2)</b>

# Notes to the Financial Statements

for the year ended 31 December 2011

## 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 2011 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 2011 and are not relevant to the Group or had no material impact on the financial statements.

IAS 24 (amendment)	Related party disclosures
IAS1 (amendment)	Presentation of financial statements
IAS 34 (amendment)	Interim financial reporting
IFRS 1 (amendment)	First time adoption - interim information, deemed cost exemption and rate regulated entities
IFRS 7 (amendment)	Nature and extent of risks arising from financial instruments
IFRS 7 (amendment)	Transfers of financial assets
IFRIC 13 (amendment)	Customer loyalty programmes - fair value
IFRIC 14 (amendment)	IAS 19 - the limit on a defined benefit asset, minimum funding requirements and their interaction

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 10	Consolidation financial statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosures of interests in other entities
IFRS 13	Fair value measurement
IAS 27 (amendments)	Separate financial statements
IAS 28 (amendments)	Investments in associates and joint ventures
IAS 12 (amendments)	Deferred tax: recovery of underlying assets
IAS 19 (amendments)	Employee benefits

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.

### **Going concern**

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Performance Review on page 29.

### **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.

### **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

## 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.

## Recorded programmes and films

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.

## Film rights

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.

## 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 accumulated losses 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

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### 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.

##### **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.

##### **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.

# Notes to the Financial Statements

continued

## 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 Consumer (previously Broadcasting and Ventures), Productions (previously Content) 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.

Segment revenues	External sales	
	2011 £m	2010 £m
<b>Continuing operations</b>		
Consumer	93.6	95.0
Productions	8.4	9.8
	<b>102.0</b>	104.8
<b>Discontinued operations</b>		
Cinema	–	6.9
	<b>102.0</b>	111.7

Turnover in 2011 includes £1.1m of revenues from sources outside the UK (2010: £1.6m).

Segment result	Underlying segment result		Exceptional items		Segment result	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
<b>Continuing operations</b>						
Consumer	14.5	13.4	(10.8)	(3.4)	3.7	10.0
Productions	0.5	1.0	(0.1)	(0.2)	0.4	0.8
	15.0	14.4	(10.9)	(3.6)	4.1	10.8
Exceptional legal costs incurred in litigation with ITV Network plc and ITV plc					(4.0)	(3.5)
Operating profit					0.1	7.3
Financing					(1.0)	(1.9)
Exceptional financing costs					–	(1.5)
(Loss)/profit before tax					(0.9)	3.9
Tax credit					1.5	1.4
Profit from the year from continuing operations					0.6	5.3
<b>Discontinued operations</b>						
Cinema	–	–	–	–	–	–
Attributable tax credit	–	–	–	1.5	–	1.5
	–	–	–	1.5	–	1.5
Exceptional loss on disposal of discontinued operations					–	(1.5)
Profit for the year from discontinued operations					–	–
<b>Profit attributable to equity shareholders</b>					<b>0.6</b>	<b>5.3</b>

Operating profit in 2011 includes £0.6m arising outside the UK (2010: £0.7m).

In 2011, the exceptional items in Consumer relate to an exceptional charge in relation to the ITV litigation of £9.5m and a £1.3m cost of change provision. The exceptional item in Productions of £0.1m relates to a cost of change provision.

In 2010, the exceptional items in Consumer related to a writedown of film stock of £2.7m and a £0.7m cost of change provision. The exceptional item in Productions of £0.2m related to a cost of change provision.

# Notes to the Financial Statements

continued

## 5. Business segments continued

	Assets		Liabilities	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Segment assets and liabilities</b>				
Consumer	38.7	44.3	23.8	34.9
Productions	29.8	34.1	2.1	2.9
<b>Total of all segments</b>	<b>68.5</b>	<b>78.4</b>	<b>25.9</b>	<b>37.8</b>
Unallocated corporate	18.2	20.6	90.5	81.0
<b>Consolidated</b>	<b>86.7</b>	<b>99.0</b>	<b>116.4</b>	<b>118.8</b>

	Consumer		Productions	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Other segment information</b>				
Capital additions	1.8	0.8	–	–
Depreciation	2.4	2.5	–	–

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 2010 and 2011 were held in the UK and therefore operate in a single geographical segment.



**6. Operating expenses by nature**

	2011 £m	2010 £m
Programming costs	54.4	58.0
Staff costs	13.1	16.4
Other external charges	14.7	16.8
Depreciation	2.4	2.5
Operating lease charges:		
- plant and machinery	0.1	1.0
- other	2.1	2.4
Other operating charges	0.2	0.2
	87.0	97.3
Attributable to:		
Continuing	87.0	90.4
Discontinued	–	6.9
	87.0	97.3

**Services provided by the Group's auditor**

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

	2011 £m	2010 £m
<b>Group</b>		
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
- Tax services	0.2	0.3
- Other	–	0.1
	0.4	0.7

Included in the audit fees payable is £5k (2010: £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:

	2011 Number	2010 Number
<b>Consumer and productions</b>		
Established	350	346
Contract	37	23
	<b>387</b>	<b>369</b>
<b>Cinema</b>		
Established	–	16
Contract	–	1
	<b>–</b>	<b>17</b>
<b>Total</b>	<b>387</b>	<b>386</b>

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

Their aggregate remuneration comprised:

	2011 £m	2010 £m
Wages and salaries	11.0	12.9
Social security costs	1.1	1.1
Retirement benefit obligation (see note 29)	1.0	2.4
	<b>13.1</b>	<b>16.4</b>

Included within the retirement obligation above is a £2.3m pension cost (2010: £2.8m) and a £1.3m interest credit (2010: £0.4m). 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 48 to 58.

## 8. Exceptional items

### i) Litigation matters

On 27 April 2011, STV agreed a wide ranging settlement with ITV plc and ITV Network over various longstanding legal disputes. Under the terms of the settlement, STV will pay ITV £18.0m, of which £7.2m was paid in cash in 2011. The remaining £10.8m will be paid in cash from existing bank facilities in 18 equal instalments from January 2012 to June 2013.

The settlement has been recognised as follows:

- The exceptional write off of legal and other costs incurred by the Group in relation to the claims of £4.0m (2010: £3.5m);
- The recognition of an exceptional charge of £9.5m.

### ii) Cost of change

A provision of £1.4m has been recognised during the year mainly in relation to restructuring the news operation. A provision of £0.9m was recognised during in 2010 in relation to restructuring within the business.

### iii) Writedown of inventory

A stock writedown of £2.7m was recognised in 2010 in relation to film stock as a result of new information received.

### iv) Finance costs

A loss on extinguishment of debt of £1.5m was recognised in 2010. 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

	2011 £m	2010 £m
Bank borrowings	2.5	2.5
Pension finance credit	(1.3)	(0.4)
<b>Interest expense excluding exceptional items</b>	<b>1.2</b>	<b>2.1</b>
Exceptional finance costs (see note 8)	–	1.5
<b>Total interest expense</b>	<b>1.2</b>	<b>3.6</b>

Included within bank borrowings is £0.4m of unamortised bank fees written off during the year.

# Notes to the Financial Statements

continued

## 10. Discontinued

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

The post tax results from discontinued operations (see note 5) were £nil (2010: £nil).

Included within the results for 2010 is the exceptional loss on disposal of Pearl & Dean Limited which 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 were to 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.

	2011 £m	2010 £m
<b>Cash flows from discontinued operations</b>		
Net cash inflow/(outflow) from operating activities	<b>1.5</b>	(9.5)
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
		<u>19.2</u>
Onerous contract provision released		(11.9)
Loan due to STV Group plc		(9.1)
		<u>(21.0)</u>
Net liabilities		(1.8)
Disposal expenses		1.8
<b>Gain/(loss) on disposal</b>		–
<b>Total consideration</b>		–

**11. Tax**

	2011 £m	2010 £m
Current tax:		
UK corporation tax on profit for the year	–	–
UK corporation tax adjustment in respect of prior years	–	(0.7)
	–	(0.7)
Deferred tax:		
Origination and reversal of timing differences	(1.5)	(2.2)
<b>Tax credit for the year</b>	<b>(1.5)</b>	<b>(2.9)</b>
Attributable to:		
Continuing operations	(1.5)	(1.4)
Discontinued operations	–	(1.5)
	(1.5)	(2.9)
The charge for the year can be reconciled to the (loss)/profit per the income statement as follows:		
	2011 £m	2010 £m
(Loss)/profit before tax from continuing operations	(0.9)	3.9
Loss before tax from discontinued operations	–	(1.5)
<b>(Loss)/profit before tax</b>	<b>(0.9)</b>	<b>2.4</b>
Tax at the UK corporation tax rate of 26.5% (2010: 28%)	(0.2)	0.7
Other expenses not deductible for tax purposes	0.2	–
Movement in tax losses	(1.5)	(1.2)
Adjustments to tax charge in respect of prior years	–	(3.8)
Tax effect of exceptional items	–	1.4
<b>Tax credit for the year</b>	<b>(1.5)</b>	<b>(2.9)</b>

**12. Dividends**

No dividend is proposed by the Board for the years ended 31 December 2010 and 2011.

# Notes to the Financial Statements

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## 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	2011 Weighted average number of shares (m)	Per share Pence	Earnings £m	Restated 2010 Weighted average number of shares (m)	Restated Per share Pence
<b>Underlying EPS:</b>						
Earnings attributable to ordinary shareholders	14.0	36.8	38.0p	12.5	36.4	34.3p
<b>Basic EPS</b>						
Basic underlying EPS from continuing operations	14.0	36.8	38.0p	12.5	36.4	34.3p
<b>Diluted EPS</b>						
Own shares purchased		2.0			1.6	
Diluted underlying EPS from continuing operations	14.0	38.8	36.1p	12.5	38.0	32.9p
<b>EPS including exceptional items:</b>						
Earnings attributable to ordinary shareholders (including exceptional items)	0.6	36.8	1.6p	5.3	36.4	14.6p
<b>EPS from continuing operations</b>						
<b>Basic EPS</b>	0.6	36.8	1.6p	5.3	36.4	14.6p
Pre-tax loss from discontinued operations	–		–	1.5		4.1p
Tax relating to discontinued operations	–		–	(1.5)		(4.1p)
Basic EPS from continuing operations	0.6	36.8	1.6p	5.3	36.4	14.6p
<b>Diluted EPS</b>						
Own shares purchased		2.0			1.6	
Diluted EPS from continuing operations	0.6	38.8	1.5p	5.3	38.0	13.9p
<b>EPS from discontinued operations</b>						
<b>Basic EPS</b>						
Pre-tax (loss) from discontinued operations	–	36.8	–	(1.5)	36.4	(4.1p)
Tax relating to discontinued operations	–		–	1.5		4.1p
Basic EPS from discontinued operations	–	36.8	–	–	36.4	–
<b>Diluted EPS</b>						
Own shares purchased		2.0			1.6	
Diluted EPS from discontinued operations	–	38.8	–	–	38.0	–

The 2010 EPS figures have been restated to exclude ordinary shares held by the Employee Share Trust from the weighted average number of ordinary shares calculation.

#### 14. Goodwill and other intangible assets

Goodwill at 1 January and 31 December 2011 was £7.9m (2010: £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 Productions.

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	11.00%

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

#### 15. Property, plant and equipment

	Leasehold buildings £m	Plant, technical equipment and other £m	Total £m
<b>Cost</b>			
At 1 January 2010	0.2	22.9	23.1
Additions	–	0.8	0.8
Fully written down	–	(0.1)	(0.1)
At 1 January 2011	0.2	23.6	23.8
Additions	–	1.8	1.8
Disposals	–	(0.1)	(0.1)
<b>At 31 December 2011</b>	<b>0.2</b>	<b>25.3</b>	<b>25.5</b>
<b>Accumulated depreciation and impairment</b>			
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 1 January 2011	0.1	13.6	13.7
Charge for year	–	2.4	2.4
Disposals	–	(0.1)	(0.1)
<b>At 31 December 2011</b>	<b>0.1</b>	<b>15.9</b>	<b>16.0</b>
<b>Net book value at 31 December 2011</b>	<b>0.1</b>	<b>9.4</b>	<b>9.5</b>
Net book value at 31 December 2010	0.1	10.0	10.1

## Notes to the Financial Statements

continued

## 16. Inventories

	2011 £m	2010 £m
Film rights	5.5	9.2
Recorded programmes and films	23.6	26.6
	<b>29.1</b>	<b>35.8</b>

Included within recorded programmes and films is a provision of £nil (2010:£0.8m).

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

## 17. Trade and other receivables

	2011 £m	2010 £m
Trade receivables	8.9	10.6
Less: Provision for impairment of receivables	–	–
Trade receivables – net	8.9	10.6
Prepayments and accrued income	9.5	8.7
Other receivables	5.8	7.1
	<b>24.2</b>	<b>26.4</b>

As of 31 December 2011, trade receivables of £0.4m (2010: £0.7m) are past due but not impaired. These are net of a provision for bad debts of £nil (2010: £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:

	Gross £m	2011 Provision £m	Gross £m	2010 Provision £m
Up to 3 months	8.9	–	10.5	–
3 to 5 months	–	–	–	–
Over 5 months	–	–	0.1	–
	<b>8.9</b>	<b>–</b>	<b>10.6</b>	<b>–</b>

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

	2011 £m	2010 £m
Cash and cash equivalents	0.5	7.6
Short-term deposits	–	0.1

The short-term bank deposit related to certain planning consents being sought by Primesight.



**19. Trade and other payables**

	2011 £m	2010 £m
Amounts falling due within one year		
Trade and other payables	23.1	15.0
Social security and other taxes	2.1	5.2
Other payables	0.4	8.8
	<b>25.6</b>	<b>29.0</b>
Amounts falling due after one year		
Trade and other payables	<b>0.7</b>	<b>2.5</b>

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 2011 were equivalent to 54 days of purchases (2010: 46 days).

**20. Borrowings**

	2011 £m	2010 £m
Bank loans	<b>55.0</b>	<b>59.9</b>
The borrowings are repayable as follows:		
Expiring within 1 year	<b>55.0</b>	<b>5.0</b>
Expiring in 2 to 5 years	<b>–</b>	<b>54.9</b>

All undrawn committed borrowing facilities are repayable within one year (2010: two to five years).

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

The effective interest rates were as follows:

	2011 %	2010 %
Bank loans (floating)	<b>5.5</b>	<b>4.0</b>

At 31 December 2011, the Company had bank facilities in place totalling £65.0m consisting of a £55.0m term facility and a £10.0m revolving credit and overdraft facility. The facilities were due to expire on 31 December 2012. In September 2011, the Company commenced discussions with lenders to amend the facility and on 20 January 2012 the renewal of the facility was agreed. Under IAS 1 (revised) para 74, renegotiation of the bank facilities on 20 January 2012 represents a non adjusting post balance sheet event and consequently the borrowings have all been classified as current liabilities as at 31 December 2011. The renegotiated syndicated facilities total £70.0m and comprise a £37.5m term facility and £32.5m revolving credit and overdraft facility with 31 December 2014 maturity dates. The term loan partially amortises across the facility term. Security is provided to the debt providers by way of cross guarantees and a share pledge.

At 31 December 2011 £10.0m (2010: £10.0m) of the £65m bank facility in place at that date remains undrawn.

## Notes to the Financial Statements

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**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	Short term timing differences £m	Accelerated tax depreciation £m	Retirement benefit obligations £m	Total £m
At 1 January 2011	(1.5)	–	(2.9)	(6.7)	(11.1)
(Credit)/charge to income	(2.5)	(0.3)	(0.4)	1.7	(1.5)
Charge to equity	–	–	–	(2.9)	(2.9)
<b>At 31 December 2011</b>	<b>(4.0)</b>	<b>(0.3)</b>	<b>(3.3)</b>	<b>(7.9)</b>	<b>(15.5)</b>

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

	2011 £m	2010 £m
Deferred tax asset:		
Deferred tax to be recovered after more than one year	(13.0)	(9.1)
Deferred tax to be recovered within one year	(2.5)	(2.0)
	(15.5)	(11.1)
Net deferred tax asset	(15.5)	(11.1)
Deferred tax asset not recognised	(12.9)	(14.7)
Based on:		
Trading losses and non-trade debits	(12.9)	(14.7)

The deferred tax asset of £12.9m 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 26%, effective from 1 April 2011, was substantively enacted in March 2011. A further reduction to 25%, effective from 1 April 2012 was substantively enacted in July 2011 and the relevant deferred tax balances have been re-measured accordingly.

In addition to the change in rate of corporation tax disclosed above, a number of further changes to the UK Corporation tax system were announced in the March 2011 UK Budget Statement. Further reductions to the main corporation tax rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. None of these rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

Had the change of rate to 23% been substantively enacted as at the balance sheet date, the deferred tax asset included within the accounts would have been reduced by approximately £1.2m.

## 22. Provisions

	Cost of change Provisions		Other Provisions		Total Provisions	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
At 1 January	0.8	0.1	3.7	4.7	4.5	4.8
Provided during the year	1.4	0.9	–	–	1.4	0.9
Utilised during the year	(1.0)	(0.2)	(0.7)	(1.0)	(1.7)	(1.2)
<b>At 31 December</b>	<b>1.2</b>	<b>0.8</b>	<b>3.0</b>	<b>3.7</b>	<b>4.2</b>	<b>4.5</b>

The provisions are expected to be utilised:

	Cost of change Provisions		Other Provisions		Total Provisions	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Within one year	1.2	0.8	0.5	0.6	1.7	1.4
Greater than one year	–	–	2.5	3.1	2.5	3.1
	<b>1.2</b>	<b>0.8</b>	<b>3.0</b>	<b>3.7</b>	<b>4.2</b>	<b>4.5</b>

A cost of change provision of £1.4m has been recognised during the year mainly in relation to restructuring within the news operation. Other provisions relate to onerous leases.

## 23. Share capital and premium

	Number of shares (thousands)	Ordinary shares £m	Share premium £m	Total £m
At 1 January 2011	38,336	19.2	111.4	130.6
Issued during the year	714	0.3	0.6	0.9
<b>At 31 December 2011</b>	<b>39,050</b>	<b>19.5</b>	<b>112.0</b>	<b>131.5</b>

The total authorised number of ordinary shares is 63 million shares (2010: 63 million shares) with a par value of £0.50 per share (2010: £0.50 per share). All issued shares are fully paid.

The Group issued 713,784 shares during the year (2% of the total ordinary share capital issued) to be held for the distribution of employee loyalty awards.

## Notes to the Financial Statements

continued

## 24. Notes to the consolidated statement of cash flows

	2011 £m	2010 £m	
<b>Continuing operations</b>			
Operating profit (before exceptional items)	15.0	14.4	
Depreciation and other non-cash items	2.3	2.5	
Operating cash flows before exceptional items and movements in working capital	17.3	16.9	
Decrease in inventories	6.7	8.5	
Decrease/(increase) in trade and other receivables	0.9	(6.0)	
(Decrease)/increase in trade and other payables	(7.1)	1.1	
<b>Underlying cash generated by continuing operations</b>	<b>17.8</b>	<b>20.5</b>	
Litigation matters	(11.2)	(3.5)	
Costs of change and onerous property costs	(1.7)	(1.2)	
<b>Cash generated by continuing operations</b>	<b>4.9</b>	<b>15.8</b>	
<b>Cash generated/(used) by discontinued operations</b>	<b>1.5</b>	<b>(9.5)</b>	
<b>Cash generated by operations</b>	<b>6.4</b>	<b>6.3</b>	
	At 1 January 2011 £m	Cash flow £m	At 31 December 2011 £m
<b>Analysis of movements in net debt</b>			
Cash and cash equivalents (note 18)	7.6	(7.1)	0.5
Bank borrowings (note 20)	(59.9)	4.9	(55.0)
Short term deposits (note 18)	0.1	(0.1)	–
<b>Net debt</b>	<b>(52.2)</b>	<b>(2.3)</b>	<b>(54.5)</b>

**25. Capital commitments**

At 31 December 2011 the Group had no contracted for but not provided capital commitments (2010: nil).

**26. Operating lease commitments**

	<b>2011 £m</b>	2010 £m
Operating lease payments recognised in the income statement for the year	<b>2.2</b>	3.4

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

	<b>2011 £m</b>	2010 £m
Within one year	<b>1.9</b>	2.3
Between two and five years	<b>6.2</b>	8.8
After five years	<b>11.0</b>	15.2
	<b>19.1</b>	26.3

**27. Contingent liabilities**

In 2010, the Group had a 100% holding in both Scottish Media Group (Holdings) and Dawn Chorus Holdings, which were unlimited companies. Both companies were dissolved in 2011.

**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:

	<b>2011 £m</b>	2010 £m
Salaries and short-term employee benefits	<b>1.3</b>	1.0

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

# Notes to the Financial Statements

continued

## 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 £0.6m (2010: £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 2011 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31 December 2011	At 31 December 2010
Rate of increase in salaries	1.00%	1.00%
Rate of increase of pensions in payment	3.00%	3.30%
Discount rate	4.95%	5.55%
Inflation	3.00%	3.30%

### 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 2011 Years	At 31 December 2010 Years
Retiring at balance sheet date:		
Male	14.3	15.0
Female	17.1	17.9
Retiring in 20 years:		
Male	16.6	16.6
Female	19.5	19.5

	2011 £m	2010 £m
<b>Amount charged to operating profit</b>		
Current service cost – defined benefit	(1.7)	(2.4)

The total amount charged to profit from operations is £2.3m (2010: £2.8m), which also includes the defined contribution charge of £0.6m (2010: £0.4m).

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

	At 31 December 2011 £m	At 31 December 2010 £m
<b>Amount credited to net finance costs</b>		
Expected return on scheme assets	16.8	16.0
Interest cost	(15.5)	(15.6)
	1.3	0.4

**Amount recognised in consolidated statement of comprehensive income**

	2011 £m	2010 £m
Actual return less expected return on pension assets	(5.6)	13.2
Experience gains and losses	(0.7)	3.4
Changes in assumptions	(7.2)	(7.5)
	(13.5)	9.1

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 2011 £m	At 31 December 2010 £m	At 31 December 2009 £m	At 31 December 2008 £m	At 31 December 2007 £m
Equities	129.4	132.7	122.9	108.6	143.2
Bonds	134.7	129.6	120.9	106.7	121.9
Fair value of schemes' assets	264.1	262.3	243.8	215.3	265.1
Present value of defined benefit obligations	(295.0)	(285.2)	(279.8)	(253.6)	(279.1)
Deficit in the schemes	(30.9)	(22.9)	(36.0)	(38.3)	(14.0)
Equities	8.0%	8.0%	8.0%	8.0%	8.0%
Bonds	3.0%-5.0%	4.2%-5.6%	4.5%-5.7%	3.7%-6.6%	4.4%-6.1%

A related offsetting deferred tax asset of £7.9m (2010: £6.7m) is included under non-current assets. Therefore the net pension scheme deficit amounts to £23.0m at 31 December 2011 (£16.2m at 31 December 2010).

The movement in the aggregate scheme deficits during the year was principally due to the reduction in the discount rate.

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

	2011 £m	2010 £m
At 1 January	262.3	243.8
Expected return on plan assets	16.8	16.0
Actuarial (losses)/gains	(5.6)	13.2
Employer contributions	5.8	6.0
Employee contributions	0.1	0.1
Benefits paid from plan/ Company	(15.3)	(16.8)
At 31 December	264.1	262.3

## Notes to the Financial Statements

continued

**29. Retirement benefit schemes continued**

Movement in the defined benefit obligation is as follows:

	2011 £m	2010 £m
At 1 January	285.2	279.8
Current service cost	1.7	2.4
Interest cost	15.4	15.6
Contributions from plan participants	0.1	0.1
Actuarial losses	7.9	4.1
Benefits paid from plan/Company	(15.3)	(16.8)
At 31 December	295.0	285.2

The actual return on plan assets for the year was £11.2m (2010: £29.2m).

	At 31 December 2011	At 31 December 2010	At 31 December 2009	At 31 December 2008	At 31 December 2007
<b>History of experience gains and losses</b>					
<b>Difference between the expected and actual return on scheme assets:</b>					
Amount (£m)	5.5	(13.2)	21.1	(58.2)	(8.2)
Percentage of scheme assets	2%	(5%)	9%	(27%)	(3%)
<b>Experience gains and losses on scheme liabilities:</b>					
Amount (£m)	(0.7)	3.4	(1.7)	(28.0)	(32.9)
Percentage of the present value of scheme liabilities	–	1%	10%	(11%)	(12%)
<b>Total amount recognised in statement of recognised income and expense:</b>					
Amount (£m)	(13.5)	9.1	(8.0)	(30.2)	24.7
Percentage of the present value of scheme liabilities	(5%)	3%	(3%)	(16%)	9%

The estimated amount of contributions expected to be paid to the schemes during 2012 is £5.2m.



### 30. Share-based payments

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.

	2011 £m	2010 £m
Total borrowings (note 20)	55.0	59.9
Cash and cash equivalents	0.5	(7.7)
Net Debt	55.5	52.2
Total equity	(29.7)	(19.8)
Total capital	25.8	32.4
<b>Gearing ratio</b>	<b>215%</b>	<b>161%</b>

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 (pre exceptional) 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.

## Notes to the Financial Statements

continued

### 31. Financial instruments continued

#### 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 2011 the Group had no forward foreign exchange contracts in place (2010: 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.

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**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 2011, a movement of 0.25% in interest rates would change the level of interest paid in the year by +/- £0.1m (2010: £0.1m).

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowing from floating rates to fixed rates. Generally, the Group raises long term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rate directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specific intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. An interest rate swap was entered into on 7 February 2012 for a period of 2 years.

**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 2011 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 29, 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### 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 2011;
- 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.

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**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 2011.

**Alan Wilson (Senior Statutory Auditor)**

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Glasgow

23 February 2012

# Company Balance Sheet

At 31 December 2011

	Note	2011 £m	2010 £m
<b>Fixed assets</b>			
Investments	2	27.3	27.3
<b>Current assets</b>			
Debtors			
– due within one year	3	40.1	78.0
– due after one year	3	121.1	111.2
Cash at bank and in hand		0.4	0.1
Cash in Escrow		–	0.1
		161.6	189.4
<b>Creditors: amounts falling due within one year</b>			
Other creditors	4	(10.3)	(31.8)
Bank loans	5	(55.0)	(5.0)
		(65.3)	(36.8)
<b>Net current assets</b>		96.3	152.6
<b>Total assets less current liabilities</b>		123.6	179.9
<b>Creditors: amounts falling due after more than one year</b>			
Bank loans	5	–	(54.9)
<b>Net assets excluding pension liability</b>		123.6	125.0
Pension liability	8	(10.6)	(10.7)
<b>Net assets including pension liability</b>		113.0	114.3
<b>Capital and reserves</b>			
Called up share capital	6	19.5	19.2
Share premium account	6	112.0	111.4
Profit and loss reserves	6	(19.1)	(17.1)
Other reserve	6	0.6	0.8
<b>Total equity shareholders' funds</b>		113.0	114.3

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 profit for the parent company for the year was £nil (2010: loss £16.1m).

The financial statements on pages 94 to 103 were approved by the Board on 23 February 2012 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 2011

	Note	2011 £m	2010 £m
Profit/(loss) for the financial year		–	(16.1)
Unrealised gain on sale of investment	7	–	17.1
Actuarial loss		(1.7)	–
Deferred tax credit		0.2	–
<b>Total recognised (losses)/gains in the year</b>		<b>(1.5)</b>	<b>1.0</b>

# Notes to the Company Financial Statements

for the year ended 31 December 2011

## 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 2011.

### Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Performance Review on page 29.

### 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
<b>Cost</b>	
At 1 January and 31 December 2011	27.3
<b>Provisions for impairment</b>	
At 1 January and 31 December 2011	–
<b>Net book value at 31 December 2010 and 2011</b>	<b>27.3</b>

# 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 £nil in the year (2010: £25.0m).

## 3. Debtors

	2011 £m	2010 £m
<b>Due within one year</b>		
Amounts owed by group undertakings	39.0	77.2
Prepayments and accrued income	1.1	0.8
	<b>40.1</b>	<b>78.0</b>
<b>Due after one year</b>		
Amounts owed by group undertakings	116.4	106.7
Prepayments and accrued income	4.7	4.5
	<b>121.1</b>	<b>111.2</b>

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

	2011 £m	2010 £m
Trade creditors and accruals	0.3	0.9
Amounts due to subsidiary undertakings	10.0	30.9
	<b>10.3</b>	<b>31.8</b>

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

**5. Bank loans**

	2011 £m	2010 £m
Bank loans	55.0	59.9
The borrowings are repayable as follows:		
Expiring within 1 year	55.0	5.0
Expiring in 2 to 5 years	–	54.9
	55.0	59.9

All undrawn committed borrowing facilities are repayable within one year (2010: two to five years).

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

The effective interest rates were as follows:

	2011 %	2010 %
Bank loans (floating)	5.5	4.0

At 31 December 2011, the Company had bank facilities in place totalling £65.0m consisting of a £55.0m term facility and a £10.0m revolving credit and overdraft facility. The facilities were due to expire on 31 December 2012. In September 2011, the Company commenced discussions with lenders to amend the facility and on 20 January 2012 the renewal of the facility was agreed. Under IAS 1 (revised) para 74, renegotiation of the bank facilities on 20 January 2012 represents a non adjusting post balance sheet event and consequently the borrowings have all been classified as current liabilities as at 31 December 2011. The renegotiated syndicated facilities total £70.0m and comprise a £37.5m term facility and £32.5m revolving credit and overdraft facility with 31 December 2014 maturity dates. The term loan partially amortises across the facility term. Security is provided to the debt providers by way of cross guarantees and a share pledge.

**6. 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 2011	19.2	111.4	(17.1)	0.8	114.3
Own shares acquired and issued	0.3	0.6	(0.9)	–	–
Actuarial loss	–	–	(1.7)	–	(1.7)
Deferred tax thereon	–	–	0.2	–	0.2
Equity settled share based payments	–	–	–	(0.2)	(0.2)
Own shares awarded	–	–	0.4	–	0.4
At 31 December 2011	19.5	112.0	(19.1)	0.6	113.0

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 8).

# Notes to the Company Financial Statements

continued

## 7. Transactions with related parties

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

## 8. 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 2011 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31 December 2011	At 31 December 2010
Discount rate	4.95%	5.55%
Inflation	3.00%	3.30%

### 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 2011 Years	At 31 December 2010 Years
Retiring at balance sheet date:		
Male	13.2	14.6
Female	16.0	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 2011 £m	At 31 December 2010 £m	At 31 December 2009 £m	At 31 December 2008 £m	At 31 December 2007 £m
Equities	53.1	55.5	52.3	48.6	65.5
Bonds	55.2	53.3	50.2	46.8	53.5
Fair value of scheme's assets	108.3	108.8	102.5	95.4	119.0
Present value of defined benefit obligations	(122.4)	(123.4)	(122.7)	(107.0)	(117.8)
(Deficit)/surplus in the scheme	(14.1)	(14.6)	(20.2)	(11.6)	1.2
Equities	8.0%	8.0%	8.0%	8.0%	8.0%
Bonds	3.0%-5.0%	4.2%-5.6%	4.5%-5.7%	3.7%-6.6%	4.4%-6.1%

A related offsetting deferred tax asset of £3.5m (2010: £3.9m) is included under fixed assets. Therefore the net pension scheme deficit amounts to £10.6m at 31 December 2011 (2010: £10.7m).

#### History of experience gains and losses

	At 31 December 2011	At 31 December 2010	At 31 December 2009	At 31 December 2008	At 31 December 2007
<b>Difference between the expected and actual return on scheme assets:</b>					
Amount (£m)	2.4	(5.6)	(7.9)	25.7	2.1
Percentage of scheme assets	2%	(5%)	(8%)	(27%)	2%
<b>Experience gains and losses on scheme liabilities:</b>					
Amount (£m)	0.6	0.7	2.9	(0.9)	(13.8)
Percentage of the present value of scheme liabilities	1%	1%	2%	(1%)	(12%)
<b>Total amount recognised in statement of recognised gains and losses:</b>					
Amount (£m)	(1.7)	4.8	(9.3)	(15.2)	11.6
Percentage of the present value of scheme liabilities	(1%)	4%	(8%)	(14%)	10%

## Five Year Summary

For the year ended 31 December 2011

	2007 £m	2008 £m	IFRS 2009 £m	2010 £m	2011 £m
<b>Results</b>					
Revenue					
Continuing operations	120.3	111.2	90.3	104.8	<b>102.0</b>
Discontinued operations	65.0	33.3	19.9	6.9	–
	<b>185.3</b>	<b>144.5</b>	<b>110.2</b>	<b>111.7</b>	<b>102.0</b>
Profit from operations before exceptional items					
Continuing operations	11.1	13.2	9.2	14.4	<b>15.0</b>
Discontinued operations	9.0	1.5	–	–	–
	<b>20.1</b>	<b>14.7</b>	<b>9.2</b>	<b>14.4</b>	<b>15.0</b>
Profit on ordinary activities before taxation and exceptional items	<b>8.1</b>	<b>12.8</b>	<b>5.5</b>	<b>12.5</b>	<b>14.0</b>
<b>Assets</b>					
Non-current assets	28.5	34.7	32.1	29.1	<b>32.9</b>
Current assets	88.2	79.9	84.2	69.9	<b>53.8</b>
Assets classified as held for sale	79.6	18.8	12.1	–	–
Total assets	<b>196.3</b>	<b>133.4</b>	<b>128.4</b>	<b>99.0</b>	<b>86.7</b>
<b>Equity and liabilities</b>					
Current liabilities	34.6	32.5	100.8	35.4	<b>82.3</b>
Non-current liabilities	78.5	96.1	38.3	83.4	<b>34.1</b>
Liabilities directly associated with assets held for sale	19.5	21.9	21.2	–	–
Equity	63.5	(17.1)	(31.9)	(19.8)	<b>(29.7)</b>
Minority interests	0.2	–	–	–	–
Total equity and liabilities	<b>196.3</b>	<b>133.4</b>	<b>128.4</b>	<b>99.0</b>	<b>86.7</b>
<b>Key statistics</b>					
Earnings per ordinary share* – basic	42.0p	25.7p	13.7p	34.3p	<b>38.0p</b>
– diluted	42.0p	25.7p	13.7p	32.9p	<b>36.1p</b>
Dividends per ordinary share	–	–	–	–	–

\* The 2007 earnings per ordinary share have been restated for the 1 for 20 share consolidation which took place in 2008.

The 2010 earnings per ordinary share figures have been restated to exclude ordinary shares held by the Employee Share Trust from the weighted average number of ordinary shares calculation.

## 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](mailto:ssd@capitaregistrars.com)  
Website: [www.capitashareportal.com](http://www.capitashareportal.com)

### Independent Auditors

PricewaterhouseCoopers LLP  
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  
Moor House  
120 London Wall  
London EC2Y 5ET

### 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](mailto:jane.tames@stv.tv)

### Company Registration Number

SC203873

### Annual Report on Internet

The 2011 Annual Report of STV Group plc including the financial statements is available at: [www.stvplc.tv](http://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:

Kirstin Stevenson

PR Manager

STV Group plc

Pacific Quay

Glasgow G51 1PQ

Tel: 0141 300 3670

Email: [kirstin.stevenson@stv.tv](mailto:kirstin.stevenson@stv.tv)

### 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](http://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](http://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](http://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

### THIS INFORMATION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

**If you are in any doubt as to the action you should take, you should seek your own advice from a stockbroker, bank manager, solicitor, accountant or other independent professional adviser.**

**If you have sold or transferred all of your shares, please pass this document, together with the accompanying documents to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.**

The AGM is an important opportunity for all shareholders to express their views by asking questions of the Directors and voting on the resolutions.

The directors consider that each of the proposals detailed in the Notice of Annual General Meeting will be of benefit to and are in the best interests of the Company and the shareholders as whole. The directors therefore unanimously recommend that the shareholders vote in favour of the Resolutions, as the directors intend to do in respect of their own holdings of shares in the Company.

Notice is hereby given that the Annual General Meeting of the Company will be held at Pacific Quay, Glasgow G51 1PQ on Wednesday 18 April 2012 at 11 am for the purpose of considering the resolutions below.

Resolutions 1 to 8 (inclusive) will be proposed as ordinary resolutions and Resolutions 9 to 12 (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 2011 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 2011.

The remuneration report by the directors, which may be found on pages 48 to 58, gives details of the directors' remuneration for the year ended 31 December 2011 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 elect Genevieve Shore as a director of the Company

Genevieve Shore is standing for election following her appointment as a non-executive director on 1 March 2012. The Articles of Association require that a director appointed by the Board since the last Annual General Meeting should retire at the next Annual General Meeting and stand for election to the Board in order to give shareholders a chance to confirm the appointment.

Biographical details of Genevieve Shore can be found on page 39 and the Board confirms that she meets the independence criteria as set out in B.1.1 of the UK Corporate Governance Code.

## Notice of Annual General Meeting

continued

4. To re-elect George Watt 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 George Watt can be found on page 36 and following formal performance evaluation, Mr Watt's performance is considered to be effective and demonstrates commitment to the role.

5. To re-elect David Shearer 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 David Shearer can be found on page 36 and the Board confirms that he meets the independence criteria as set out in B.1.1 of the UK Corporate Governance Code. Following formal performance evaluation, Mr Shearer's performance continues to be effective and to demonstrate commitment to the role.

6. To re-elect Michael Jackson 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 Michael Jackson can be found on page 36 and the Board confirms that he meets the independence criteria as set out in B.1.1 of the UK Corporate Governance Code. Following formal performance evaluation, Mr Jackson's performance continues to be effective and to demonstrate commitment to the role.

7. 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.

8. 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 £6,508,370 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 £6,508,370 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 (13,016,740 shares representing one third of the ordinary issued share capital at 22 February 2012, 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 13,016,740 (shares representing one third of the ordinary issued share capital at 22 February 2012, 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 2013. 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.

### 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 8, 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 8 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 £976,255;

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 (1,952,511 shares representing 5% of the ordinary issued share capital at 22 February 2012) 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 2013. 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.

## Notice of Annual General Meeting

continued

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(A) 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 £1,952,511;
- (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
- (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 the 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 3,905,022 shares, representing 10% of the ordinary issued share capital in issue at 22 February 2012. 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 22 February 2012 warrants and options to subscribe for 1,041,590 of the Company's shares were outstanding, representing 2.67% of the ordinary shares in issue at 22 February 2012 (excluding treasury shares held by the Company) and 2.96% 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.

12. To reduce the share premium account of the Company

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

“That the share premium account of the Company be reduced by £100m from £112.0m as at 31 December 2011 to £12.0m.”

In order to enable the Company to pay dividends in the future, the Board is seeking approval for the share premium account of the Company to be reduced by £100m. Shareholders are therefore invited to pass the above resolution. The reduction of the Company’s share premium account, subject to confirmation by the Court, will allow the distributable reserves of the Company to be increased by £100m

Under the Act, the Company is only permitted to pay dividends from its accumulated profit and loss account. This account is a reserve contained in its balance sheet, prescribed by law. Details of this account and the Company’s other reserves are set out on page 96.

The directors believe that the Company’s dividend policy should be dictated by its cash resources, financial position and the prospects of the Company as a whole. It should not be impeded by the size of the Company’s accumulated profit and loss account, which is a technical accounting reserve, if it is otherwise appropriate to pay dividends. Accordingly, the directors believe that the Company should now restructure its balance sheet by reducing its share premium account by £100m, since these are not reserves which are available for distribution by way of cash dividends to shareholders. As a result of this reduction, the Company’s accumulated profit and loss account, which as stated above is available for distribution, will be increased by £100m and will ensure that the Company has the capacity to re-commence the payment of dividends should the Board consider it appropriate to do so in the future.

The proposed reduction will have no effect on the rights attaching to the ordinary shares or on the net assets of the Company and is made to facilitate the payment of dividends in the future.

## Notice of Annual General Meeting

continued

In order to make the reduction of the Company's share premium account effective it will be necessary to seek the confirmation of the Court. In seeking this confirmation, the Company will be required to give such undertakings or other form of creditor protection as the Court may require for the protection of the Company's creditors at the effective date. The directors intend to seek the consent of the Company's main creditors and the Board is confident that these consents will be obtained. In order for the share premium account reduction then to become effective, the Court order confirming the cancellation must be filed with Companies House, usually two to three days after the date of the hearing. Therefore, if approved by shareholders, the Court's confirmation is expected to be granted in the second quarter of 2012.

The Board believes that the proposed reduction of the Company's share premium account in accordance with this resolution is in the best interests of the Company and its shareholders. Accordingly, the Board recommends shareholders to vote in favour of this resolution, as they intend to do in respect of their own beneficial holdings of ordinary shares, representing approximately 1.09% of the present issued share capital of the Company.

By order of the Board

**Jane E A Tames**  
Company Secretary

STV Group plc  
Pacific Quay  
Glasgow G51 1PQ  
22 February 2012

### 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](http://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](mailto: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](http://www.capitashareportal.com). Please see the notes to the form of proxy for further details.
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 11.00am on 16 April 2012 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 22 February 2012 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 39,050,220 ordinary shares of 50p each, carrying one vote each. Therefore, the total voting rights in the Company as at 22 February 2012 are 39,050,220.
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 (IDRA10) by 11.00am on 16 April 2012 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.
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.

## Notice of Annual General Meeting

continued

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. Members satisfying the thresholds in Section 338A of the Companies Act 2006 may request the Company to include in the business to be dealt with at the Annual General Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Annual General Meeting. A matter may properly be included in the business at the Annual General Meeting unless (i) it is defamatory of any person or (ii) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, 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.
17. 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.
18. 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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