Annual Report and Accounts 2012

Contents

2012 Financial Highlights

We have delivered strong financial results with double digit growth in operating profit and a significant reduction in net debt.

Pre-tax Profit (million)*

£14.4m

2011 **£14.0m**

+3%

Operating Profit (million)*

£17.1m

2011 **£15.0m**

+14%

Consumer Division Margin

18.3%

2011 **15.5%**

+2.8pts

Net Debt (million)

£45.3m

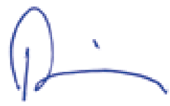
2011 **£54.5m**

-17%

* pre-exceptional items

02 Chairman's Statement

"… we remain on track to achieving our target ratio of net debt at less than two times EBITDA in 2013."



Richard Findlay
Chairman

I am pleased to report the company has achieved a strong financial performance in line with expectations and continued to make good progress in deepening relationships with consumers across all platforms and channels during 2012.

The group is now firmly established as a profitable and progressive digital business and our content production business, STV Productions, has made significant progress in achieving the strategic aims of growth and diversification across genres.

Strategic developments

The Secretary of State's recommendation to grant the long term renewal of the Channel 3 licences to STV in Central and the North of Scotland, and the new network affiliate agreement reached with ITV in March, both provide continuity and stability for our audiences and consumers, and create investment certainty for our other stakeholders.

Both of these represent landmark achievements of strategic importance for the company. The new network agreement recognises STV's sovereignty across all platforms and channels within our licence territories. This secures regional flexibility and identity, enabling us to provide distinctiveness and relevance in the content we deliver to Scottish audiences and consumers.

The new arrangements protect the future growth of the business as we extend our reach across platforms and create new digital services.

The underlying financial strength of the company; the deep relationship with audiences and consumers, which continues to strengthen across platforms; our investment in the creation of original content; and our provision of plurality and quality in public service content all justify the recommendation to renew the licences.

Performance

As the company continues to achieve growth; we have successfully increased operating profit before exceptional items for the third consecutive year, up 14% at £17.1m. Our net debt has continued to reduce, down 17% at £45.3m, and we remain on track to achieving our target ratio of net debt at less than two times EBITDA in 2013.

National airtime revenues performed in line with expectations, and a welcome improvement in the regional airtime market was achieved, up 2%.

The combination of this improved regional market performance combined with cost savings and a continued focus on operating efficiency have resulted in strong margin improvement across the consumer business.

Our relentless focus on delivery of our commitments is the driving force behind our progress. We have exceeded five of our 11 KPI targets, including the metrics relating to operating margin in the consumer and digital businesses.

Against those KPIs where we have not achieved our stretching targets, with the exception of digital revenues, all other performance indicators have successfully grown year on year. Notably, although our overall target for digital revenues was not achieved, the growth areas of revenue in our digital activities, including video on demand (VOD), display and classified advertising, increased significantly by 84% year-on-year and our overall digital profit has increased by 42% to £1.7m.

Commitment to excellence in public service content

Our commitment to and track record in delivery of excellence of public service content is a key factor in defining our brand and lies at the heart of our connection with audiences and consumers. The quality of our public service content and its part in providing choice and plurality was a key factor in the decision to recommend the renewal of our licences and we will continue to strive to set the standard in our market. During 2012, we successfully invested in and implemented new technology, enabling the introduction of a more

STV mission statement

STV is focused on:
- Producing and delivering great content
- Building consumer relationships
- Connecting with communities

localised news programming model for delivery of news services. This has successfully reduced our operating costs whilst enhancing our output and delivering a ten year high in ratings across our news and current affairs programming.

Our investment in news and current affairs content, particularly in *Scotland Tonight*, which is successfully established as Scotland's most watched current affairs show after just one year, is securing STV's position as the platform for debate at one of the most significant times in Scotland's political history, creating further opportunities to strengthen audience engagement.

Strength of connections with communities

A key feature of our brand is the strength of our connections at a community level and our commitment to deliver locally focused media services is a key pillar of our content offering.

We were delighted to be awarded the licences for delivery of new local television services for Glasgow and Edinburgh, confirmed in early 2013. Our innovative proposals, based upon partnerships with leading universities in each of the licence franchise areas, will be entirely commercially funded, enabling STV to retain exclusive rights to the content produced.

These new services will be an exciting and timely addition to the media landscape in Scotland, and our vision is to deliver services that reflect and celebrate the cultural, political, sporting and other unique characteristics of Glasgow and Edinburgh and provide a new voice for local communities.

Contribution to creative industries

Through our investment in public service content; the continued investment in original content for STV to ensure we provide a distinct schedule; and our investment of over £1m in content development for STV Productions; STV makes a significant contribution to the creative industries in Scotland.

As a result of the growth of STV Productions, we are now playing a vanguard role in attracting more commissions outside of London and specifically into Scotland. STV Productions is Scotland's largest commercial indigenous production company, working with every UK network and developing and producing world-class content.

Our strategic aim to generate over one third of earnings from non-broadcast activities by 2015 remains on track and relevant against a backdrop of a successful year for STV Productions and our deepening relationship with consumers across new platforms.

With the certainty provided by the recommendation of long-term licence renewal and the implementation of sustainable and efficient network arrangements, a focused and results oriented team, and a highly committed and engaged Board; I am confident that we will continue to create value and deliver our growth targets and plans.

Rob Woodward talks to Kate Bulkley about STV's progress, future goals and strategy

Rob Woodward
Chief Executive in conversation with
Kate Bulkley

Kate Bulkley
Print and TV journalist and Awards Secretary of the Broadcasting Press Guild.

When Rob Woodward sits down to talk to me about how the business he has been running for six years is going, the first words out of his mouth are "local" and "Scotland"; these are closely followed by "digital media". Digital is growing but integral to diversifying the earnings base is ramping up STV's production business with the goal of doubling the production business by 2015. Here he tells me more …

Q: A key part of your growth strategy has been to focus on development of locally focused services. Are these viable?

A: We are a local media company serving Scotland. Our role is to super-serve our audiences which means reaching them through as many platforms as possible, be it on TV, online and, increasingly, on mobile devices.

The future path we have set out in the digital world, and particularly through local media, is a clear growth strategy. There are compelling growth opportunities to develop using new lower cost digital publishing platforms to reach local customers.

Another key element in successfully engaging at a local level is to move audiences from a passive mode to a more active one, so they can engage with content through social media sites like Facebook and Twitter as well as STV's own sites. This will also offer more targeted consumer engagement for STV's advertisers.

Q: With this focus on local, how is the flagship channel performing on air?

A: We reach over 90% of Scots each month. The core STV channel has outperformed the ITV Network in peak time for the fourth consecutive year in 2012.

We have invested in news content, a key defining component of our brand and our nightly news magazine show, *Scotland Tonight*, is reaching over 450,000 Scots each week.

Our commitment to news and current affairs has resulted in average news audiences of 27%, a 10 year ratings high. We have been successful in attracting new audiences and now we are focused on encouraging engagement. Our attention now is increasingly on connecting communities using digital and social media platforms with our on air audience.

Q: How do you ensure audiences want to stay and explore and take a closer look at the wealth of content you are serving?

A: Creating a deeper relationship with our audiences will pay off by attracting more advertisers in the short-term; while opening potential new revenue streams in the future.

We are an opportunistic company. Our growth will continue to materialise through organic development and we will continue to look at innovative ways to grow. In the short term this will be largely through partnerships.

A good example of this approach is our recently announced partnership with US social media company, Gigya.

This alliance will provide STV with a window on people's social networking habits by tracking how and when STV, its programmes and even its presenters are mentioned on social sites like Twitter.

The push to get to know your audience better is being felt across the media business as companies work to build up data on their consumers. This enables broadcasters to use these connections to test new programme ideas and gauge reactions to events as well as to help advertisers track the impact of advertising, so they can better tailor their messages around campaigns.

Q: How will you deliver this?

A: The combination of increased understanding of our consumers and the opportunities created by new advertising platforms will support us in enabling our advertisers to connect their brands with target communities.

A recent example is the campaign we delivered to Disney Pixar to promote the movie, *Brave*, which has a strong Scottish narrative. We developed a campaign, incorporating the use of virtual product placement, through which Disney became the sole sponsor of all of STV's platforms across one day which is a tangible example of how we can deliver integrated multi-platform campaigns offering brands a seamless experience to reach consumers by utilising all of our assets.

06 Chief Executive's Review – Q&A

continued

Q: You have placed considerable emphasis on the role of public service content at a time when other broadcasters are seeking to reduce their output in this area. Isn't your approach a flawed strategy?

A: Our public service role is a key component of our brand and we strive to deliver high quality and increasingly locally focused services.

The demand from our audiences for local news has never been stronger. In 2012 we moved from delivering a 5-minute opt out on STV's nightly news in Edinburgh, Aberdeen and Glasgow to delivering a dedicated programme, produced and presented in each location, delivering more locally focused programmes.

Q: You've been awarded Local TV licences for Glasgow and Edinburgh. How will these new channels complement your existing services?

A: These new services represent an exciting way for us to develop second broadcast channels that will reach over 50% of the Scottish population across the central belt of Scotland. The channels will add a further delivery platform for more localised news information and entertainment content.

The services will benefit from STV's existing broadcast and online infrastructure and partnerships with two leading Scottish universities. We have the resources, knowledge, and the infrastructure required to ensure these enhance our coverage and connections across central Scotland.

Q: You announced over 50% of users access your digital sites via mobile devices. How will you address this change in consumer habits?

A: Our product development strategy is based on a "mobile first" approach. Bringing audio-visual content to mobile devices is a priority. Through the development of location based services we see the opportunity to build an association with local communities that fits very naturally with STV's brand and strategic positioning.

Q: And how will this contribute to the growth of the company?

A: Earnings from our digital delivery platforms are still relatively modest but digital revenues are growing and the margin on our digital business is strong. In 2012 we have achieved an operating profit of 42% on our digital revenues.

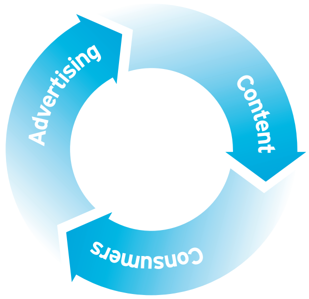
We have a strategic aim to achieve one third of our earnings from non-broadcast activities by 2015 and our digital progress gives me confidence that we are on track to achieve this.

Q: You have a target to double the revenues generated by STV Productions by 2015 – is this also on track?

A: STV Productions showed a 21% uplift in its revenues in 2012 and the production pipeline is robust, with over 70% of our produced hours target for 2013 already commissioned.

We see ourselves as a multi-genre producer who happens to be based in Scotland. If you look back to five years ago we were solely dependent on one show Taggart and it was sadly decommissioned (by ITV). We knew we had to re-invent ourselves and offer a broader set of genres to a broader group of broadcasters. We have successfully made that transition during 2012. From producing no entertainment shows for a number of years, we are delivering three series in the first half of 2013. That's quite a shift.

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 22 to 23 are used to monitor and measure the progress of each division in fulfilling its strategy.

Q: Presumably what you are really seeking is a show to replace Taggart?

A: That's the Holy Grail – to secure a returning drama series would complete the repositioning of STV Productions. There are a number of possibilities and this remains a priority. In the past year we have announced series commissions for BBC1, BBC2 and ITV2, not a drama series but we continue to make excellent progress.

Q: STV's share of the TV advertising market was up by only 1% in 2012 and 2013 is expected to be similarly flat – what are your thoughts on that?

A: 2013 is also going to be another low-growth year for TV advertising. We've learned to live in a world of ex-growth or zero growth and as you've seen our margins continue to increase. We have developed a good track record in growing earnings in flat economic times. The really important point is that television continues to be much more resilient than other traditional media which are experiencing structural downward pressure.

Conclusion:
The strategic aims of STV's growth strategy are clearly mapped out and Rob is using "local" and "Scotland" to his advantage.

Our strategic aims

By 2015, we will:

- Grow non-broadcast earnings to represent 33% of Group earnings
- Double STV Productions' revenues
- Be the most used digital service in Scotland
- Launch two new market-leading digital consumer propositions
- Maintain our position as the voice of Scotland

Serving Scotland 24/7

6am

Starting the day ...

STV's news team breaks the stories of the day from 6am on Daybreak.

stv.tv

Daybreak news supply contract awarded to STV starting January 2013.

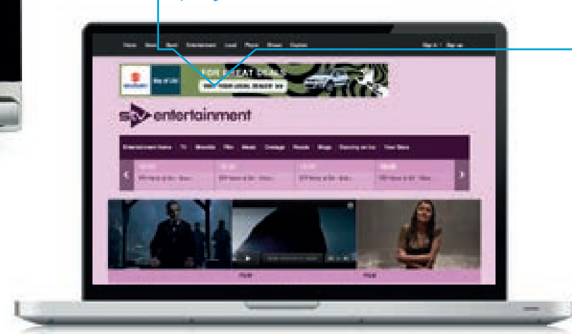
1pm

Lunchtime look ...

STV keeps audiences entertained, delivering news and features from Scotland and around the world.

entertainment.stv.tv

43 out of the top 50 commercial programmes in 2012 were on STV.



6pm

Making dinner ...

With the most locally focused UK news service; STV News at Six provides the definitive overview of the day.

news.stv.tv

STV News at Six is achieving a ten year high in audience share.

10.30pm

Getting involved ...

Scotland Tonight is the most watched current affairs programme in Scotland.

news.stv.tv/topics/scotland-tonight

Scotland Tonight regularly reaches 450,000 viewers each week.

11.45pm

A final catch up ...

Watch your favourite STV programmes on demand with free 30 day catch up.

player.stv.tv

STV Player App achieved over 300,000 downloads from launch in October to January 2013.

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continued

In March, STV confirmed comprehensive networking arrangements with ITV for broadcasting on Channel 3. This new affiliate agreement has provided a strong foundation for STV to broadcast in Scotland, ensuring our consumers receive the best mix of network content and original, Scottish productions.

From this base, STV has the opportunity to thrive and build its brand across multiple delivery platforms. We continue to innovate, offering our customers must-have content however and wherever they choose to consume it, firmly underscoring STV as a digital media business.

Further to this, the Secretary of State's recommendation to renew STV's two licences in North and Central Scotland for an additional 10 years, and recognition of our role in providing high-quality public service programming, has reaffirmed our place at the heart of the media landscape in Scotland.

Digital

STV's digital offering continues to attract high levels of engagement across an increasing number of free to consume platforms.

In October, we launched the STV Player App in the Apple App Store and Google Play, allowing viewers to watch 30 days of catch-up within their licence areas of Scotland. The STV Player App is free to download and free to install on Android and iOS devices and in just three months has achieved over 300,000 downloads.

The STV Player also launched on YouView this year and is now live on YouView set top boxes and available within the STV licence areas of Scotland. We were selected as one of the first of two initial additional content partners by YouView from over 300 expressions of interest from potential partners.

Throughout 2012, our audiences increasingly migrated across STV platforms and consumed content from a variety of sources. The number of long-form video plays is now highest on mobile devices showing an increasing number of consumers are interacting with STV anytime, anywhere and underlining the importance of our digital growth strategy.

News consumption across multiple platforms has been further enhanced with the evolution of STV Local and the launch of Glasgow and Edinburgh Metro sites. The sites provide compelling, lively and up-to-date content covering what's happening in Scotland's two largest cities focusing on news, going out, magazine features and a trusted listings section incorporating a business directory and a comprehensive events service.

STV recognises the demand for comprehensive and engaging local services, which are commercially sustainable, and we are committed to delivering this across platforms via an ambitious and unique service. The Metro sites are proving to be successful commercial models, providing an innovative platform for advertisers while serving local communities.

In November, we announced STV will be the first UK broadcaster to implement Gigya's social infrastructure technology on stv.tv, making the site integrated with social media sites. This will be functional in 2013 and help us to form deeper relationships with existing consumers.

Data & Consumer Insights

Capturing consumer data was a key focus in 2012 and by 31 December our database had grown to just under 500,000 individual consumer insights, a 55% increase on the previous year.

STV's ScotPulse, an online market research panel designed to provide direct access to valuable consumer insights, also continued to build on its success in 2012. Over 12,000 panel members have been recruited, delivering an average 50% response rate to surveys. This is supported by a dedicated website – www.scotpulse.com – that encourages community and drives higher engagement levels.

ScotPulse was utilised by STV to research viewer opinions on a number of programmes and issues in 2012, giving consumers the opportunity to have their voice directly heard on issues that matter while offering STV unique access to viewers' opinions. Research topics included changes to STV Local, digital habits in Scotland and opinions on a variety of topical issues e.g. the crisis at Glasgow Rangers Football Club and cameras in the courtroom for *Scotland Tonight* and STV News.

ScotPulse is also available to commercial clients in support of online and on-air

"Capturing consumer data was a key focus in 2012 and by 31 December our database had grown to just under 500,000 individual consumer insights, a 55% increase on the previous year."

Scotpulse – building engagement and consumer insight

STV's online market research panel provides direct access to valuable consumer insights.

ScotPulse is utilised by STV to research viewer opinions on programmes and issues, giving consumers the opportunity to have their voice directly heard on issues that matter. ScotPulse is also available to commercial clients and in 2012 worked with Glasgow 2014, Bank of Scotland, SSPCA, Strathclyde Fire & Rescue and Disney Pixar's film *Brave*.

- over 12,000 active panel members have been recruited
- delivers an average 50% response rate to surveys
- in 2012, ScotPulse ran 108 surveys with over 70,000 responses

Case study:
Scotpulse

campaigns to research the effectiveness of advertising campaigns, as well as providing an effective method of surveying their own customer database. In 2012 ScotPulse worked with many high profile clients including Glasgow 2014 who were keen to analyse whether there was an 'Olympics effect'; Bank of Scotland, researching the effectiveness of their Olympic sponsorship activity in Scotland; plus SSPCA, Strathclyde Fire & Rescue and Disney Pixar's film *Brave*.

Public Service Broadcasting

In 2012, STV demonstrated excellence in public service broadcast credentials as the STV News at Six achieved a 10 year high in audience share. Ten years ago the STV News at Six had a 21% share. It now averages 27% share and regularly reaches 29%-30% share. News content is at the core of our broadcast commitment and in 2012 our regional coverage exceeded our licence requirements.

In October 2011, STV confirmed that it would continue with the dedicated Edinburgh and East of Scotland 30 minute programmes at 6pm following a very successful pilot. Every evening we have dedicated news programmes being broadcast in Glasgow, Aberdeen and Edinburgh, with a bulletin for the Dundee and Tayside area, allowing STV to deliver local news stories and additionally prioritise stories relevant to its regional audience.

Online news and sport is an increasingly significant platform for STV's audience to consume content. The stv.tv website is achieving 3.2 million unique browsers and over 20 million page impressions per month – on average a third (1.1 million) of the monthly unique browsers visit STV's online news pages. This will continue to be a key area of growth in 2013 as it seeks to deliver additional online news coverage throughout the day.

STV continues to expand and improve its news service, delivering the most local offering in the UK. In December 2012, STV was awarded the contract to deliver Scottish bulletins on ITV's early morning programme, *Daybreak*.

Current Affairs

In 2012, *Scotland Tonight*, which has quickly become the most popular current affairs programme in Scotland, celebrated its first anniversary reaching three million viewers over the year.

In its first full year on air, *Scotland Tonight* has proved to be a highly successful format delivering impressive audience figures. The audience continues to grow and has increased by 18% since its launch. *Scotland Tonight* has an average nightly audience of over 100,000 and regularly reaches 450,000 each week.

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continued

Scotland Tonight delivers news, sport and current affairs in an accessible and engaging style through dedicated on air programming and digital content and is streamed live for viewers around the world. In 2012, two hour-long special *Scotland Tonight* programmes were broadcast on the Glasgow Rangers Football Club crisis and the Independence Referendum.

The programme has a dedicated Facebook and Twitter page enabling viewers to interact with the show live. Twitter contributors to the programme regularly include high profile MPs, MSPs and other newsmakers.

STV recently announced a unique, three part series, in partnership with The Herald, examining the history and development of the independence question in Scotland. *Road to Referendum* will incorporate interviews with people who are living through one of the most interesting periods in Scottish history, including current and former politicians as well as civil servants, party activists and a variety of Scottish opinion formers.

Core STV

STV is committed to delivering an engaging and informative schedule that incorporates the best Channel 3 network material alongside innovative, home grown productions that serve our unique audience. STV continues to attract high audience figures and, on average, its peak time audience tracked 1.3 share points ahead of the Channel 3 network throughout 2012.

STV Programmes

Throughout the year STV broadcast a number of relevant and engaging programmes, delivering our required hours for peak-time, original productions. A total of 39 hours of original content were aired on the channel and made available on multiple platforms, for up to 30 days, via the STV Player.

The diverse range of programming on STV incorporated:

- 43 out of the top 50 commercial programmes in 2012
- STV's top performing programme *Britain's Got Talent*.

Further to this, STV commissioned a number of independent productions such as *Animal 999* and *Desperately Seeking Subo*, and televised the *Sunday Mail Scottish Sports Awards*.

The year started with the return of much loved holiday show *Scottish Passport*. The six-part series aired from January with a number of high profile Scottish faces visiting exotic locations to deliver a successful series with a peak audience of 365,000 individuals and a 17.5% share.

Film review show, *Moviejuice*, also returned for two, star studded series in 2012 hosted by Grant Lauchlan. Across a total of 23 half hour programmes, including two *Moviejuice* specials for Bond's *Skyfall* and Disney Pixar's *Brave*, Grant interviewed many of the biggest names in cinema.

In April, an innovative series supported by Greener Scotland of the Scottish Government followed eight well known Scottish celebrities as they let in the waste experts in *Too Good To Waste*. The four part series gave viewers an insight into how they could save more money and be less wasteful.

An additional sponsorship with Healthier Scotland, in association with the Daily Record, resulted in *Coached off the Couch*. Produced by STV Productions and presented by Kelly Cates, the six-part series enlisted some of the country's top athletes to challenge and inspire a group of typical Scots to get fit by trying something new.

In February 2013, STV broadcast *In Search of Robert Burns*. Presented by David Hayman, the unique one-hour documentary, aired in peak time, exclusively unveiled what Scotland's most famous poet, Robert Burns, really looked like. Reconstructed using state-of-the-art forensic technology Professor Caroline Wilkinson, and her team at The University of Dundee, created a life size model of Robert Burns' head.

"STV continues to attract high audience figures and, on average, its peak time audience tracked 1.3 share points ahead of the Channel 3 network throughout 2012."

Commercial

Scots are well known for their love of TV, consuming 4 hrs 37 minutes daily – this represents 20 minutes per day and 2 hrs 20 mins per week more than the UK average. STV's average peak time audience is 400,000 viewers, treble that of Channel 4 (133,000) and 4 times that of Channel 5 (95,000) which makes STV the natural choice for advertisers.

STV Commercial offers creative communications solutions for a wide range of advertising clients. The team creates pan-Scotland campaigns but its ability to regionalise online and on air means it is well positioned to provide specific locally, tailored campaigns to suit all its clients requirements.

Opportunities to engage with customers are increasingly multi-platform and the team offers integrated solutions across broadcast, online and mobile.

As STV offers comprehensive campaigns, its range of advertising clients is becoming increasingly diversified and STV increasingly works across different sectors including education, finance, entertainment, travel, media and the public sector.

Highlights from 2012 include a cross platform campaign for The Open University and channel sponsorship from the launch of the new Scottish Sun on Sunday.

STV's commercial division also worked with Barrhead Travel on the STV holidays website and itison providing daily discount deals for STV audiences.

Scotland Tonight – giving Scotland a voice

***Scotland Tonight* has firmly established itself as Scotland's most popular current affairs programme.**

Scotland Tonight brings STV viewers across Scotland an in-depth look at the major news stories of the day along with sports, politics, business, art, entertainment, live studio guests and special features. The programme has dedicated Facebook and Twitter pages allowing viewers to interact with the show live and regular contributors to the programme include high profile MPs, MSPs and other newsmakers.

- over 100,000 viewers each night
- regularly reaches 450,000 viewers each week
- double the audience of Newsnight Scotland

New for 2013

Catchphrase

ITV's Controller of Entertainment commissioned STV Productions and DRG to make nine new episodes of this iconic game show. Hosted by Stephen Mulhern, *Catchphrase* will be on screen from March 2013.

Delivered series to BBC1, BBC2 and ITV2

Featured

Antiques Road Trip

In 2012, a further four series were commissioned bringing the total to eight and the ratings winning show moved to a new slot on BBC1.

The Poison Tree

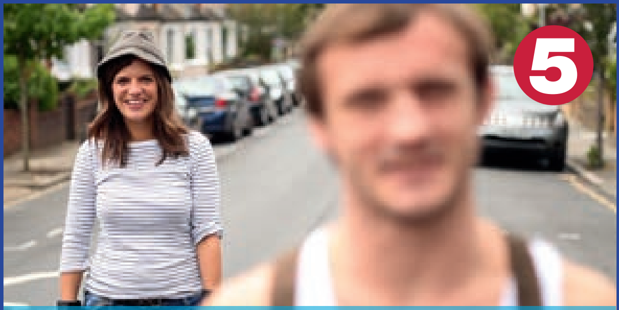
ITV1 commissioned STV Productions and GroupM to produce this two part psychological thriller based on the novel by Erin Kelly.

Celebrity Antiques Road Trip

BBC2 commissioned 20 episodes of the second series of *Celebrity Antiques Road Trip* which follows Britain's best loved celebrities in the search for profitable antiques.

Country Show Cook Off

STV Productions secured a new commission from BBC2 for a new 20 part celebrity cooking show. *Country Show Cook Off* will be part of the daytime schedule.



Fighters' Wives: The World of MMA

This one hour documentary for Channel 5 takes a close look at what goes on between cage fighters and their committed wives.

Fake Reaction

A new eight part panel show, hosted by Matt Edmondson, for ITV2 which challenges celebrities to fake their reaction to a series of extraordinary challenges.

16 Chief Executive's Review – Production

continued

Throughout 2012, STV Productions continued to build its reputation as an international content provider. The focus this year has been on securing rights, in partnership with US productions company Kinetic Content, delivering returnable formats, such as ratings success, *Antiques Road Trip*, for the BBC and creating content that reinforces the reputation of STV Productions.

Through a range of innovative funding models, such as the format deal with Kinetic Content which allows both companies to exclusively license each others original formats in their respective countries, creative ideas and reviving an iconic game show, STV Productions has continued to diversify its customer base and is producing shows for ITV1, ITV2, BBC1, BBC2, BBC Alba and Channel 5.

2012 also saw STV Productions create content across an increasing number of genres, securing commissions within the fields of entertainment, factual entertainment, factual, drama and branded content.

Commissioned in 2012 and on air from 2013, STV Productions is bringing back *Catchphrase* to ITV1 and STV viewers. Co-produced with DRG, nine shows have been commissioned, including a celebrity special. *Catchphrase*, originally created by Pasetta Productions, has been updated with a brand new set, contemporary 3D graphics, a dynamic new end game and will be hosted by Stephen Mulhern.

Also within the entertainment genre, ITV2 commissioned eight episodes of a brand new panel show hosted by Matt Edmondson. *Fake Reaction*, which challenges celebrities to fake their reaction to a series of extraordinary challenges, is based partly on a Fuji TV game show format. STV Productions developed the *Fake Reaction* format with LA-based production company Kinetic Content.

In October, STV Productions announced the pilot of a brand new wedding dance programme. The one hour pilot for *First Dance* was co-developed with US partners Kinetic Content and funded by GroupM Entertainment. The pilot for *First Dance* screened first on STV, performing well to its trial audience with peak viewing figures at 248,000 and 15% share.

Factual entertainment saw the return of *Antiques Road Trip* and the commission for a further four series, bringing the total to eight. *Antiques Road Trip* has been hugely popular across the five series which have already been broadcast attracting a peak audience of 2.4 million viewers. Series six is on air in early 2013 and has moved from the BBC2 daytime schedule to a new, higher profile slot on BBC1. The show also celebrated success in 2012 by picking up the British Academy Scotland Award for Features/Factual Entertainment. The celebrity version, *Celebrity Antiques Road Trip* was also on air in 2012 and the format is currently out to market in the US with STV Productions' content partner Kinetic.

A further commission within factual entertainment for BBC2, *Country Show Cook Off* will be on air from March 2013. The development, including a programme pilot, is co-funded by STV Productions, BBC and Creative Scotland. In 2011, Creative Scotland announced a development partnership with STV Productions for programmes developed in Scotland. Twenty episodes of the new cooking show were commissioned and viewers will see eight of Britain's best loved chefs compete in some of the most demanding cookery contests across the country.

In August an ITV1 drama was announced. *The Poison Tree* was a two-part drama based on the dark and captivating novel by Erin Kelly. The programmes aired in December and the first episode was the highest rated show in the 9pm slot that night, topping ITV1's slot average from the previous 12 months with a peak audience of 4.71 million viewers. *The Poison Tree* was produced in conjunction with GroupM Entertainment.

STV Productions also secured a high profile commission to make its first feature film, a 90 minute documentary to mark the 25th anniversary of the Piper Alpha disaster. The landmark feature film for BBC2, *Fire in the Night*, will be released in cinemas in 2013 and will be screened on BBC2 in July 2013 to mark the 25th anniversary of the tragedy.

Further commissions within the factual genre include a one-off documentary for Channel 5 looking at the lives of

"2012 also saw STV Productions create content across an increasing number of genres, securing commissions within the fields of entertainment, factual entertainment, factual, drama and branded content."

Antiques Road Trip – creating ratings winning content

In 2012, *Antiques Road Trip* was commissioned for a further four series, bringing the total to eight.

Antiques Road Trip follows the country's top experts as they travel across Britain in classic cars, hunting down rare and valuable antiques to auction off at a profit. The programme has been hugely popular across the five series which have already been broadcast attracting a peak audience of 2.4 million viewers.

- BAFTA Scotland Award winner Features/Factual Entertainment
- series six on air early 2013
- moved to a new, higher profile slot on BBC1

Case study:
Antiques Road Trip

BRITISH ACADEMY
OF FILM AND TELEVISION ARTS
Scotland

***Antiques Road Trip* won the British Academy Scotland Award**
Features/Factual Entertainment

cage fighters' wives. *Fighters' Wives: The World of MMA* was shown in January 2013. In addition, BBC Alba commissioned three hour long, Gaelic documentaries on notorious Scottish killers for delivery in 2013.

STV Productions worked closely with the commercial department throughout 2012 on a number of branded programmes for clients. Bank of Scotland sponsored *The Scots Going for Gold*, the Scottish Government supported *Coached off the Couch* and *Too Good To Waste*. Each programme or series was developed by STV Productions and aired on STV during the year. Further to this the Productions business made a new series of holiday show *Scottish Passport* broadcast on STV early in 2013.

STV Productions has a clear strategic aim to double revenues by 2015 and we will further build on our content portfolio throughout 2013 and beyond. The diverse range of commissions in 2012, exemplifying not only an increase in customers but also extensive experience working across a number of genres, means we are on track to meet this target.

Rob Woodward
Chief Executive

"... operating profit before exceptional items grew by 14% to £17.1m (2011: £15.0m)"

George Watt
Chief Financial Officer

After another difficult year for the UK economy, it is excellent to report that operating profit before exceptional items grew by 14% to £17.1m (2011: £15.0m) and that on a like for like basis before exceptional items profit before tax grew by 3%. This performance is also reflected in our KPIs, with five exceeded and six not achieved. The group remains on track to achieve the 2015 strategic objective of 33% of total earnings from non-broadcast areas although this was flat at 11% in 2012 due to a fall in ex-growth digital (PRTS and music) revenues.

The year began with a successful renewal of a £70.0m bank facility which provides funding certainty and the completion of licence renewal will enable this facility to be extended to March 2016. Net debt ended the year down 17% at £45.3m (2011: £54.5m).

Pensions remain an area of key corporate focus and the 2012 triennial valuation process remains ongoing at this time. We continue a constructive dialogue with the defined benefit schemes' trustees to finalise the funding deficit and future contribution plan. The £4.2m deficit funding payment due under the existing recovery plan for 2013 was paid in January.

Revenue
Total revenue amounted to £102.7m (2011: £102.0m) driven by growth in productions and digital revenues. Consumer revenues at £92.5m (2011: £93.6m) reflect a broadly flat airtime performance, a reduction in ex-growth digital revenues and an 84% increase in growth digital revenues as our online audience and inventory grows.

Productions revenue grew by 21% to £10.2m (2011: £8.4m) as the business continues to win new commissions from a wider customer base.

Operating Profit
Operating profit before exceptional items increased by £2.1m (14%) to £17.1m Consumer division operating profit improved to £16.9m (2011: £14.5m) through continued strong cost control. As a result, margins improved to 18.3% (2011: 15.5%) – well ahead of the 15.5% KPI target. Productions profit amounted to £0.2m (2011: £0.5m) with margins at a below target 2.0% (2011: 6.0%) partly reflecting a bad debt charge on the administration of the former international sales agent, Target.

Finance Costs
Net finance expenses increased by £1.7m to £2.7m (2011: £1.0m) mainly due to the higher margin in the renewed bank facility reflecting current market conditions. The IAS 19 non cash pension credit amounted to £1.3m (2011: £1.3m) and this figure will move to a non-cash charge of approx £1.1m in 2013 following the implementation of the amendments to IAS 19 from 1 January 2013.

Exceptional Items
There has been only one exceptional item in 2012 amounting to £5.3m net of tax for the final accounting of the ITV settlement and related change to affiliate status, which resulted in a £4.1m non cash stock write down. 2011 included various exceptional charges, mainly around the ITV litigation and settlement which totalled a net £13.4m.

Operating Profit (million)

2012	**£17.1m**
2011	**£15.0m**
2010	**£14.4m**
2009	**£9.2m**

+14%

Statutory Result
The statutory result for the year after tax and exceptional items amounted to a profit of £6.9m (2011: £0.6m).

Earnings per Share
EPS before exceptional items decreased by 14% to 32.5p (2011: 38.0p) reflecting the increase in profit before tax offset by the higher effective tax rate of 15% (2011: nil%). EPS adjusted for an equivalent tax rate in each year of 15%, grew by 1%.

Balance Sheet
The principal balance sheet movements over the last 12 months were a reduction in inventories, net debt and the pension deficit.

The pension deficit on an IAS 19 basis net of deferred tax, reduced to £17.7m (2011: £23.0m) due to increases in the schemes' assets. Inventories reduced following the sale of Network Stock to ITV as part of the litigation settlement and amounted to £18.5m (2011: £29.1m) at the year end.

Cash Flow

Net Debt fell by 17% in 2012 to £45.3m down from £54.5m in 2011. This was due to the strong cash generation of the core operating business. Interest payments (£1.6m), capital expenditure (£1.0m), pension deficit funding (£4.3m) and litigation settlement payments (£5.1m) were the principal outflows while a £5.0m receipt of deferred consideration from the sale of Primesight in 2007 was a major non-operating inflow. As all litigation settlement payments have now been paid, net debt will continue to fall in 2013 and beyond.

Dividends

The Board remains committed to its intention to resume dividend payments at an appropriate time but the short term focus, supported by our major shareholders, remains debt reduction. This will be kept under review and an update will be given at our interim results.

Principal Activities

The principal activities of the group are 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 on its television and digital media business.

Suppliers – Creditor Payment Policy

The Company's policy is to agree 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 31st December 2012 were equivalent to 62 days of purchases (2011: 54 days)

Shares

Shares and Other Interests

As at 22 February 2013, the Group had been notified of the following interests of 3% or more in its ordinary shares:

	Total Shares	%
Odey Asset Mgt	8,978,248	22.99
UBS Global Asset Mgt	5,139,076	13.16
Blackrock	3,448,727	8.83
Henderson Global	2,932,912	7.51
ITV (Granada Media)	2,650,961	6.79
River & Mercantile Asset Mgt	2,440,824	6.25
Cavendish Asset Mgt	1,917,667	4.91
Murray MHL Limited	1,465,383	3.75
Threadneedle Asset Mgt	1,411,201	3.61

Compliance

Part of the information that fulfils the Companies Act requirements of the Directors' Report can be found in the Performance Review on pages 2 to 23. The Group's principal operating subsidiaries are listed in note 2 to the financial statements and details of the principal risks and uncertainties facing the Group can be found on pages 24 and 25.

Independent Auditors and Disclosure of Information

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

Going Concern

The Group continues to review forecasts to determine the impact of both the short-term and long-term liquidity position. 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 Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

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 Group and the profit and loss of the Group for that period.

20 Performance Review

continued

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; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

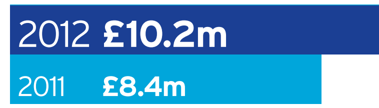
Directors' Statement pursuant to the Disclosure and Transparency Rules

Each of the directors, whose names and functions are listed on page 32 confirm that, to the best of his or her knowledge and belief:

- the Group financial statements which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

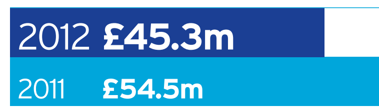
The directors are responsible for the maintenance and integrity of the Group's website and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Production Revenue Growth



+21%

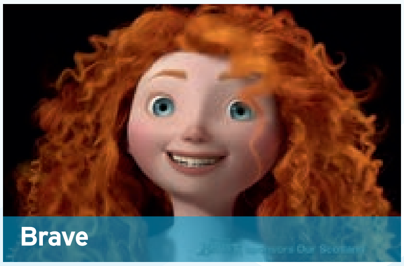
Debt Reduction



-17%

"Net Debt fell by 17% in 2012 to £45.3m, down from £54.5m in 2011."

… believes the most important ingredient in a successful advertising campaign is creativity … not for the sake of it but because creativity works, and delivers a return on investment for advertisers.

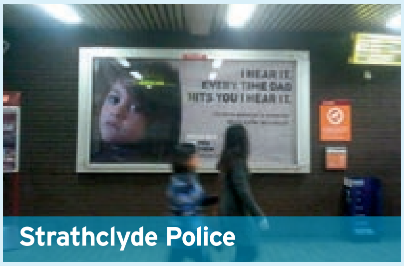


Brave

STV Creative delivered a cross media campaign, including station sponsorship, for Disney Pixar for the launch of the animated feature film *Brave*.

Disney Pixar

As part of the Disney Pixar campaign we delivered the first use of post production product placement technology MirriAd in Scotland.



Strathclyde Police

STV Creative worked with Strathclyde Police to deliver a cross media campaign highlighting children in domestic abuse situations. The campaign won a Gold Award at the Roses Creative awards.

Cash for Kids

STV Creative worked with Cash for Kids to create the branding for their Christmas donations campaign, 'The Soup Project'. This utilised an experiential idea, a website with donations mechanic plus digital advertising and social media.

McTears

STV Creative delivered a cost effective, cross media campaign for local advertiser McTears.

Strathclyde Fire & Rescue

STV Creative delivered a cross-platform campaign 'Join the Fight Against Fire' for Strathclyde Fire & Rescue, for the second year running.

Performance Review – KPIs 2012-2015

The KPI targets were refreshed in 2012 to be consistent with the Group's 2015 strategic aims 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.

2011 Actual	+0.85pt
2012 Actual	+1.30pts

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%
2012 Actual	18.3%
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
2012 Actual	0.5m
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
2012 Actual	3.2m
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
2012 Actual	20.4m
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
2012 Actual	3.1m
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
2012 Actual	£6.5m
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%
2012 Actual	26%
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
2012 Actual	141
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
2012 Actual	£10.2m
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.

2011 Actual	6%
2012 Actual	2%

Objective is to exceed 10% in all years

24 Principal Risks

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. STV has rigorous internal systems to identify, monitor and manage any risks to the business and in 2012 we continued to develop our risk management process by carrying out an in depth review of the Risk Register which was facilitated by Deloitte, the internal auditor.

At the conclusion of this process, consensus on the key risks and priorities and their likelihood was reached with mechanisms designed to mitigate the highest priority risks identified and the most effective reporting procedures going forward agreed. As a result, our Risk Register has been developed in a way which now allows the key risks facing STV to be summarised with actions taken to improve control able to be tracked and changes to the risk portfolio monitored.

The Risk Register sets out the key risks that we have identified, allocating an owner to each, together with the risk impact, likelihood and score both on a gross and, after the current mitigating controls have been taken into account, a net basis. The effectiveness of the current mitigating controls is graded as either strong, adequate or weak and any additional controls required are also noted. The Register is reviewed and updated on an ongoing basis both at an operational level and on a quarterly basis by the Board, with the Audit Committee conducting an annual review.

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 internal auditors.

Regulatory Environment

Our television business is operated under Channel 3 licences which are regulated by Ofcom. Our existing licences extend until 2014 and the Secretary of State has confirmed that the licences can be renewed for a further 10 year term through to 2024. Ofcom is undertaking three consultations around the extension process, none of which is expected to materially affect STV's two licences. The process is ongoing and expected to be concluded by mid 2013. These Channel 3 licences contain conditions around contribution to public service broadcasting, programme production and compliance with Ofcom's codes. As Licensee it is STV's responsibility to ensure that the terms of these licences are adhered to and measures have been put in place internally to ensure that this occurs. In the event of any serious or repeated breaches, Ofcom has powers to impose sanctions on Licensees including, in the most extreme circumstances, financial penalties or revocation of 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

A significant majority of STV'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 performance. This relationship is managed closely, with regular updates on programme and schedule developments being provided and through STV's Commercial Director who manages the sales relationship with ITV.

Pension Scheme Shortfalls

STV believes that its 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. The Group's policy is to minimise the exposure to interest rates by ensuring an appropriate balance of fixed and floating rates. 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 currency 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 currency risk. Currency risk arises primarily with respect to the Euro and US dollar. Currency 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. Borrowings, cash and 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.

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

Rob Woodward
Chief Executive

People

The contribution of people and talent employed is the key driver and creative force behind the Company's performance and underpins the relationship with audiences and consumers.

As the company continues to build as a consumer focused digital business, the commitment and capability of STV's people is the significant factor in defining the Company's performance.

During 2012, investment in new talent, particularly in the area of digital development and the acquisition of new skills for members of the news and current affairs team, were made to support the introduction of new production technology and processes in this area.

Further investment in new talent has been made in STV Productions, particularly to support the growth of this business and entry into new areas, including entertainment.

In early 2012 the Commercial team was re-organised to support the continued growth of the digital business and increase the presence held in the London market. This will secure the best opportunities for clients and commercial partners to reach their target markets.

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 the strategic aims; key performance indicators and goals and an understanding of the contribution they can make in delivering these.

An open culture, underpinned by the philosophy that everyone can make a difference and should strive for continuous improvement to achieve operational excellence, is at the core of the business. 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 are held.

During 2012, employees from all areas of the business participated in workshops to define the characteristics of the STV brand and ensure all areas of the business are operating in a way that promotes the brand consistently with our consumers and reflects the key characteristics of STV.

Later in 2012, all employees were invited to provide input and participate in a programme of activities to define STV's employee values, presenting an opportunity to re-focus as an organisation to ensure everyone is equipped to respond to future challenges and opportunities facing the business. This forms the start of an ongoing programme which will continue throughout 2013.

The senior leadership management forum, comprising the staff responsible for key growth and revenue targets, meets on a monthly basis to encourage collaborative working and facilitate the acquisition of knowledge of future trends impacting the sector.

The relationship with trade unions is based on a partnership approach with open dialogue and regular consultation which has been important in supporting delivery of organisational change.

A comprehensive induction process is delivered to everyone joining the STV team. This programme is tailored to the requirements of individual roles and each business area. This includes establishing performance and development goals for all staff which are aligned to the KPIs and goals of the business.

In 2013 an annual employee opinion survey will be initiated to obtain direct feedback from staff across the business on a wide range of areas impacting on the employment experience and to support the activities to define the employee values. This will highlight areas for future focus to continue to improve the culture and working environment and create an environment where everyone has the opportunity to fulfil their full potential.

Learning and Development

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

Lorraine Kelly
Trustee of the STV Appeal

"Every penny that is raised by the STV Appeal stays in Scotland and is spent on children and young people affected by poverty. Over the past two years we have heard some heartbreaking stories of children living in poverty in Scotland and the money raised can make a real difference to their lives. This is why I'm committed to supporting the STV Appeal.

Support from people across Scotland for the STV Appeal has been overwhelming and we look forward to building on this momentum in 2013."

Through the Company's learning and development framework, STV Learning, development opportunities and learning sessions linked to key business priorities and future skills requirements are provided to staff across the Company.

A mentoring programme, delivered in conjunction with Napier University, to develop mentoring skills for staff and provide experience in coaching, also gives an invaluable business and commercial insight to undergraduate students. This 12-month programme has successfully fostered 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.

The investment in a pilot programme in 2011 to develop video journalism skills was successful and, in 2012, this commitment has been increased to support editorial and production staff in acquiring the skills required to become video journalists. This will increase newsgathering capacity and support the increasing demand for locally focused news content.

Talent and Capability

STV's position as a leading contributor to the creative industries in Scotland continues to strengthen. During 2012, employment opportunities for over 650 freelance production staff and talent were provided, playing a key role in supporting the emergence of a stable and increased media talent pool in Scotland.

Supporting the development of future talent to the industry and working to develop relationships with educational institutions across Scotland is a key commitment. Regular work placements across all areas of activity are provided for pupils in secondary education and further and higher education through funded internships and work placements of up to twelve months duration. During 2012, 60 placements were provided.

In 2012 a partnership to deliver the successful bids to provide local television services in 2014 was announced. The partnership with Napier University will deliver services to local audiences in Edinburgh and the delivery of local television services to communities in Glasgow will be achieved through a partnership with Glasgow Caledonian University.

Reward and Recognition

Benchmarking all areas of reward and benefits through participation in a cross-industry group of UK media companies is undertaken to ensure the benefits structure is effective in attracting the best talent to the company. The reward strategy continues to reflect the restraint applied across the sector, however, the importance of rewarding the continued commitment and results delivered by staff is recognised and this approach has been relaxed to ensure that parity is maintained with the wider market.

Equal Opportunities and Diversity

As an equal opportunities employer, STV encourages applications from disabled persons. A number of registered disabled persons are employed, all of whom have had equivalent access to training and career development opportunities as their able-bodied colleagues.

No employees became disabled during the course of their employment in 2012.

The Company is committed to a culture where everyone is treated with dignity and respect and has the opportunity to deliver their full potential. Policies to

Fred MacAulay
TV/Radio presenter

"… by taking on the West Highland Way I got to help out with the STV Appeal, which helps raise awareness of a hugely worthwhile cause, and hopefully encouraged people to put a few pounds into the kitty.

Whilst there was a bit of discomfort (only six blisters really) I now have memories of Scottish scenery I'd never seen before, I got to know my walking companions just a little more too, and we raised money for children in Scotland affected by poverty, which is what it's all about."

ensure that the company engages effectively with audiences and attracts a diverse pool of creative talent are monitored on an ongoing basis.

During 2012 a training programme for line managers to maintain awareness of best practice and ensure compliance in this area was delivered.

The Company has continued to support the Government's "Get Ready for Work" programme, providing mentored training programmes for young people not in education, employment or training.

STV Appeal 2012

In 2012, the STV Appeal raised an impressive £2m for children and young people in Scotland affected by poverty and reached 78% of Scots across a four week campaign. In partnership with The Hunter Foundation and backed by the Scottish Government, the Appeal captured the hearts and minds of the Scottish public, with every penny raised staying in Scotland.

By effectively utilising STV's media platforms, the Appeal's aim is to tackle both the causes and effects of poverty and create long-term, sustainable change in the lives of Scotland's most at risk children and young people. The STV Appeal endeavours to work beyond reactive grant-making, to identify and target key areas of unmet needs.

The Appeal works with six charities, each of which are recognised as experts in the area of child poverty, and smaller community based projects. Investment is made in innovative and effective projects that will make a sustainable difference to Scotland's most disadvantaged children and young people, and support long-term social change.

Delivering direct benefits to disadvantaged children in Scotland, the £2 million raised in 2012 has already been distributed amongst 47 large and small projects across all 32 local authority areas in Scotland making a difference in the lives of over 3,500 children and young people. 100% of the money donated is spent on the kids who need it most as all overheads are met by STV and The Hunter Foundation.

The Appeal received great support from some of Scotland's leading Scottish businesses and many STV employees and management team members took part in volunteering and fundraising. A group of STV Appeal ambassadors who championed fundraising activities and raised awareness both across the business and outwith STV was established. Staff ambassadors have also taken the time to visit the projects that are benefiting from the money raised by the STV Appeal and meet with the project workers and community members.

Through a distinct schedule of programming; online media, particularly STV Local, and social media channels, opportunities were created to raise awareness of the work carried out by charity organisations and social projects, helping to change public perception about poverty and disadvantaged people.

Dedicated Appeal programming included a 30 minute launch show focusing on the reasons behind the STV Appeal and what the money is raised for. *STV Appeal 2012: The Big Challenge* engaged with celebrities, including Fred MacAulay and John Michie, who took on a challenge to raise money for the Appeal in 2012. STV also aired a hard-hitting documentary, *Born To Lose?*, exploring the issues of child poverty in Scotland featuring Paul Brannigan. The week of Appeal programmes culminated in a live show hosted by Appeal trustee Lorraine Kelly which revealed the total amount of money raised.

The Appeal aims to help address long-term sustainable change in the lives of those children most at risk, by tackling the causes as well as the effects of poverty and disadvantage and this will continue with the STV Appeal 2013.

The STV Appeal was launched in 2011 and in its inaugural year raised £1.3m.

Health and Safety

STV is committed to compliance with all workplace health and safety laws and regulations, to provide a safe and healthy working environment. Employee health and accidents are monitored closely and health promotion programmes designed to reduce health risk and enhance employee well-being are regularly undertaken. A proactive approach to improve the Company's management documentation systems, to provide suitable and sufficient information, instruction training and supervision is in place.

First Aid training refreshers are carried out on a continual basis and 39 first aiders are located throughout STV sites.

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. Driving standards and rules are communicated to staff through STV's Drivers Manual and this helps maintain the Company's low accident rates.

In 2012, a programme of Defensive Driving Training with GTG Training Centre was continued. Training has been targeted at employees who drive for work on a regular basis and a further 32 drivers have completed the course. This has included freelancers who drive regularly on the Antiques Road Trip productions. The training instructs drivers on methods of fuel efficient, defensive driving. As part of the training, the driving standards of drivers are assessed to identify any risks to STV. To date no areas of concern have been identified with positive feedback received from those who have attended the course. The remaining eight drivers based at STV Edinburgh will receive training in the early part of 2013.

STV Appeal 2012 – how we raised the money

The STV Appeal 2012 raised over £2m (including match funding) for children and young people in Scotland affected by poverty.

Building on the success of the 2011 Appeal, STV engaged with a number of celebrities to raise money and highlight the issue of child poverty in Scotland. Amy Macdonald carried out the ultimate musical challenge by performing five gigs in one day and Fred MacAulay trekked 96 miles of the West Highland Way to raise money for the Appeal. STV faces, including John MacKay and Sean Batty, also joined in the fundraising efforts with a summer of activities culminating in a live show hosted by Appeal trustee Lorraine Kelly.

- over £3.3 million raised in the first two years
- a partnership between STV and The Hunter Foundation
- Scottish Government committed to match fund the first £1 million

Sir Tom Hunter
Trustee of the STV Appeal

"This Appeal does two remarkable things, firstly it raises substantial funds that make a highly targeted and focussed impact on getting Scotland's young people up and out of poverty. Secondly it shines a dramatic light not just upon the challenges of child poverty, but the solutions to that poverty. Child poverty is solvable; if you can put a man on the moon you can most certainly free our young people from the burden of poverty.

The Scottish Government's support for this annual Appeal has been phenomenal, in 2013 we need to redouble our efforts, lift more young people out of poverty and work hand in hand with communities across Scotland to make that happen. Child poverty is not someone else's problem its a challenge we all share and can contribute to."

	2012	2011	2010
Total accidents	29	28	26
Number attributable to driver error	12	18	14
Percentage attributable to driver error	41%	64%	54%

Health and Safety Performance in 2012

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

	2012	2011	2010
RIDDOR three-day reportable accidents	3	0	1
Total of all accidents	11	4	11

Our Environment

STV recognises that its day-to-day activities can, and do, have an effect on the environment. The Company's environmental policy is aimed at reducing impacts on the environment and is part of the culture of the business. The Company is committed to the continuous improvement of its environmental performance and the reduction of pollution.

STV was awarded the 'Gold' award from the National Recycling Stars (Environment Media Group) in recognition of our recycling efforts.

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

On average, approximately 92 % of waste was recycled during 2012.

The number of recycle bins throughout the offices, mainly with the introduction of food waste recycling has increased. This was only introduced in June 2012, but is already proving another successful initiative with staff, as reflected in the percentage of recycled waste.

STV has a Green Travel Plan at the Glasgow headquarters to encourage staff to use more sustainable means of transport to commute. To promote cycling, shower facilities, cycle parking and lockers are provided for employees. A car sharing initiative, matching up employees living in the same area, enabling them to travel to work together is managed. There are currently 32 members of staff taking part in this initiative. STV also took part in the Walk at Work initiative for the second year.

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.

The Company actively monitors emissions and always seek to reduce these. In 2012 transport CO_2 emissions increased by 3% from the previous year and energy CO_2 emissions decreased by 4%. The Company's travel agent provides the Company's CO_2 emissions for all air and rail travel. CO_2 emissions decreased from 187 tonnes in 2011 to 162 tonnes in 2012 – a decrease of 13% year-on-year.

Charitable Donations

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

STV Appeal 2012 – how the money was spent

The £2 million raised in 2012 has already been distributed amongst 47 large and small projects across all 32 local authority areas in Scotland.

All of the Appeal money has been given away to help Scotland's most at risk children and young people. Working with six charities and a number of smaller community based projects the Appeal has invested in innovative and effective projects that will make a sustainable difference to Scotland's most disadvantaged children and young people.

- £2m will make a difference in the lives of over 3500 children and young people
- 100% of the money donated is spent on the kids who need it most
- all overheads are met by STV and The Hunter Foundation

Board of Directors

Richard Findlay (69)
Chairman [3]
Appointed to the Board in February 2007. Richard is the former Chief Executive of Scottish Radio Holdings plc (SRH) which owned a portfolio of radio stations and newspapers across the UK and Republic of Ireland. In August 2005 the company was sold to EMAP plc. Richard has strong links in the business and arts communities in Scotland. He is the founding Chairman of the National Theatre of Scotland and served as a Governor of RSAMD (now the Royal Conservatoire of Scotland). He chairs Innovate Financial Services Limited, a financial advisory and investment group, and is a director of Youth Media Group Ltd, an online supplier to universities and colleges of further education. Richard is also Chairman of the STV Appeal.

Rob Woodward (53)
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. Rob was appointed Pro-Chancellor and Chair of the Council of City University London in February 2012.

George Watt (45)
Chief Financial Officer
Appointed to the Board in February 2001 as Group Finance Director, George is a Member of the Institute of Chartered Accountants in Scotland. He joined the Company in 1998 as Group Financial Controller and Treasurer and prior to this worked with KPMG's audit and assurance services practice in the UK and also in the US. George is a non executive director of MirriAd Limited, a leading digital product placement company, 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.

David Shearer (53)
Senior Independent Director [1, 3]
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, Aberdeen New Dawn Investment Trust plc, Co-Chairman of Martin Currie (Holdings) Limited 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 Renold plc, Superglass Holdings plc, Scottish Financial Enterprise and a Governor of The Glasgow School of Art.

Vasa Babic (46)
Non Executive Director [1, 2]
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 (58)
Non Executive Director [1, 2]
Appointed to the Board in March 2007. Jamie is Executive Chairman of Brewin Dolphin Holdings PLC, a leading private client investment manager. He was previously a non-executive director of Scottish Radio Holdings plc until its sale to EMAP plc, and is currently a non-executive director of Maven Income and Growth VCT5 PLC. Jamie is also involved with a number of charitable organisations.

Michael Jackson (55)
Non Executive Director [2]
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.

Genevieve Shore (43)
Non Executive Director [3]
Appointed to the Board on 1 March 2012, Genevieve is CIO and Director of Digital Strategy at Pearson PLC which she joined in 2002 as Penguin's UK Sales Director. After taking on Group Sales she joined the Penguin Group Board as Global Digital Director in 2007. In 2009 she became the Director of Digital Strategy for Pearson globally and thereafter added the Pearson Technology Division to her responsibilities. Genevieve has extensive digital, technology and commercial experience in the media, publishing and technology sectors.

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
Genevieve Shore
Jamie Matheson
David Shearer

34 Corporate Governance Report

"The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company."

Financial Reporting Council

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 critical role to play in shaping business performance while creating and delivering 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 in the longer 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

The Board considers that, in respect to the financial year ended 31 December 2012, the Company has complied fully with the UK Corporate Governance Code 2010 ("the Code") and this section, together with the report by the directors on remuneration, set out on pages 46 to 54, describes in greater detail how the principles and provisions of the Code have been complied with. The Code is published by the Financial Reporting Council from whom paper and downloadable versions can be obtained via its website: 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
Genevieve Shore (appointed 1 March 2012)

The powers of the directors (including in relation to the issue or buy back of shares) are exerciseable in accordance with the Companies Act and the Company's Articles of Association. Any amendments to the Company's Articles of Association require a special resolution in accordance with the Companies Act 2006.

Board Appointment, Balance and Independence

The Board has considered the independence of the non-executive directors and has confirmed that all of the current directors are considered to be of independent character and judgement. However, Vasa Babic would not be considered independent in terms of the Code, as he was formerly an advisor to and a partner of, Hanover Investors, which was a shareholder in STV up until 2011.

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 both to 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 or she incurs in defending any proceedings brought against them (provided that judgement is not given against them). All directors have access to the advice and services of the Company Secretary and, at the Company's expense, the Company's legal advisors. The Company Secretary is an employee of the Company and attends all meetings of the Board and its committees. She is responsible for making sure that all Board procedures are observed and for advising the Board on corporate governance matters. She also has responsibility for ensuring the flow of information within the Board, its committees and between senior management and non-executive directors.

Board Responsibilities

There is a well established division of authority and responsibility within the Company through the separation of the roles of Chairman and 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 that directors receive accurate, timely and clear information, as well as 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;
- interests of the Company's employees;
- need to foster the Company's business relationships;
- impact of the Company's operations on the community and the environment;
- desirability of maintaining a reputation for high standards of business conduct; and
- 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 conduit 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 2012 is set out below:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held:	**9**	**3**	**2**	**2**
Attendance:				
Richard Findlay	9			2
David Shearer	9	3		2
Rob Woodward	9			
George Watt	9			
Matthew Peacock (resigned 19/01/12)	1			1
Vasa Babic	9	3	2	
Jamie Matheson	8	3	2	
Michael Jackson	8		2	
Genevieve Shore (appointed 1/03/12)	6			

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 can be found on the Company's website at 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 Company's long-term objectives and commercial strategy; annual operating and capital expenditure budgets;
- Material contracts and significant variations in terms of the Company'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 Company's pension schemes, share schemes and treasury policy; and
- Risk management, internal control policies and corporate governance arrangements.

Each year a Strategy Day is held prior to which, the non executive directors are asked to suggest specific topics for discussion. At this year's Strategy Day, the long term financial plan was reviewed as was a pension update paper and STV's corporate aims and values were considered and discussed in detail. 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 or she 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 Focus

The main areas of Board focus during 2012 included:

Operational and financial performance, including monitoring

- Receipt of operational and financial updates at each Board meeting;
- Review of monthly finance reports, including details of performance against budget and the Company's financial position;
- Approval of the Annual Report, its full and half-year financial results and IMS statements made;
- Approval of the 2013 Budget;

Strategy

- Presentations from the leaders of the business units including details on financial performance, alignment to Company strategy, current trends, market outlook and investment needs;
- Presentations on initiatives to grow revenue and current challenges, including the pension deficit;
- Approval of the Company's strategy;

Corporate development

- Comprehensive agreement signed with ITV on new networking arrangements, through which STV became an affiliate of the Channel 3 Network;
- Approval of the bid application for local TV licences covering Edinburgh and Glasgow, in conjunction with Edinburgh Napier University and Glasgow Caledonian University;
- Involvement in meetings, discussions and lobbying which resulted in the DCMS recommending a 10 year licence renewal;
- Approval of the Company's three year financial plan;
- Agreement of STV's corporate objectives and values;

Governance and risk

- Review of reports on risk and the appropriateness of the financial statements being prepared on a going concern basis;
- Approval of the revised Risk Register following a refresh exercise facilitated by the internal auditor;
- Approval of the internal audit plan for 2012/2013;
- Approval of the 2013 AGM Resolutions;
- Approval of the appointment of Genevieve Shore as a non executive director;
- Performance evaluation;

Investor relations

- Review of institutional feedback following meetings between the Company's broker and shareholders after both the full and half year results;
- Review of the draft analysts' results presentations, when reviewing the Company's full and half-year financial results;
- Through the Remuneration Committee, engagement with institutional shareholders on proposed remuneration arrangements for 2013;

Corporate Social Responsibility

- Involvement in the STV Appeal 2012 which raised over £2m for children living in poverty in Scotland.

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

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

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Audit Committee Report

Remuneration Committee

- Determines and agrees with the Board the framework for the remuneration policy
- Reviews the ongoing appropriateness and relevance of the remuneration policy
- Approves the design of, targets for and payments from any performance related pay schemes
- Reviews the design of all share incentive plans
- Determines the remuneration packages for executive directors and other senior executives
- Reviews and notes annually the remuneration trends across the Company

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Remuneration Committee Report

Nomination Committee

- Reviews the structure, size and composition of the Board
- Reviews succession plans and makes recommendations to the Board
- Identifies and nominates candidates for approval of the Board
- Recommends to the Board membership of the Board Committees

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Nomination Committee Report

Corporate Governance Report
continued

Each of these committees held an evaluation of their work and effectiveness during the year, the results of which were reported to the Board by the respective Committee Chairman. The reviews concluded that each Committee was operating in an effective manner and carrying out its 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.

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 46 to 54. The terms of reference of the Remuneration Committee are available on request and on the Company's website www.stvplc.tv

Report from the Nomination Committee

The members of the Committee during the year were:

Matthew Peacock (Chairman) (resigned 19 January 2012)
Richard Findlay
David Shearer
Genevieve Shore (appointed 4 October 2012)

Following the resignation of Matthew Peacock, Richard Findlay took over as Chairman on 19 January 2012.

The Nomination Committee has written terms of reference which are available on request and on the Company's website www.stvplc.tv

There is a formal and transparent procedure for the appointment of new directors to the Board. As part of the annual performance evaluation conducted by the Board a review is conducted of the Board's size, composition, diversity and balance of skills. The outcome of the review is used by the Committee to determine the selection criteria and role specification of non-executive directors.

External selection consultants may be retained to conduct searches with 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. Genevieve Shore was appointed a non executive director on 1 March 2012 and her extensive digital, technology and commercial experience in the media, publishing and technology sections is proving invaluable as STV's digital businesses continue to grow. A description of the role and capabilities required was prepared and the assistance of an external search consultant was used for this appointment. Following introductory meetings with the Committee and other Board members, Ms. Shore's 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

At the invitation of the Committee, meetings are attended by the Chief Executive Officer, Chief Financial Officer and the Company Secretary as well as the Group Financial Controller. Representatives from both the external and the internal auditors also attend each meeting and the Committee 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 Company'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.

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

a) creates a mutuality of interest;
b) places the auditors in a position to audit their own work;
c) results in the auditors acting as a manager or employee of STV; and
d) puts the auditors in the role of advocate for STV.

The Audit Committee is responsible for approving non audit work and in order to seek to preserve auditor objectivity and independence, the Company has a policy regulating the provision of non-audit services by the auditors. 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 auditors are the most suitable supplier of services. A case by case decision is therefore necessary and the auditors 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.

Due consideration is given to the award of non audit work and during the year under review, this consisted mainly of advice in relation to tax developments together with tax compliance and also advice in relation to the bonus scheme. Given that much of the information is derived from the audited financial records, the Audit Committee agreed that PwC was the most suitable supplier. There will always be projects for which the external auditor 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. 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.

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 during 2012. The external auditors are required to rotate the audit partner responsible for the Company and subsidiary audits every five years and the current lead audit partner has been in place for four 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.

Committee Activities

The principal activities undertaken by the Board Committees during 2012 included:

Month	Committee	Activity
January	Nomination	Performance Evaluation Succession Planning
February	Audit	Review of Year End Results Review of Prelim Announcement Review of Annual Report Review of Independence of Auditors Review of audit/non audit fees Approve Internal Audit Plan for the year Review of internal controls/risk management
February	Remuneration	Approval of Remuneration Report
August	Audit	Review of Interim Results Internal Audit update Review of internal controls/risk management
October	Nomination	Succession Planning
November	Audit	In Depth Business Risk Review Internal Audit Update Performance Evaluation
December	Remuneration	Review of Remuneration Policy Performance Evaluation Approval of Executive Director: – Bonuses – Salary, bonus and long term incentives for next year – Bonus Plan targets

Internal Audit

Deloitte LLP ("Deloitte") was appointed as the Company's Internal Auditor in November 2009 and the primary focus of its comprehensive internal audit programme is to provide assurance over key revenue streams and operating costs. Deloitte 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.

Deloitte attend all meetings of the Audit Committee and provide update reports on which 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; Director of Channels; Deputy Director of Channels; Director of Content; Commercial Director; Director of Corporate Development; HR & Communications Director; Chief Technology and Platforms Officer; 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 are and 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 Company, 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 enhance the functionality of the Board and to improve decision making.

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.

Genevieve Shore was appointed a director in March 2012, and while 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, three of the 10 members of the Leadership Team are female as is STV's Company Secretary. As at 31 December 2012, 48% of STV's staff were female, up 1% from last year.

Training and Development

All directors are given a comprehensive introduction to the Company'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.

Development and training of directors is an ongoing process. Throughout their period in office the directors are regularly updated on the Company's business; legal matters concerning their role and duties; the competitive environments in which the Company operates; and any other significant changes affecting the Company and the market sector of which it is a part. In addition, the Board regularly receives presentations from senior managers within the Company and each year Board meetings are scheduled around the Company's business locations to ensure that Directors' knowledge, skills and familiarity with the Company'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 effective functioning of the Board is key to the success of the Company and STV recognises that Board evaluation is extremely valuable in contributing to board effectiveness: a formal appraisal encourages all directors to reflect on what the Board has accomplished, as well as on what it should be doing, how it operates and whether any improvements can be made.

Accordingly, each year a comprehensive evaluation is undertaken in order to assess the Board, its committees, the directors and the Chairman. The process aims to enhance effectiveness and also provides 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. As in previous years, this is an internal exercise led by the Chairman and the Board considers this to be a sufficiently rigorous process.

The evaluation is conducted using a detailed 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 only, and non-executive directors without the Chairman present. The non-executive directors, led by the Senior Independent Director, are responsible for evaluating the performance of the Chairman, taking into account the views of the executive directors.

On completion of the 2012 performance evaluation during which open and frank discussions were held, the performance of each director was found to be effective and following the appointment of Genevieve Shore, the mix of skills and experience on the Board was felt to be appropriate.

Measured against the principal duties expected of it, and building upon the progress of previous years, the Board continued to operate effectively and to meet in full its obligations to support management, to monitor performance across a wide area, and to maintain its strategic oversight. Accordingly, the process concluded that the Board provides the effective leadership and control required for a listed company. It was recognised that there was open dialogue between all directors enabling issues to be raised and dealt with as they occurred rather than waiting for the next formal evaluation process and it was agreed that the stability and cohesiveness of the Board had been vital to the Board's continued effectiveness. There were already in place appropriate Board processes, papers and agendas and 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 made a significant contribution to the overall success of the Company and who demonstrated full commitment in their respective roles. All were able to allocate sufficient time to the Company enabling them to discharge their responsibilities effectively.

The Chairman reported the results of the evaluations at the Board meeting held on 17 January 2013. The Nominations Committee confirmed to the Board that the contributions made by the directors offering themselves for re-election at the AGM in April 2013 continue to be effective and that the Company should support their re-election.

Re-Election

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. At each AGM, at least one third of the directors are required to retire. The report from the Nomination Committee contained in this report explains the process for the 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 and their biographies can be found on page 32. 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.

Risk Management and Internal Control

Risk is inherent in the Company's business and activities and the review of risk and risk management is embedded throughout the Company. The ability to identify, assess, monitor and manage each type of risk to which the Company 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.

These reviews 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 auditors as well as from the external auditors on matters identified in the course of its statutory audit work.

During 2012, the following reviews were carried out by the internal auditors: (i) an appraisal of the procedures to manage and exploit Productions to maximise return on investment; (ii) an assessment of the Agresso accounting system; and (iii) an evaluation of IT resilience and disaster recovery.

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. 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 follow up review is carried out by the internal auditor of the work performed by management to implement the recommendations raised during the internal audit which will involve liaising with members of staff across the business who would have been allocated the responsibility of executing the recommendations raised and this will be supported by detailed testing where required.

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 into account the internal control procedures and risk management strategies outlined above.

An in depth review of the Risk Register was carried out during 2012, facilitated by Deloitte. The process involved one on one structured interviews with senior management to allow Deloitte to build on its understanding of the business performance, the future direction of STV and the associated risks and opportunities it faced. A half day workshop with the Leadership Team followed at which:

- consensus on the key risks and priorities and their likelihood was reached;
- the current mechanisms designed to mitigate the highest priority risks identified were discussed; and
- the most effective reporting procedures were agreed.

This was helpful in identifying the actions required going forward to:

- ensure greater consistency of controls across the business;
- consider the need for additional controls or a change to the current process;
- protect the business from unexpected events within the supply chain; and
- improve the efficiency and effectiveness of financial and operational processes.

As a result, the presentation and content of the Risk Register was developed in a way which now allows:

- the key risks facing STV to be summarised;
- actions taken to improve control to be tracked; and
- changes to the risk portfolio to be monitored.

As with the previous Risk Register, the revised one comprises risks specific to the different areas of the business and is reviewed and updated on an ongoing basis both at an operational level and on a quarterly basis by the Board, with the Audit Committee conducting an annual review. The Register sets out the key risks that have been identified, allocating an owner to each, together with the risk impact, likelihood and score both on a gross and, after the current mitigating controls have been taken into account, a net basis. The effectiveness of the current mitigating controls is graded as either strong, adequate or weak and any additional controls required is also noted.

The Company has a strong internal control and risk management system in place in relation both to the financial reporting process and the process for preparing the consolidated accounts. The purpose of these is to ensure that the internal and external financial statements are presented in accordance with the relevant reporting standards and the disclosure requirements for listed companies, as well as to ensure that the financial statements give a true and fair view, free from material misstatement.

The Board is satisfied that these responsibilities are met through applying the following procedures which are supported by the Group's system of internal control:

- using an appropriate system of accounting records, capable of operating with reasonable accuracy to be compliant with financial and legal reporting requirements. The basis used to prepare STV's financial statements is the International Financial Reporting Standards ("IFRS") as adopted by the European Union. The Company financial statements and Directors' Remuneration Report are prepared in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice;
- using IFRS to ensure a true and fair view of the state of affairs of the Group, including the profit or loss for the period;
- applying appropriate accounting policies within the framework of IFRS and ensuring these are consistently applied;
- making judgments and preparing estimates that are reasonable and prudent;
- operating within the guidelines of all the disclosure advice provided by UK statute;
- considering whether adoption of the going concern basis is appropriate;
- maintaining robust assurance processes and controls over financial reporting procedures; and
- extending these principles to half-yearly reports and other reports in the public domain.

Identified risks are mitigated through unambiguous business processes with integrated risk management activities, segregation of duties and appropriate delegation of authority. Each role within the Company is well defined with clear responsibilities and a transparent reporting structure. The Company's business processes include financial controls regarding the approval and accounting of business transactions and the financial reporting process has controls regarding recognition, measurement and disclosure. These include the application of critical accounting policies and estimates, in individual subsidiaries as well as in the consolidated accounts.

Regular review is vital to ensure that the risk culture continues to be embedded throughout the Company and that the risk framework is operating effectively. It also provides the Board and the Audit Committee with an overall view of the Company's risk profile, identifying any major exposures and mitigating actions.

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 Company, which are subject to continuous development, provides the basis on which the Company has complied with the Code provisions on internal control.

Relations with Shareholders

STV's corporate website at 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 recognises the importance of having an ongoing relationship with its shareholders and other stakeholders and fully supports the principles of the Code which encourage open dialogue between companies and their shareholders. The Board welcomes and encourages the participation of all shareholders at the Company's Annual General Meeting which all Directors attend. Shareholders also have the opportunity to meet with Directors and ask questions after the formal business of the meeting has been concluded.

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 Chief Financial Officer 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 shareholders to discuss governance and strategy, and develop a balanced understanding of their issues and concerns and various meetings have taken place with 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 Company 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 comprehensive 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. 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

46 Remuneration Report

"... Remuneration Policy is ... inherently linked to the strategic objectives, targets and KPIs of the business."

Vasa Babic

Vasa Babic
Remuneration Committee Chairman

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 38 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 HR & Communications 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 Mercer and PwC Human Resource Services.

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

Philosophy behind Remuneration Committee's approach

The Committee's overall philosophy and approach to its responsibilities are driven by two key principles, namely 'pay for performance' and the belief that the remuneration structure should ensure there is close alignment between the interests of executives and those of shareholders. The policy is therefore designed to encourage, reward and retain executives while bearing in mind the creation of long term shareholder value. The 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 to ensure that the appropriate balance between fixed and performance-related pay is maintained.

Remuneration Policy 2012

The Company's Remuneration Policy 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; and
- to be sensitive in determining executives' remuneration relative to the current economic climate.

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

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

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

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

During 2012, the Remuneration Committee has conducted a full review of the executive incentive structure to ensure this remains appropriate for delivering the next phase of the Company's strategy and targets.

In December 2012, a shareholder consultation exercise was undertaken to obtain the views of the Company's principal shareholders on proposals for a new executive incentive plan. These proposals comprise two elements:

- a revised performance related bonus plan, the STV Group plc Bonus Plan, principally focused on incentivising for delivery of financial metrics;
- a new long-term incentive plan, the STV Group plc Value Creation Plan, structured to maximise focus on total shareholder return.

In undertaking this proposed re-design, the Committee has sought to simplify the executive incentive structure to provide a framework that is transparent and easier for shareholders to understand and approve the Company's Remuneration Policy under the new BIS Regulations which will become effective in 2014.

On the basis of the responses received from the Company's principal shareholders to the proposals, the Committee intends to put an ordinary resolution to all shareholders at the 2013 AGM approving the STV Group plc Bonus Plan and the STV Group plc Value Creation Plan. Further details can be found in the Appendix to the Notice of AGM on page 112.

Components of Executive Directors' Remuneration

The Committee is very aware of the current environment in which it must determine appropriate remuneration packages for executives and continues to be mindful of the need to exercise restraint as part of the effective governance of executive pay. In light of this, the base salaries of the Chief Executive Officer and the Chief Financial Officer have remained the same since 2007 and the executive directors have proposed to and agreed with the Committee that their base salary levels will remain at this level throughout 2013.

The individual components of the remuneration package for 2012 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; and
- pay and conditions throughout the Company.

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 2012. Bonus payments remain based on financial performance targets relating to Operating Profit; Profit before Tax and Earnings per Share; and personal objectives. Under this plan, bonus potential maximum payments were 100% of base salary (2011: 125%) with 50% of bonus payments earned on achievement of performance targets (2011: 25%). Bonus potential maximum was payable upon performance targets being exceeded by 25% (2011: 25%).

The 2012 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; and
- ensure that in recognition of the absence of a long-term equity based award in 2012, 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 2012 in respect of the financial performance targets and the discretionary element relating to achievement of personal performance measures. As a result, bonus payments at 30.9% of bonus potential maximum (30.9% of base salary) have been earned and will be paid in two instalments. The first of these, equivalent to 50% of bonus earned is payable in cash in March 2013, with the balance deferred for 12 months, payable in March 2014 in shares. The bonus performance measures and the extent to which these have been satisfied are outlined below:

2012 Performance related bonus plan

Performance targets	Target	Actual	% Target satisfied	Bonus payable (% of bonus potential maximum)
PBT	£14.5m	£13.1m	90.3%	1.4%
EPS	33.4 pence	29.5 pence	88.3%	No payment triggered
Operating Profit	£18.0m	£17.1m	95%	15%
Personal objectives			Discretionary payment of 57.8% of this component awarded	14.4%

Target and Actual excludes IAS 19 interest.

Share Incentives
No share based incentives were granted in 2012.

The 2009 LTIP vested on 7 May 2012. Under the plan, participants were granted awards of units with the potential to convert into nil-cost options upon the vesting date, subject to the fulfilment of performance conditions related to absolute share price performance; total share performance against a comparator group; and, return on capital employed over the performance period.

Under the plan, an award of 84,463 ordinary shares was made to Rob Woodward and an award of 48,630 ordinary shares was made to George Watt, on 12 November 2012.

Under an all-employee share based Save As You Earn (SAYE) scheme, launched in June 2011, both Rob Woodward and George Watt were each granted 7,337 options under the scheme. No grant was made in 2012.

The Remuneration Committee has reviewed remuneration arrangements for 2013 and a new long-term incentive plan, The STV Group plc Value Creation Plan will be awarded effective from 1 January 2013, subject to shareholder approval at the AGM.

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	4.06%	(1.15%)
5% dilution in ten years	3.34%	(1.03%)

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 became a deferred member.

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 2012:

Rob Woodward

30% Performance Compensation
70% Fixed Compensation

George Watt

30% Performance Compensation
70% Fixed Compensation

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

Directors' Interests in Shares

The beneficial interests of the directors and their families in the ordinary shares of the Company as of 1 January 2012 and as at 31 December 2012 were, other than in respect of options or other rights to acquire ordinary shares, as follows:

	1 January 2012		31 December 2012	
	Ordinary shares	Share Incentive Plan	Ordinary shares	Share Incentive Plan
Executive directors				
Rob Woodward	202,679	–	383,265	–
George Watt	145,449	1,070	248,222	1,070
Non-executive directors				
Richard Findlay	15,000	–	15,000	–
David Shearer	50,000	–	100,000	–
Jamie Matheson	12,500	–	12,500	–
Vasa Babic	–	–	–	–
Michael Jackson	–	–	–	–
Genevieve Shore	–	–	–	–

Executive Directors' Contracts

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

Name	Company notice period	Contract date	Unexpired term of contract	Potential termination payment
Rob Woodward Chief Executive Officer	12 months	28.02.07	Rolling contract	12 months salary and benefits
George Watt Chief Financial Officer	12 months	27.02.01	Rolling contract	12 months salary and benefits

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

Non Executive Directors

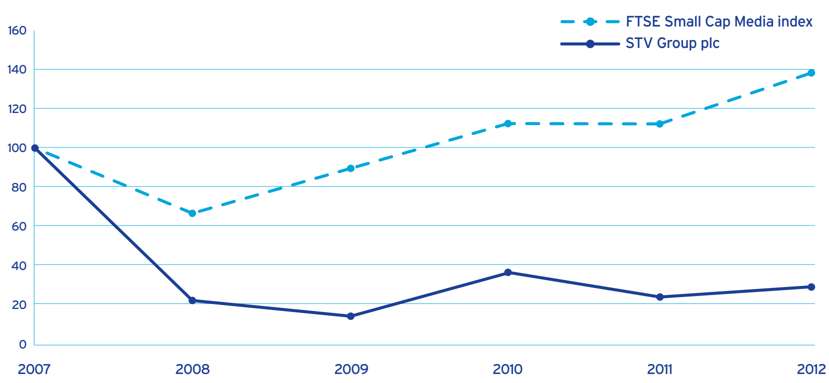
The remuneration of the non-executive directors is determined by the Board based upon recommendations from the Chairman and Chief Executive Officer (or, in the case of the Chairman, based on recommendations from the Senior Independent non-executive director and the Chief Executive Officer) and is within the limits set by the Articles of Association. For non-executive directors, the basic fee is paid only in cash. Non-executive directors do not participate in any bonus plan or share incentive programme operated by the Company and are not entitled to pension contributions or other benefits provided by the Company. The non-executive directors do not have service contracts, but their appointments are for fixed-terms of three years, subject to the terms of the Company's Articles of Association, the Companies Act and shareholder approval. The basis of fees paid to the non-executive directors is as follows:

- a basic fee of £30,000 for carrying out the duties of a non-executive director;
- a basic fee of £40,000 for carrying out the duties of senior independent non-executive director;
- a fee of £5,000 for carrying out the specific duties of sitting on the Company's Audit, Nomination and/or Remuneration Committees; and
- 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 2013.

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 Small Cap Media Index over the last five years.



2012 audited Information

The total of directors' emoluments in the year was £1,235,000 (2011: £1,337,000).

The remuneration of each director, excluding long-term incentive awards, during the year ended 31 December 2012 compared with 2011 is set out in the table below.

	Basic salary/fees		Benefits (1)		Annual performance related bonus (2)				Total	
	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000		2011 £000		2012 £000	2011 £000
					2011 plan	2010 plan	2011 plan	2010 plan		
Executive directors										
Rob Woodward	380	380	92	92	–	142	59	142	614	673
George Watt (3)	214	214	58	58	–	80	33	80	352	385
Non-executive directors										
Richard Findlay	85	85	–	–	–	–	–	–	85	85
David Shearer	48	48	–	–	–	–	–	–	48	48
Vasa Babic	38	38	–	–	–	–	–	–	38	38
Jamie Matheson	35	35	–	–	–	–	–	–	35	35
Michael Jackson	35	35	–	–	–	–	–	–	35	35
Matthew Peacock (4)	3	38	–	–	–	–	–	–	3	38
Genevieve Shore (5)	25	–	–	–	–	–	–	–	25	–
Total (£000)	863	873	150	150	–	222	92	222	1235	1337

(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) This represents the cash equivalent value paid in shares under the terms of the 2010 performance related bonus plan and the 2011 performance related bonus plan.

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 two tranches, payable in shares, were paid in 2011 and 2012 respectively with the final tranche is payable, also in shares, in 2013, subject to the fulfilment of performance conditions relating to 2011 financial performance which have been achieved in full. Rob Woodward volunteered to defer receipt of the first tranche for a period of 24 months and received payment of the second tranche in 2012, with the outstanding balance of two tranches payable in 2013.

Under the terms of the 2011 bonus plan, bonus is payable in shares and was paid in May 2012, with no payments deferred.

(3) George Watt is a non-executive director of MirriAd Limited, a related party of STV. He received no remuneration for this role.

(4) Matthew Peacock resigned from the board with effect from 19 January 2012.

(5) Genevieve Shore was appointed to the board with effect from 1 March 2012.

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	64,778	£1.24	31.03.11
	31.03.11	64,778	£1.24	31.03.12
	31.03.11	64,778	£1.24	31.03.13

2011 Performance Related Bonus Plan

The 2011 performance related bonus plan was based upon performance targets relating to financial metrics and personal objectives. Bonus payments were only triggered under this plan in respect of the discretionary element relating to achievement of personal performance metrics, resulting in bonus payments of 12.5% of bonus potential maximum (15% of base salary) which were paid in shares in March 2012.

2012 Performance Related Bonus Plan

The bonus performance measures and the extent to which these have been satisfied in 2012 are outlined below:

Performance targets	Target	Actual	% Target satisfied	Bonus payable (% of bonus potential maximum)
Group PBT	£14.5m	£13.1m	90.3%	1.4%
EPS	33.4 pence	29.5 pence	88.3%	No payment triggered
Operating Profit	£18.0m	£17.1m	95%	15%
Personal objectives			Discretionary payment of 57.8% of this component awarded	14.4%

Target and Actual excludes IAS 19 interest.

Under the 2012 performance related bonus plan, bonus payments commenced at 90% of fulfilment of targets, with bonus potential maximum payable upon achievement of performance levels of 125% of targets. Bonus payments are payable in two tranches with the first payment, payable in cash, due in March 2013 and the deferred and final payment, payable in shares at a price of 100 pence (representing the closing share price at the end of the performance period), payable in March 2014.

Accordingly, Rob Woodward will receive a cash payment of £58,634 in March 2013, and a share award of 58,634 shares in March 2014. George Watt will receive a payment of cash payment of £33,020 in March 2013, and an award of 33,020 shares in March 2014.

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 (2011: £76,000: 20% of base salary).

George Watt is a deferred member of the Scottish and Grampian Television Retirement Benefits Scheme and now receives a taxable cash allowance of £42,840, equivalent to 20% of base salary (2011: £42,840).

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continued

Final salary pension scheme – benefits in scheme

	Change in accrued pension over the year (1) £	Accrued pension at 31 December 2012 £	Transfer value at 31 December 2012 (2) £	Transfer value to 31 December 2011 £	Change in transfer value over the year less director's contributions £
George Watt	1,310	28,111	355,827	322,108	33,719

(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

No awards were granted under the Company's share plans during 2012.

Long-term Incentive Plan

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

2009 Long Term Incentive Plan

This award was approved by shareholders on 22 April 2009 and was granted on 7 May 2009. A total of one million units were awarded in total to participants with Rob Woodward and George Watt receiving 330,000 and 190,000 units respectively.

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 plan ("JOP") arrangement which provides the ability to receive part of the award value. The options were granted in June 2010 and are capable of exercise from June 2013 at the earliest. Although participants in the 2009 LTIP could exercise the JOP element of their award during 2012, the scheme rules state that this would result in their options lapsing with immediate effect so it is anticipated that participants will exercise both elements simultaneously in 2013. 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.

Following the testing of the performance conditions, nil cost awards vested on 12 November 2012, of which 84,463 ordinary shares were awarded to Rob Woodward and 48,630 ordinary shares were awarded to George Watt. These can be exercised until the seventh anniversary of the date of grant.

Satisfaction of Performance Conditions of 2009 LTIP

Subject to the achievement of a threshold share price of 70 pence at the end of the performance period, performance conditions relating to Return on Capital Employed and Total Shareholder Return (relative to a comparator group) required to be satisfied. The share price achieved was 114 pence resulting in a total value pool of £624,800 being created.

Under the Total Shareholder Return performance condition, shareholder growth of 85.5% was attained with a position of seventh in a comparator group of sixteen resulting in 27.5% of this proportion of the award being released.

Under the Return on Capital Employed performance condition, a return of capital employed of 18% was achieved, resulting in a payment of 21% of this proportion of the award being released.

By order of the Board

Vasa Babic
Remuneration Committee Chairman

22 February 2013

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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 2012 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 19, 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 2012 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

- 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; and
- the information given in the Corporate Governance Statement set out on pages 42 to 44 with respect to internal control and risk management systems and about share capital structures is consistent with the 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 19, 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; and
- 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 2012 and on the information in the Remuneration 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

22 February 2013

Consolidated Income Statement

Year ended 31 December 2012

	Note	2012 Pre-exceptional results £m	2012 Exceptional items £m	2012 Results for year £m	2011 Pre-exceptional results £m	2011 Exceptional items £m	2011 Results for year £m
Revenue	5	102.7	–	102.7	102.0	–	102.0
Net operating expenses before exceptional costs		(85.6)	–	(85.6)	(87.0)	–	(87.0)
Affiliate status change	8	–	(5.3)	(5.3)	–	–	–
Litigation matters	8	–	–	–	–	(13.5)	(13.5)
Cost of change	8	–	–	–	–	(1.4)	(1.4)
Net operating expenses		(85.6)	(5.3)	(90.9)	(87.0)	(14.9)	(101.9)
Operating profit		17.1	(5.3)	11.8	15.0	(14.9)	0.1
Finance income	9	0.1	–	0.1	0.2	–	0.2
Finance costs – borrowings	9	(4.1)	–	(4.1)	(2.5)	–	(2.5)
– IAS 19 pension	9	1.3	–	1.3	1.3	–	1.3
		(2.7)	–	(2.7)	(1.0)	–	(1.0)
Profit/(loss) before tax		14.4	(5.3)	9.1	14.0	(14.9)	(0.9)
Tax (charge)/credit	10	(2.2)	–	(2.2)	–	1.5	1.5
Profit for the year		12.2	(5.3)	6.9	14.0	(13.4)	0.6
Earnings per share							
– basic	12	32.5p		18.3p	38.0p		1.6p
– diluted	12	31.3p		17.6p	36.1p		1.5p

The notes on pages 62 to 87 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Note	2012 £m	2011 £m
Profit for the year		6.9	0.6
Actuarial gain/(loss) on post employment benefit obligations	28	2.5	(13.5)
Deferred tax (charge)/credit	20	(1.2)	2.9
Other comprehensive income/(expense) for the year net of tax		1.3	(10.6)
Total comprehensive income/(expense) for the year		8.2	(10.0)

Consolidated Balance Sheet

At 31 December 2012

	Note	2012 £m	2011 £m
Non-current assets			
Goodwill	13	**7.9**	7.9
Property, plant and equipment	14	**8.2**	9.5
Deferred tax asset	20	**12.1**	15.5
		28.2	32.9
Current assets			
Inventories	15	**18.5**	29.1
Trade and other receivables	16	**19.5**	24.2
Cash and cash equivalents	17	**3.9**	0.5
		41.9	53.8
Total assets		**70.1**	86.7
Equity attributable to owners of the parent			
Ordinary shares	22	**19.5**	19.5
Share premium	22	**112.0**	112.0
Merger reserve		**173.4**	173.4
Other reserve		**0.4**	0.6
Accumulated losses		**(326.2)**	(335.2)
Total equity		**(20.9)**	(29.7)
Non-current liabilities			
Borrowings	19	**44.2**	–
Trade and other payables	18	**–**	0.7
Derivative financial instruments	30	**0.2**	–
Retirement benefit obligation	28	**23.0**	30.9
Provisions	21	**1.1**	2.5
		68.5	34.1
Current liabilities			
Borrowings	19	**5.0**	55.0
Trade and other payables	18	**17.0**	25.6
Provisions	21	**0.5**	1.7
		22.5	82.3
Total liabilities		**91.0**	116.4
Total equity and liabilities		**70.1**	86.7

The notes on pages 62 to 87 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 58 to 87 were approved by the Board on 22 February 2013 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 2012

	Equity attributable to owners of the parent					
	Ordinary shares £m	Share premium £m	Merger reserve £m	Other reserve £m	Accumulated losses £m	Total Equity £m
Balance at 1 January 2012	19.5	112.0	173.4	0.6	(335.2)	(29.7)
Profit for the year	–	–	–	–	6.9	6.9
Actuarial gain	–	–	–	–	2.5	2.5
Deferred tax thereon	–	–	–	–	(1.2)	(1.2)
Total comprehensive income for the year	–	–	–	–	8.2	8.2
Own shares awarded	–	–	–	–	0.6	0.6
Equity-settled share based payments	–	–	–	(0.2)	0.2	–
Balance at 31 December 2012	**19.5**	**112.0**	**173.4**	**0.4**	**(326.2)**	**(20.9)**
Balance at 1 January 2011	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
Total comprehensive expense for the year	–	–	–	–	(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)
Balance at 31 December 2011	**19.5**	**112.0**	**173.4**	**0.6**	**(335.2)**	**(29.7)**

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Note	2012 £m	2011 £m
Operating activities			
Cash generated by operations	23	**11.8**	6.4
Interest paid		**(2.2)**	(2.9)
Pension deficit funding – recovery plan payment		**(4.3)**	(4.2)
Net cash generated/(used) by operating activities		**5.3**	(0.7)
Investing activities			
Interest received		**0.6**	0.1
Loan note paid		**5.0**	–
Purchase of property, plant and equipment		**(1.0)**	(1.6)
Net cash generated/(used) by investing activities		**4.6**	(1.5)
Financing activities			
Net borrowings repaid		**(6.5)**	(4.9)
Net cash used by financing activities		**(6.5)**	(4.9)
Net increase/(decrease) in cash and cash equivalents		**3.4**	(7.1)
Cash and cash equivalents at beginning of year		**0.5**	7.6
Cash and cash equivalents at end of year	23	**3.9**	0.5

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 2012

	Note	2012 £m	2011 £m
Opening net debt		**(54.5)**	(52.2)
Net increase/(decrease) in cash and cash equivalents		**3.4**	(7.1)
Movement in debt financing		**5.8**	4.9
Movement in escrow cash		**–**	(0.1)
Closing net debt	23	**(45.3)**	(54.5)

Notes to the Financial Statements

for the year ended 31 December 2012

1. General information

STV Group plc ("the Company") and its subsidiaries (together, "the Group) is listed on the London Stock Exchange and incorporated and domiciled in the UK. The address of the registered office is Pacific Quay, Glasgow, G51 1PQ. The principal activities of the Group are the production and broadcasting of television programmes, internet services and the sale of advertising airtime and space in these media.

2. Adoption of new and revised standards

(a) New and amended standards adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements.

IAS 1 (amendment)	Financial statement presentation regarding other comprehensive income
IAS 19 (amendment)	Employee benefits
IFRS 1 (amendment)	First time adoption on Government loans
IFRS 7 (amendment)	Financial instruments: Disclosures on asset and liability offsetting
IFRSs 10, 11 and 12 (amendment)	Transition guidance
Annual improvements 2013	
IFRS 10	Consolidated financial statements
IFRS 11	Joint arrangements
IFRS 12	Disclosures of interests in other entities
IFRS 13	Fair value measurement
IAS 27 (revised 2011)	Separate financial statements
IAS 28 (revised 2011)	Associates and joint ventures
IAS 32 (amendment)	Financial instruments: Presentation on asset and liability offsetting
IFRS 9	Financial instruments

The directors expect the adoption of IAS 19 (amendment) to have an estimated impact on the accounts of £2.4m, the non-cash interest credit of £1.3m moving to a non-cash interest charge of approximately £1.1m in 2013. They do not expect the remaining new standards and interpretations to 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 consolidated 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.

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 19.

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 carried at cost less accumulated impairment losses.

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.

Property, plant and equipment
Leasehold 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 property, plant and equipment 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.

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.

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.

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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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 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.

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 contracts are 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.

If interest rates were to increase by 0.25%, the fair value of the interest rate swap contracts would be £0.1m lower. 0.25% is considered a reasonably possible change.

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 13.

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 28.

Were the discount rate used to reduce by 0.25% from management's estimates, the carrying amount of pension obligations would be approximately £8.7m higher.

4. Critical accounting estimates and judgements continued

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.

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 and Productions.

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

	External sales	
Segment revenues	**2012 £m**	2011 £m
Consumer	**92.5**	93.6
Productions	**10.2**	8.4
	102.7	102.0

Revenue in 2012 includes £1.1m of revenues from sources outside the UK (2011: £1.1m).

Segment result	Pre-exceptional segment result 2012 £m	2011 £m	Exceptional items 2012 £m	2011 £m	Segment result 2012 £m	2011 £m
Consumer	**16.9**	14.5	**(4.1)**	(10.8)	**12.8**	3.7
Productions	**0.2**	0.5	**–**	(0.1)	**0.2**	0.4
	17.1	15.0	**(4.1)**	(10.9)	**13.0**	4.1
Exceptional legal costs incurred in litigation with ITV Network and ITV plc					**(1.2)**	(4.0)
Operating profit					**11.8**	0.1
Financing					**(2.7)**	(1.0)
Profit/(loss) before tax					**9.1**	(0.9)
Tax (charge)/credit					**(2.2)**	1.5
Profit attributable to equity shareholders					**6.9**	0.6

Operating profit in 2012 includes £0.6m arising outside the UK (2011: £0.6m).

In 2012, the exceptional items in Consumer relate to an exceptional charge in relation to the new ITV network affiliate status of £5.3m.

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.

Notes to the Financial Statements
continued

5. Business segments continued

Segment assets and liabilities	Assets 2012 £m	Assets 2011 £m	Liabilities 2012 £m	Liabilities 2011 £m
Consumer	**27.8**	38.7	**12.1**	23.8
Productions	**31.8**	29.8	**2.7**	2.1
Total of all segments	**59.6**	68.5	**14.8**	25.9
Unallocated corporate	**10.5**	18.2	**76.2**	90.5
Consolidated	**70.1**	86.7	**91.0**	116.4

Other segment information	Consumer 2012 £m	Consumer 2011 £m	Productions 2012 £m	Productions 2011 £m
Capital additions	**1.2**	1.8	**–**	–
Depreciation	**2.4**	2.4	**–**	–

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

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 2011 and 2012 were held in the UK and therefore operate in a single geographical segment.

6. Operating expenses by nature

	2012 £m	2011 £m
Programming costs	**54.5**	54.4
Staff costs	**13.8**	13.1
Other external charges	**12.8**	14.7
Depreciation	**2.4**	2.4
Operating lease charges	**2.0**	2.2
Other operating charges	**0.1**	0.2
	85.6	87.0

Services provided by the Group's auditor

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

	2012 £000	2011 £000
Group		
Fees payable to Company auditor for the audit of parent company and consolidated financial statements	**95**	95
Fees payable to the Company's auditor and it's associates for other services:		
– The audit of Company's subsidiaries pursuant to legislation	**15**	15
– Audit-related assurance services	**25**	25
– Tax advisory services	**77**	90
– Tax compliance services	**93**	110
– Other non audit services	**53**	15
	358	350

Included in the audit fees payable is £5,000 (2011: £5,000) paid in respect of the parent company.

Other non-audit services comprise employee benefit advisory services.

Fees in respect of STV Group plc pension schemes	2012 £000	2011 £000
Audit	21	21

7. Staff

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

	2012 Number	2011 Number
Consumer and productions		
Established	**343**	350
Contract	**33**	37
	376	387

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

Their aggregate remuneration comprised:

	2012 £m	2011 £m
Wages and salaries	**11.5**	11.0
Social security costs	**1.1**	1.1
Other pension costs (see note 28)	**1.2**	1.0
	13.8	13.1

Included within the retirement obligation above is a £2.5m pension cost (2011: £2.3m) and a £1.3m interest credit (2011: £1.3m). The interest element is included within finance costs on the face of the income statement.

Details of directors' remuneration is provided in the Remuneration Report on pages 46 to 55.

8. Exceptional items

i) Affiliate status change

A non-cash stock writedown of £4.1m has been booked in 2012 relating to the Group's new ITV network affiliate status. This stock would have unwound over future years under the previous networking arrangements but will not do so under the new affiliate arrangements. In addition legal and other costs of £1.2m in relation to this were incurred.

ii) 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 agreed to pay ITV £18.0m, of which £7.2m was paid in cash in 2011. The remaining £10.8m was paid by a transfer of stock and cash in 2012.

The settlement was recognised as follows:

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

iii) Cost of change

A provision of £1.4m was recognised in 2011 mainly in relation to restructuring the news operation.

9. Finance (income)/costs

	2012 £m	2011 £m
Bank borrowings	**3.9**	2.5
Fair value loss on interest rate swaps	**0.2**	–
	4.1	2.5
Finance income	**(0.1)**	(0.2)
Pension finance credit	**(1.3)**	(1.3)
	2.7	1.0

The increase in finance costs reflects the terms of the renewed bank facility which commenced on 19 January 2012.

Notes to the Financial Statements
continued

10. Tax

	2012 £m	2011 £m
Current tax:		
UK corporation tax on profit for the year	–	–
Adjustment in respect of prior years	–	–
	–	–
Deferred tax:		
Origination and reversal of timing differences	1.6	(1.5)
Impact of changes in tax rates	0.6	–
Tax charge/(credit) for the year	2.2	(1.5)

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

	2012 £m	2011 £m
Profit/(loss) before tax	9.1	(0.9)
Tax at the UK corporation tax rate of 24.5% (2011: 26.5%)	2.2	(0.2)
Other expenses not deductible for tax purposes	0.8	0.2
Movement in tax losses and other temporary differences	(1.1)	(1.5)
Impact of changes in tax rates	0.4	–
Adjustments in respect of prior years	(0.1)	–
Tax charge/(credit) for the year	2.2	(1.5)

11. Dividends

No dividend is proposed by the Board for the year ended 31 December 2012 (2011: £nil).

12. Earnings per share

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

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

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

		2012			2011	
	Earnings £m	Weighted average number of shares (m)	Per share Pence	Earnings £m	Weighted average number of shares (m)	Per share Pence
EPS (pre-exceptional items):						
Earnings attributable to ordinary shareholders	12.2	37.7	32.5p	14.0	36.8	38.0p
Basic EPS	12.2	37.7	32.5p	14.0	36.8	38.0p
EBT purchased shares		1.4			2.0	
Diluted EPS	12.2	39.1	31.3p	14.0	38.8	36.1p
EPS (including exceptional items):						
Earnings attributable to ordinary shareholders (including exceptional items)	6.9	37.7	18.3p	0.6	36.8	1.6p
Basic EPS	6.9	37.7	18.3p	0.6	36.8	1.6p
EBT purchased shares		1.4			2.0	
Diluted EPS	6.9	39.1	17.6p	0.6	38.8	1.5p

13. Goodwill

Goodwill at 1 January and 31 December 2012 was £7.9m (2011: £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. The key assumptions used for value-in-use calculations are as follows:

Growth rate	2.00%
Discount rate	14.00%

These calculations use pre-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 Group has conducted a sensitivity analysis on the impairment test of the CGU's carrying value. A change in the discount rate to 23% would result in the carrying value of goodwill being reduced to its recoverable amount.

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.

14. Property, plant and equipment

	Leasehold buildings £m	Plant, technical equipment and other £m	Total £m
Cost			
At 1 January 2011	0.2	23.6	23.8
Additions	–	1.8	1.8
Disposals	–	(0.1)	(0.1)
At 1 January 2012	0.2	25.3	25.5
Additions	–	1.2	1.2
Disposals	–	(0.3)	(0.3)
At 31 December 2012	**0.2**	**26.2**	**26.4**
Accumulated depreciation and impairment			
At 1 January 2011	0.1	13.6	13.7
Charge for year	–	2.4	2.4
Disposals	–	(0.1)	(0.1)
At 1 January 2012	0.1	15.9	16.0
Charge for year	–	2.4	2.4
Disposals	–	(0.2)	(0.2)
At 31 December 2012	**0.1**	**18.1**	**18.2**
Net book value at 31 December 2012	**0.1**	**8.1**	**8.2**
Net book value at 31 December 2011	0.1	9.4	9.5

15. Inventories

	2012 £m	2011 £m
Film rights	–	5.5
Recorded programmes and films	18.5	23.6
	18.5	29.1

16. Trade and other receivables

	2012 £m	2011 £m
Trade receivables	10.4	8.9
Less: Provision for impairment of receivables	(0.1)	–
Trade receivables – net	10.3	8.9
Prepayments and accrued income	8.2	9.5
Other receivables	1.0	5.8
	19.5	24.2

As of 31 December 2012, trade receivables of £0.8m (2011: £0.4m) are past due. These are net of a provision for bad debts of £0.1m (2011: £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:

	2012 Gross £m	2012 Provision £m	2011 Gross £m	2011 Provision £m
Up to 3 months	10.2	–	8.9	–
3 to 5 months	0.1	0.1	–	–
	10.3	0.1	8.9	–

Included in other receivables is £0.5m (2011: £0.5m) relating to an investment in Mirriad Limited.

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

17. Cash and cash equivalents

	2012 £m	2011 £m
Cash and cash equivalents	3.9	0.5

18. Trade and other payables

	2012 £m	2011 £m
Current		
Trade payables	**4.8**	9.3
Accrued expenses	**8.8**	13.8
Social security and other taxes	**3.2**	2.1
Other payables	**0.2**	0.4
	17.0	25.6
Non-current		
Other payables	**–**	0.7
Derivative financial instruments (note 30)	**0.2**	–
	0.2	0.7

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

19. Borrowings

	2012 £m	2011 £m
Bank loans	**49.2**	55.0

The borrowings are repayable as follows:

	2012 £m	2011 £m
Expiring within 1 year	**5.0**	55.0
Expiring in 2 to 5 years	**44.2**	–
	49.2	55.0

All undrawn committed borrowing facilities are repayable within two to four years (2011: within one year).

The effective interest rates were as follows:

	2012 %	2011 %
Bank loans (floating)	**5.1**	5.5

At 31 December 2012, the Company had bank facilities in place totalling £62.5m consisting of a £30.0m term facility and a £32.5m revolving credit and overdraft facility (2011: £55.0m and £10.0m respectively).

The renewal of a £70.0m bank facility was agreed on 19 January 2012 and £7.5m was amortised on 31 December 2012. The new facility expires on 31 December 2014 with the term loan partially amortising across the facility term. Security is provided to the debt providers by way of cross guarantees and a share pledge.

At 31 December 2012 £12.5m (2011: £10.0m) of the £62.5m (2011: £65.0m) bank facility in place at that date remains undrawn.

The effect of the Group's interest rate swaps is to classify £30.0m (2011: £nil) of borrowings as fixed rate. The notional principal amount of the outstanding interest rate swap contracts at 31 December 2012 was £30.0m (2011: £nil). A fair value on the interest rate swaps of £0.2m (2011: £nil) has been recognised at 31 December 2012.

20. 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	Other temporary differences £m	Accelerated tax depreciation £m	Retirement benefit obligations £m	Total £m
At 1 January 2012	(4.0)	(0.3)	(3.3)	(7.9)	(15.5)
Charge/(credit) to income	1.2	(0.1)	(0.3)	1.4	2.2
Charge to equity	–	–	–	1.2	1.2
At 31 December 2012	**(2.8)**	**(0.4)**	**(3.6)**	**(5.3)**	**(12.1)**

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

	2012 £m	2011 £m
Deferred tax asset:		
Deferred tax to be recovered after more than one year	**(8.6)**	(13.0)
Deferred tax to be recovered within one year	**(3.5)**	(2.5)
	(12.1)	(15.5)
Net deferred tax asset	**(12.1)**	(15.5)
Deferred tax asset not recognised	**(11.9)**	(12.9)
Based on:		
Trading losses and non-trade debits	**(11.9)**	(12.9)

A deferred tax asset has been recognised in respect of these temporary differences as it is probable that the Group will generate sufficient taxable profits in the future against which these temporary differences can be offset.

The deferred tax asset of £11.9m which has not been recognised relates to a combination of trading tax losses and non-trade debits.

A number of changes to the UK Corporation tax system were announced in the March 2012 UK Budget Statement. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 was included in the Finance Act 2012 and the relevant deferred tax balances have been re-measured accordingly. A further reduction to the main rate is proposed to reduce the rate to 21% from 1 April 2014. This further change had not been substantively enacted at the balance sheet date and, therefore, is not included in these financial statements.

The effect of the changes not yet enacted would be to reduce the deferred tax asset provided at the balance sheet date by £1.1m. This £1.1m decrease in the deferred tax asset would decrease profit by £0.6m and decrease other comprehensive income by £0.5m. This decrease in the deferred tax asset is due to the reduction in the corporation tax rate from 23% to 21% with effect from 1 April 2014.

21. Provisions

	Cost of change Provisions 2012 £m	Cost of change Provisions 2011 £m	Onerous lease Provisions 2012 £m	Onerous lease Provisions 2011 £m	Total Provisions 2012 £m	Total Provisions 2011 £m
At 1 January	**1.2**	0.8	**3.0**	3.7	**4.2**	4.5
Provided during the year	**–**	1.4	**–**	–	**–**	1.4
Utilised during the year	**(1.2)**	(1.0)	**(1.4)**	(0.7)	**(2.6)**	(1.7)
At 31 December	**–**	1.2	**1.6**	3.0	**1.6**	4.2

The provisions are expected to be utilised:

	Cost of change Provisions 2012 £m	Cost of change Provisions 2011 £m	Onerous lease Provisions 2012 £m	Onerous lease Provisions 2011 £m	Total Provisions 2012 £m	Total Provisions 2011 £m
Within one year	**–**	1.2	**0.5**	0.5	**0.5**	1.7
Greater than one year	**–**	–	**1.1**	2.5	**1.1**	2.5
	–	1.2	**1.6**	3.0	**1.6**	4.2

22. Share capital and premium

	Number of shares (thousands)	Ordinary shares £m	Share premium £m	Total £m
At 1 January and 31 December 2012	**39,050**	**19.5**	**112.0**	**131.5**

The total authorised number of ordinary shares is 63 million shares (2011: 63 million shares) with a par value of £0.50 per share (2011: £0.50 per share). All issued shares are fully paid.

23. Notes to the consolidated statement of cash flows

	2012 £m	2011 £m
Continuing operations		
Operating profit (before exceptional items)	**17.1**	15.0
Depreciation and other non-cash items	**2.4**	2.3
Operating cash flows before exceptional items and movements in working capital	**19.5**	17.3
Decrease in inventories	**6.5**	6.7
(Increase)/decrease in trade and other receivables	**(1.3)**	0.9
Decrease in trade and other payables	**(6.6)**	(7.1)
Underlying cash generated by continuing operations	**18.1**	17.8
Affiliate status change	**(1.0)**	–
Litigation matters	**(4.1)**	(11.2)
Costs of change and onerous property costs	**(1.2)**	(1.7)
Cash generated by continuing operations	**11.8**	4.9
Cash generated by discontinued operations	**–**	1.5
Cash generated by operations	**11.8**	6.4

Analysis of movements in net debt	At 1 January 2012 £m	Cash flow £m	At 31 December 2012 £m
Cash and cash equivalents (note 17)	0.5	3.4	**3.9**
Bank borrowings (note 19)	(55.0)	5.8	**(49.2)**
Net debt	**(54.5)**	**9.2**	**(45.3)**

24. Capital commitments

At 31 December 2012 the Group had no contracted for but not provided capital commitments (2011: nil).

25. Operating lease commitments

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

	2012 £m	2011 £m
Within one year	**1.5**	1.9
Between two and five years	**6.5**	6.2
After five years	**10.8**	11.0
	18.8	19.1

26. Contingent liabilities

There are no contingent liabilities.

27. Transactions with related parties

During the year £8,000 (2011: £8,000) income was received from related parties and a balance of £2,000 was owed by related parties at 31 December 2012 (2011: £2,000).

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:

	2012 £m	2011 £m
Salaries and short-term employee benefits*	**1.3**	1.3

* See Remuneration Report page 52 for details.

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

28. 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 £0.7m (2011: £0.6m).

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 2012 and updated to 31 December 2012 by a qualified independent actuary. The major assumptions used by the actuary were:

	2012	2011
Rate of increase in salaries	**1.00%**	1.00%
Rate of increase of pensions in payment	**3.15%**	3.00%
Discount rate	**4.35%**	4.95%
Inflation	**3.15%**	3.00%

Mortality rate

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

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

	2012 Years	2011 Years
Retiring at balance sheet date:		
Male	**14.3**	14.3
Female	**17.1**	17.1
Retiring in 20 years:		
Male	**16.6**	16.6
Female	**19.5**	19.5

Amount charged to operating profit	**2012 £m**	2011 £m
Current service cost – defined benefit	**(1.8)**	(1.7)

The total amount charged to profit from operations is £2.5m (2011: £2.3m), which also includes the defined contribution charge of £0.7m (2011: £0.6m).

Amount credited to net finance costs	**2012 £m**	2011 £m
Expected return on scheme assets	**15.5**	16.8
Interest cost	**(14.2)**	(15.5)
	1.3	1.3

28. **Retirement benefit schemes** continued

Actuarial gains/(losses) recognised in statement of comprehensive income

	2012 £m	2011 £m
Actuarial gain/(loss) in the year	**2.5**	(13.5)
Cumulative actuarial gain	**34.7**	32.2

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:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Equities	**141.4**	129.4	132.7	122.9	108.6
Bonds	**138.0**	134.7	129.6	120.9	106.7
Fair value of schemes' assets	**279.4**	264.1	262.3	243.8	215.3
Present value of defined benefit obligations	**(302.4)**	(295.0)	(285.2)	(279.8)	(253.6)
Deficit in the schemes	**(23.0)**	(30.9)	(22.9)	(36.0)	(38.3)
Equities	**8.0%**	8.0%	8.0%	8.0%	8.0%
Bonds	**3.2%-4.7%**	3.0%-5.0%	4.2%-5.6%	4.5%-5.7%	3.7%-6.6%

A related offsetting deferred tax asset of £5.3m (2011: £7.9m) is included under non-current assets. Therefore the net pension scheme deficit amounts to £17.7m at 31 December 2012 (£23.0m at 31 December 2011).

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:

	2012 £m	2011 £m
At 1 January	**264.1**	262.3
Expected return on plan assets	**15.5**	16.8
Actuarial gains/(losses)	**10.8**	(5.6)
Employer contributions	**5.9**	5.8
Employee contributions	**0.1**	0.1
Benefits paid from plan/ Company	**(17.0)**	(15.3)
At 31 December	**279.4**	264.1

Movement in the defined benefit obligation is as follows:

	2012 £m	2011 £m
At 1 January	**295.0**	285.2
Current service cost	**1.8**	1.7
Interest cost	**14.2**	15.4
Contributions from plan participants	**0.1**	0.1
Actuarial losses	**8.3**	7.9
Benefits paid from plan/ Company	**(17.0)**	(15.3)
At 31 December	**302.4**	295.0

The actual return on plan assets for the year was £26.3m (2011: £11.2m).

History of experience gains and losses	2012	2011	2010	2009	2008
Difference between the expected and actual return on scheme assets:					
Amount (£m)	**(10.8)**	5.6	(13.2)	21.1	(58.2)
Experience gains and losses on scheme liabilities:					
Amount (£m)	**(16.3)**	(0.7)	3.4	(1.7)	(28.0)
Total amount recognised in statement of recognised income and expense:					
Amount (£m)	**2.5**	(13.5)	9.1	(8.0)	(30.2)

The estimated amount of contributions expected to be paid to the schemes during 2013 is £5.8m.

29. 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 were granted units which have no value on the date of grant but have the potential to convert into nil-cost options. The LTIP vested in May 2012 and the participants have been awarded units but ownership has still to be transferred.

30. 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 19, 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.

	2012 £m	2011 £m
Total borrowings (note 19)	**49.2**	55.0
Cash and cash equivalents	**(3.9)**	(0.5)
Net Debt	**45.3**	54.5
Total equity	**(20.9)**	(29.7)
Total capital	**24.4**	24.8
	186%	220%

Covenants

The Group is subject to two 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. The Group complied with all the covenants in each of the test periods to the balance sheet date.

Derivative financial instruments

The Group's policy is to minimise the exposure to interest rates by ensuring an appropriate balance of floating and fixed rates. The Group's primary funding is at floating rates through its bank facilities. In order to manage its associated interest rate risk, the Group uses interest rate swaps to vary the mix of fixed and floating rates. Interest rate swap contracts of £30.0m (2011: £nil) were entered into on 7 February and expire in January 2014. Fair value is based on the market price of these instruments at the balance sheet date. In accordance with IFRS 7, the interest rate swaps are considered to be level 2 with the fair value being calculated at the present value of the estimated future cash flows using market interest rates. A fair value on the interest swaps of £0.2m (2011: £nil) has been recognised in the financial statements at 31 December 2012.

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 currency 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 currency risk. Currency risk arises primarily with respect to the Euro and the US dollar. Currency 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 currency risk and it is Group policy to ensure that all material payments or receipts are fully hedged. At 31 December 2012 the Group had no forward foreign currency contracts in place (2011: 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. Borrowings, cash and 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 19) and cash and cash equivalents (note 17)) on the basis of expected cash flow. This is generally carried out at a group level. In addition, the Group's liquidity management policy includes projecting cash flows and considering the level of liquid assets necessary to meet these: monitoring balance sheet liquidity ratios against internal targets and bank facility requirements; and maintaining debt financing plans.

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

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at short term floating rates expose the Group to cash flow interest rate risk. Group policy is to maintain between 30% and 50% 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 2012, a movement of 0.25% in interest rates would change the level of interest paid in the year by +/- £0.1m (2011: £0.1m). 0.25% is considered a reasonably possible change.

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 and expires in January 2014.

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 2012 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 19, 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 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 parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

- the part of the Remuneration 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 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 2012.

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

22 February 2013

Company Balance Sheet

At 31 December 2012

	Note	2012 £m	2011 £m
Fixed assets			
Investments	2	**27.3**	27.3
Current assets			
Debtors			
– due within one year	3	**41.8**	40.1
– due after one year	3	**126.8**	121.1
Cash at bank and in hand		**–**	0.4
		168.6	161.6
Creditors: amounts falling due within one year	4	**(23.1)**	(65.3)
Net current assets		**145.5**	96.3
Total assets less current liabilities		**172.8**	123.6
Creditors: amounts falling due after more than one year	4	**(44.4)**	–
Net assets excluding pension liability		**128.4**	123.6
Pension liability	8	**(7.5)**	(10.6)
Net assets including pension liability		**120.9**	113.0
Capital and reserves			
Called up share capital	6	**19.5**	19.5
Share premium account	6	**112.0**	112.0
Profit and loss account	6	**(11.0)**	(19.1)
Other reserve	6	**0.4**	0.6
Shareholders' funds		**120.9**	113.0

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 £6.0m (2011: £nil).

The financial statements on pages 89 to 99 were approved by the Board on 22 February 2013 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 2012

	Note	**2012 £m**	2011 £m
Profit for the financial year		**6.0**	–
Actuarial gain/(loss)	8	**2.0**	(1.7)
Deferred tax thereon		**(0.7)**	0.2
Total recognised gains/(losses) in the year		**7.3**	(1.5)

Notes to the Company Financial Statements

for the year ended 31 December 2012

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 profit and loss account 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 2012.

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 19.

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 grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

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 profit and loss account and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Pension costs

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

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

2. Investments

	£m
Cost	
At 1 January and 31 December 2012	27.3
Provisions for impairment	
At 1 January and 31 December 2012	–
Net book value at 31 December 2011 and 2012	**27.3**

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 Limited	Scotland	Television technical facilities
Ginger Television Productions Limited	England	Programme production

The directors believe that the carrying value of the investments is supported by their underlying net assets.

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.

A full list of subsidiary undertakings is available from the Company Secretary whose details are on page 101.

3. Debtors

	2012 £m	2011 £m
Due within one year		
Amounts owed by group undertakings	**40.6**	39.0
Prepayments and accrued income	**0.7**	0.6
Other debtors	**0.5**	0.5
	41.8	40.1
Due after one year		
Amounts owed by group undertakings	**126.8**	116.4
Prepayments and accrued income	**–**	4.7
	126.8	121.1

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.

Included in other debtors is £0.5m (2011: £0.5m) relating to an investment in Mirriad Limited.

4. Creditors

	2012 £m	2011 £m
Amounts falling due within one year:		
Trade creditors and accruals	**1.1**	0.3
Amounts owed to subsidiary undertakings	**17.0**	10.0
Bank loans	**5.0**	55.0
	23.1	65.3
Amounts falling after more than one year:		
Bank loans	**(44.2)**	–
Derivative financial instruments	**(0.2)**	–
	(44.4)	–

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

5. Bank loans

	2012 £m	2011 £m
Bank loans	**49.2**	55.0

The borrowings are repayable as follows:

Expiring within 1 year	**5.0**	55.0
Expiring in 2 to 5 years	**44.2**	–
	49.2	55.0

All undrawn committed borrowing facilities are repayable within two to four years (2011: within one year).

The effective interest rates were as follows:

	2012 %	2011 %
Bank loans (floating)	**5.1**	5.5

At 31 December 2012, the Company had bank facilities in place totalling £62.5m consisting of a £30.0m term facility and a £32.5m revolving credit and overdraft facility (2011: £55.0m and £10.0m respectively).

The renewal of a £70.0m bank facility was agreed on 19 January 2012 and £7.5m was amortised on 31 December 2012. The new facility expires on 31 December 2014 with the term loan partially amortising across the facility term. Security is provided to the debt providers by way of cross guarantees and a share pledge.

Derivative financial instruments

The Group manages its cashflow interest rate risk by using floating-fixed interest rate swaps. Interest rate swap contracts of £30.0m (2011: £nil) were entered into on 7 February and expire in January 2014. Fair value is based on the market price of these instruments at the balance sheet date. In accordance with IFRS 7, the interest rate swaps are considered to be level 2 with the fair value being calculated at the present value of the estimated future cash flows using market interest rates. A fair value on the interest swaps of £0.2m (2011: £nil) has been recognised in the financial statements at 31 December 2012.

Notes to the Company Financial Statements

continued

6. Reserves and movements in shareholders' funds

	Called up Share Capital £m	Share Premium Account £m	Profit and loss account £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 1 January 2012	**19.5**	**112.0**	**(19.1)**	**0.6**	**113.0**
Profit for the year	–	–	6.0	–	6.0
Actuarial gain	–	–	2.0	–	2.0
Deferred tax thereon	–	–	(0.7)	–	(0.7)
Equity settled share based payments	–	–	0.2	(0.2)	–
Own shares awarded	–	–	0.6	–	0.6
At 31 December 2012	**19.5**	**112.0**	**(11.0)**	**0.4**	**120.9**

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).

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. Pension commitments

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 2012 and updated to 31 December 2012 by a qualified independent actuary. The major assumptions used by the actuary were:

	2012	2011
Discount rate	**4.35%**	4.95%
Inflation	**3.15%**	3.00%

Mortality rate

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

	2012 **Years**	2011 Years
Retiring at balance sheet date:		
Male	**13.2**	13.2
Female	**16.0**	16.0
Retiring in 20 years:		
Male	**15.4**	15.4
Female	**18.3**	18.3

8. Pension commitments continued

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 2012 £m	At 31 December 2011 £m
Equities	**56.9**	53.1
Bonds	**56.9**	55.2
Fair value of scheme's assets	**113.8**	108.3
Present value of defined benefit obligations	**(123.4)**	(122.4)
Deficit in scheme	**(9.6)**	(14.1)
Related deferred tax asset	**2.1**	3.5
Net pension deficit	**(7.5)**	(10.6)
Equities	**8.0%**	8.0%
Bonds	**4.5%-5.7%**	3.7%-6.6%

Reconciliation of present value of scheme liabilities

	2012 £m	2011 £m
At 1 January	**122.4**	123.4
Current service cost	**0.6**	0.5
Interest cost	**5.9**	6.7
Benefits paid	**(7.9)**	(7.5)
Actuarial gain	**2.4**	(0.7)
	123.4	122.4

Reconciliation of fair value of scheme assets

	2012 £m	2011 £m
At 1 January	**108.3**	108.8
Expected return on scheme assets	**6.3**	6.9
Actuarial gain/(loss)	**4.4**	(2.4)
Benefits paid	**(7.9)**	(7.5)
Contributions paid by employer	**2.7**	2.5
	113.8	108.3

The actual return on scheme assets in the year was £10.8m (2011: £4.5m).

Actuarial gains and losses

The cumulative amount of actuarial gains recognised in the statement of recognised gains and losses is £23.5m

Amounts for current and previous four years

	2012	2011	2010	2009	2008
Defined benefit obligation	**(123.4)**	(122.4)	(123.4)	(122.7)	(107.0)
Plan assets	**113.8**	108.3	108.8	102.5	95.4
Deficit	**(9.6)**	(14.1)	(14.6)	(20.2)	(11.6)
Difference between the expected and actual return on scheme assets:					
Amount (£m)	**(4.4)**	2.4	(5.6)	(7.9)	25.7
Experience gains and losses on scheme liabilities:					
Amount (£m)	**(6.6)**	0.6	0.7	2.9	(0.9)
Total amount recognised in statement of recognised gains and losses:					
Amount (£m)	**2.0**	(1.7)	4.8	(9.3)	(15.2)

Five Year Summary

For the year ended 31 December 2012

	2008 £m	2009 £m	IFRS 2010 £m	2011 £m	**2012 £m**
Results					
Revenue					
Continuing operations	111.2	90.3	104.8	102.0	**102.7**
Discontinued operations	33.3	19.9	6.9	–	**–**
	144.5	110.2	111.7	102.0	**102.7**
Profit from operations before exceptional items					
Continuing operations	13.2	9.2	14.4	15.0	**17.1**
Discontinued operations	1.5	–	–	–	**–**
	14.7	9.2	14.4	15.0	**17.1**
Profit on ordinary activities before taxation and exceptional items	12.8	5.5	12.5	14.0	**14.4**
Assets					
Non-current assets	34.7	32.1	29.1	32.9	**28.2**
Current assets	79.9	84.2	69.9	53.8	**41.9**
Assets classified as held for sale	18.8	12.1	–	–	**–**
Total assets	133.4	128.4	99.0	86.7	**70.1**
Equity and liabilities					
Current liabilities	32.5	100.8	35.4	82.3	**22.5**
Non-current liabilities	96.1	38.3	83.4	34.1	**68.5**
Liabilities directly associated with assets held for sale	21.9	21.2	–	–	**–**
Equity	(17.1)	(31.9)	(19.8)	(29.7)	**(20.9)**
Total equity and liabilities	133.4	128.4	99.0	86.7	**70.1**
Key statistics					
Earnings per ordinary share* – basic	25.7p	13.7p	34.3p	38.0p	**32.5p**
– diluted	25.7p	13.7p	32.9p	36.1p	**31.3p**
Dividends per ordinary share	–	–	–	–	**–**

* The 2010 earnings per ordinary share figures have been restated to exclude ordinary shares purchased by the Company from the weighted average number of ordinary shares calculation.

Registrars
Capita Registrars,
The Registry, 34 Beckenham Road
Beckenham, Kent BR3 4TU
Tel: 0871 664 0300*
Tel: (overseas) +44 20 8639 3399
Fax: +44 (0) 1484 600 911
Email: ssd@capitaregistrars.com
Website: www.capitashareportal.com

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
141 Bothwell Street
Glasgow G2 7EQ

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

Burness Paull & Williamsons LLP
120 Bothwell Street
Glasgow G2 7JL

Principal Bankers
Bank of Scotland plc
The Mound
Edinburgh EH1 1YZ

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

Company Registration Number
SC203873

Annual Report on Internet
The 2012 Annual Report of STV Group plc including the financial statements is available at: www.stvplc.tv

Shareholder Information

continued

Amalgamation of Accounts

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

Investor Relations

For investor enquiries please contact:
Eleanor Marshall
PR Manager
STV Group plc
Pacific Quay
Glasgow G51 1PQ
Tel: 0141 300 3670
Email: eleanor.marshall@stv.tv

Share Price Information

The share price of STV Group plc is published in most newspapers and the current price of the Company's shares (delayed by up to 15 minutes) can be obtained from the Company's website www.stvplc.tv

Individual Savings Accounts (ISAs)

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

Dividend Reinvestment Plan

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

Your Shareholding

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

Capita Share Dealing Services

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

* Calls cost 10p per minute plus network extras. Lines are open 8:30am–5:30pm, Monday to Friday.
** Calls cost 10p per minute plus network extras. Lines are open 8am–4:30pm, Monday to Friday.

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 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 24 April 2013 at 11 am for the purpose of considering the resolutions below.

Resolutions 1 to 9 (inclusive) will be proposed as ordinary resolutions and Resolutions 10 to 13 (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 2012 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 2012.

   The remuneration report by the directors, which may be found on pages 46 to 54, gives details of the directors' remuneration for the year ended 31 December 2012 and sets out the Company's overall policy on directors' remuneration during the year.

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

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

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

   Biographical details of Rob Woodward can be found on page 32 and following formal performance evaluation, Mr Woodward's performance continues to be effective and to demonstrate commitment to the role.

4. To re-elect Vasa Babic 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 Vasa Babic can be found on page 32. Following formal performance evaluation, Mr Babic's performance continues to be effective and to demonstrate commitment to the role.

Notice of Annual General Meeting
continued

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

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

   Biographical details of Jamie Matheson can be found on page 32 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 Matheson's performance continues to be effective and to demonstrate commitment to the role

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

7. To grant the directors authority to allot shares.

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

   "That for the purpose of Section 551 of the Companies Act 2006 (the "Act"), the directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities (within the meaning of Section 560 of the Act) up to an aggregate nominal amount of £6,508,370 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 19 February 2013, 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 2013, 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 2014. The directors do not have any present intention of exercising this authority except to satisfy awards of shares under the Company's employee share schemes and no issue of ordinary shares will be made which would effectively alter control of the Company without the prior approval of the Company in general meeting. The directors confirm that, if this further authority were utilised during the year, they intend to follow the guidance of the Association of British Insurers and would all stand for re-election at the next AGM.

8. To approve the STV Group plc Bonus Plan

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

   "That the STV Group plc Bonus Plan (the "Plan"), the principal terms of which are summarised in the Appendix to this Notice and the Rules of which are produced to this meeting and signed by the Chairman for the purpose of identification, be and are hereby approved and adopted and the directors of the Company be and are hereby authorised to do all such acts and things as they may deem necessary or expedient to carry the same into effect."

   The Plan incorporates a number of the features that the Remuneration Committee has historically used when setting annual bonus plans for Executives but puts these into a more formal framework. The intention is to simplify the Company's approach going forward and to provide a framework that makes it easier for shareholders to understand and approve the Company's Remuneration Policy.

9. To approve the STV Group plc Value Creation Plan

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

   That the STV Group plc Value Creation Plan (the "VCP"), the principal terms of which are summarised in the Appendix to this Notice and the Rules of which are produced to this meeting and signed by the Chairman for the purpose of identification, be and is hereby approved and adopted and the directors of the Company be and are hereby authorised to do all such acts and things as they may deem necessary or expedient to carry the same into effect."

   The VCP is based on a number of the same principles as the 2009 LTIP grant which partially vested in 2012. The main change from this 2009 LTIP grant is to simplify the approach under the VCP by providing a sole focus on maximising total shareholder returns whilst allowing the new Bonus Plan to be focused on financial metrics.

Special Resolutions

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

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

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

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

    (b) the allotment of equity securities (otherwise than pursuant to sub-paragraph (a) above) having, in the case of ordinary shares (as defined in Section 560 of the Act) a nominal value or, in the case of other securities giving the right to subscribe or convert into ordinary shares having a nominal value, not exceeding in the aggregate £976,255.50;

    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 2013) 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 2014. 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.

11. 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 maximum number of Shares acquired pursuant to this authority shall not exceed 3,905,022 shares, the nominal value of which is £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 2013. 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 2013 warrants and options to subscribe for 929,969 of the Company's shares were outstanding, representing 2.38% of the ordinary shares in issue at 22 February 2013 (excluding treasury shares held by the Company) and 2.65% 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.

12. 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. The shorter notice period would not be used as a matter of routine for such meetings but only where this was merited by the nature or urgency of the business of the meeting and was thought to be to the advantage of shareholders as a whole.

13. 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 2012 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.

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 2013.

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 1.94% 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 2013

Notes

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

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

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 22 April 2013 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 2013 (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 2013 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 22 April 2013 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. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Registrars on 0871 664 0300 or ssd@capitaregistrars.com (calls cost 10p per minute plus network extras; lines are open 8.30am to 5.30pm Monday to Friday). If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

14. In order to revoke a proxy instruction you will need to inform the Company using one of the following methods:

    - By sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
    - By sending an e-mail to ssd@capitaregistrars.com.

In either case, the revocation notice must be received by Capita Registrars no later than 8am on 24 April 2013 or 3 hours before the time of any adjourned meeting thereof. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid. Appointment of a proxy does not preclude you from attending the Annual General Meeting and voting in person. If you have appointed a proxy and attend the Annual General Meeting in person, your proxy appointment will automatically be terminated.

15. 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.

16. 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.

17. 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.

18. 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.

19. 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.

20. Copies of executive directors' service agreements and copies of the letters of appointment of non-executive directors are available for inspection at the Company's registered office during normal business hours from the date of this notice until the close of the Annual General Meeting (Saturdays, Sundays and public holidays excepted) and will be available for inspection at the place of the meeting for at least 15 minutes prior to and during the meeting.

21. 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.

Contents

This Appendix provides the following information:

- An overview of the Plans and a summary of the factors taken into account in the design of the Plans.
- An overview of the executive remuneration policy of the Company.
- A technical summary of the Plans.

Background

In recent months, the Remuneration Committee (the "Committee") has been reviewing its long-term incentive arrangements to ensure that the Company has in place a remuneration policy that supports the Company's strategy. A key component of the policy is the provision of incentive arrangements that support the execution of the Company's business strategy. The Committee believes that the new Plans will enable the Company to continue to motivate, attract and retain Executive Directors and key Executives (together the "Executives"), while at the same time better reflecting the Company's future strategy through the use of a strategically aligned performance metrics intended to ensure long-term alignment with shareholder interests.

Shareholder Consultation

The Committee consulted with its principal shareholders prior to finalising and making awards under the new Plans. The Committee is grateful for shareholders' comments and engagement during the consultation process. At the end of this process the Committee was pleased that the majority of shareholders consulted (both by number consulted and by percentage of issued share capital) were supportive of the proposals contained in this Appendix.

Summary of the Plans

The Bonus Plan

The Bonus Plan incorporates a number of the features that the Remuneration Committee has historically used when setting annual bonus plans for Executives but puts these features into a formal framework under the proposed Bonus Plan. One of the intentions behind this is to simplify the Company's approach going forward and to provide a framework that makes it easier for shareholders to understand and approve the Company's Remuneration Policy under the new BIS Regulations:

The main features of the Bonus Plan are as follows:

- maximum annual bonus opportunity is 125% of salary for the Executive Directors;
- annual performance targets are set based on:
  - financial based performance targets including: Group PBT (25%), Operating Profit (25%) and Cash Flow (25%); and
  - personal objectives (25%);
- at the end of each of three financial years a Company contribution is made in to the Participant's Plan account based on the level of satisfaction of the performance conditions;
- 50% of the balance of the Participant's Plan Account is paid out at the end of the financial year with any unpaid balance deferred in shares:
- the Bonus Plan cycle operates as follows:
  - Company contribution into a Participant's Plan Account based on the level of satisfaction of the annually set performance conditions for three financial years;
  - Years 1, 2 and 3 50% of the cumulative balance of a Participant's Plan Account is paid out at the end of each of these financial years;
  - Year 4 the final balance in a Participant's Plan account is paid out for the first three year bonus cycle with a new bonus cycle starting in year 4 (this is to ensure that there is an overlap between payments from the first three year bonus cycle and the second three year bonus cycle).
- If in any financial year minimum threshold targets set at the beginning of the year are not met 50% of the earned but unpaid balance in a Participant's Plan Account is forfeited.

First year of operation of the Bonus Plan is the 2012 Financial Year.

The Value Creation Plan
The VCP is based on a number of the same principles as the 2009 LTIP grant which partially vested in 2012. The main change from this 2009 LTIP grant is to simplify the approach under the VCP by providing a sole focus on maximising total shareholder returns whilst allowing the new Bonus Plan to be focused on financial metrics.

The main features of the VCP are as follows:
- At the end of the three year performance period a number of nil-cost options will be granted subject to the achievement of a total shareholder return ("Measurement Price") of at least £1.50 per share ("Threshold Price").
- Provided the Measurement Price is above £1.50, the Incentive Value is calculated by aggregating 5% of any value created above £1.50 and 7.5% of any value created above £2.00. Value is total shareholder return per share.
- The Incentive Value will be divided by the share price at the end of the three year performance period to calculate the number of nil-cost options. The number of these nil-cost options granted to the Participant at the end of the three year performance period will depend on the Participant's share of the Incentive Value set at the beginning of the three year performance period.

Awards in the form of performance units will be granted to each Participant on 11 March 2013 effective from 1 January 2013 subject to shareholder approval of the VCP at the 2013 Annual General Meeting.

Rationale and Link to Strategy

Bonus Plan

Element	Detail
Link to strategy	The Company has set a number of Key Performance Indicators ("KPIs") to be met over the 2012 to 2015 period. These KPIs are split by grouping and are set out below: Consumer • Consumer insights; • Peak time audience v ITV Network; • Monthly unique users (Q4 monthly average); • Increase consumer margin; • Monthly page impressions (Q4 monthly average); • Monthly video streams (Q4 monthly average); • Digital revenue value; • Digital margin. Production • Production hours; • Production revenues; • Production margin. These KPI's are reflected in the relevant personal objectives set for the Executive Directors (25% of the maximum annual bonus opportunity). In addition, the successful delivery of these strategic KPIs will flow through to the achievement of the other bonus targets set which are based on Group Profit, Operating Profit and Cash Flow. These measures will also reflect the Company's core financial objectives of maximising revenues from all business lines whilst operating strict Cash Flow targets.

Appendix to the Notice of Annual General Meeting
continued

Element	Detail
Volatile and cyclical Company market	The Bonus Plan allows the Committee to set a variety of annual performance targets linked to the expected performance of the Company for the relevant financial year; this provides the following advantages: • it helps to ensure that the targets are relevant where the Company is operating in a volatile and cyclical market; • however while providing this flexibility it gives shareholders comfort that the Executives are focused on longer term sustainable risk adjusted performance because of: • the annual risk of partial forfeiture of deferred elements if the annually set forfeiture threshold is not met. In fact assuming consistent performance the amount of the deferred balance at risk increases over the Bonus Plan Period encouraging a long-term view to be taken by Executives; • the fact that deferred element are in shares allows part of the bonus earned for a given financial year to reflect whether the performance delivered flows through to longer term shareholder value.
Lock-in and retention of Executives	The Bonus Plan promotes retention through the deferral of 50% of any bonus paid in shares. Deferred shares are at risk and may be forfeited if the participant ceases employment during the deferral period.
Alignment with shareholders	The deferral of bonus in shares achieves greater alignment with UK corporate governance guidelines. The deferral of awards in shares aligns the interest of participants with those of shareholders as both are exposed to share price movements.
Simplicity and clarity	The Bonus Plan is transparent and easily understood by participants and the Company and is a structured and simplified approach to the bonus arrangements historically operated.

Value Creation Plan

Element	Detail
Link to strategy	The high level objectives of the Company over the period 2012-2015 are to: • grow non-broadcast earnings to represent 33% of Company earnings; • be the most used digital service in Scotland; • double STV production revenues; • launch two new market-leading digital consumer propositions. The Board believes that the successful delivery of these objectives should flow through to a material increase in shareholder returns. The VCP is designed to incentivise the Executives to maximise shareholder returns by the successful delivery of these objectives and to share in the resulting increase in shareholder value.
Volatile and cyclical Company market	The benefits under the VCP will only start to be earned if the shareholder return over the period exceeds the threshold return of £1.50. Therefore it is in the interests of the Executives to ensure a material and sustainable shareholder return at the end of the three year performance period and to manage the markets in which the Company currently operates and to enter into new markets to help manage the volatility and cyclicality of advertising revenues.

Lock-in and retention of Executives	The VCP and the Bonus Plan should be viewed holistically. The Bonus Plan is designed to provide a lock-in and retention based on earned annual bonuses which are deferred and at risk of forfeiture. The VCP is designed to ensure that Executives are fairly rewarded for the successful transformation of the business and the flow through to shareholder value which if successful could provide a material reward providing an additional element of retention. A number of shareholders expressed concern that there is insufficient lock-in of the Executives of the Company. In order to address this, the Committee will grant awards in the form of performance units to each participant on 11 March 2013 subject to shareholders approving the VCP at the Annual General Meeting.
Alignment with shareholders	There is a direct alignment between the interests of both shareholders and Executives as the VCP rewards the generation of increased and sustainable absolute shareholder returns.
Simplicity and clarity	The VCP mechanism is simple and transparent to the participants, Company and shareholders.

Executive Remuneration Policy

The implementation of the Bonus Plan and VCP are essential components of the Company's remuneration policy. The guiding principles behind the Executive Director remuneration policy of the Company are:

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

The following table sets out the remuneration structure for the Company:

Component	Policy
Salary	The Company is currently operating a salary freeze for Executive Directors. Salary levels have not been adjusted since 2007. When determining the salary of the Executives Directors, the Remuneration Committee (the "Committee") takes into consideration the following factors: • 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.
Benefits and pension	• Executive Directors are entitled to receive a taxable cash allowance in lieu of benefits in kind, including car and private medical insurance. Level of benefit received is actively reviewed by the Company to ensure that they remain market competitive. • The Company provides a salary supplement to be utilised in the provision of retirement benefits in order to be competitive and to ensure its ability to recruit and retain Executive Directors.
Annual bonus	Bonus Plan, as described below.
Long-term incentives	VCP, as described below.
Shareholding guidelines	The Committee operates a system of shareholding guidelines to encourage long-term share ownership by the Executive Directors. The current guidelines are 100% of salary for the Executive Directors.

Bonus Plan term sheet

The following table sets out the key terms of the Bonus Plan in further detail:

Feature	Detail
Type of incentive	• The Bonus Plan will operate over 3 year cycles but will pay out over 4 years (the "Bonus Plan Period"). • At the beginning of each cycle of 3 financial years ("Bonus Plan Year") Participants will have a plan account ("Plan Account") to which the Company will make annual contributions based on performance against annual bonus targets set by the Remuneration Committee. • No contribution will be made to a Participant's Plan Account unless the terms and conditions set by the Company for a contribution are met. • The Committee will also set minimum threshold performance conditions each Bonus Plan Year ("Forfeiture Threshold"). Where the Forfeiture Threshold is not achieved, no contribution will be made to the Participants' Plan Accounts in respect of that Bonus Plan Year. In addition 50% of the balance of their Plan Account earned in respect of previous Bonus Plan Years but not yet paid will be forfeited. The 50% forfeiture will occur each time the Forfeiture Threshold is not met for a Bonus Plan Year.
Eligibility	• The Remuneration Committee will supervise the operation of the Plan. • All employees are eligible to participate but participation will be restricted to the Executive Directors and other key Executives. • Non-Executive Directors are not eligible to participate in the Bonus Plan.
Maximum Annual Contribution	125% of salary for the Executive Directors (Plan Maximum Annual Contribution), other key Executives up to 85% of salary.
Bonus Plan Period	Contributions will be made for 3 Bonus Plan Years with payments made over four to ensure an overlap with the next Bonus Plan Period and the avoidance of a natural exit point.
Annual and Deferred Payments	• Participants will be entitled to an annual payment of 50% of the balance of their Plan Account at the end of each Bonus Plan Year. • The deferred element of the annual contribution will be in shares, the number of which will be calculated based on the share price at the end of the Bonus Plan Year and added to the deferred balance in the Participant's Plan Account.
Performance targets	• For the Executive Directors the contribution to a Plan Account at the end of 2013 will be based on: – financial based performance targets including: Group PBT (25%), Operating Profit (25%), and Cash Flow (25%); – personal objectives (25%).
Forfeiture adjustment	• Where the Forfeiture Threshold for the performance criteria are not met the value held in a Plan Account will be reduced by 50%.
Cessation of employment	• The participant will forfeit the un-paid balance of his Plan Account on cessation of employment for any reason other than if cessation is as a result of injury, disability, death, retirement or redundancy or at the Committee's discretion. • Where a participant's cessation of employment is for one of the above reasons they will be considered to be a good leaver for the purposes of the rules of the Bonus Plan and their Plan Account will be paid out in full. • Where the participant is a good leaver during the course of a Bonus Plan Year, the participant will continue in the Bonus Plan until the next measurement date and shall receive a bonus pro-rated to the time the participant is employed during the Bonus Plan Year and subject to the satisfaction of the performance targets.
Change of control	The value of participants' Plan Accounts will pay out on a change of control.

Terms and Conditions Applicable to both the Bonus Plan and the VCP	
Dilution limits	The Company may issue up to 10% of its Shares within a ten year period to satisfy awards of Shares to Participants in the Bonus Plan and VCP and any other Share plan operated by the Company under which Shares are issued. Further of this 10% a maximum of 5% may be issued for executive plans. The Committee will be monitoring the issue of Shares during the ten year period to ensure a balanced policy. It should be noted that where the Company uses treasury Shares to satisfy its obligations under such Share arrangements they shall be added to the number of Shares issued for the purposes of these limits.
Taxation	The payment of cash bonus and vesting and exercise of awards are conditional upon the Participant paying any taxes due.
Allotment and transfer of shares	Shares subscribed will not rank for dividends payable by reference to a record date falling before the date on which the shares are acquired. Application will be made for the admission of the new shares to be issued to the Official List of, and to trading on, the London Stock Exchange plc's main market for listed securities following the vesting and/or exercise of awards.
Variation of share capital	On a variation of the capital of the Company, the number of shares subject to awards and their terms and conditions may be adjusted in such manner as the Committee determines and the advisors of the Company confirm to be fair and reasonable.
Duration	The Bonus Plan and VCP will operate for a period of five years from the date of approval by shareholders. The Committee may not grant awards or options under the Plans after the specified dates.

Feature	Detail
Amendments	Amendments to the rules of the Plans may be made at the discretion of the Committee. However, the provisions governing eligibility requirements, equity dilution, share utilisation and the adjustments that may be made following a rights issue or any other variation of capital, together with the limitations on the number of shares that may be issued, cannot be altered to the advantage of Participants without prior shareholder approval, except for minor amendments to benefit the administration of the Plans, to take account of a change in legislation, or to obtain or maintain favourable tax, exchange control or regulatory treatment for Participants or for the Group. However, Participants should be notified of any amendment which would materially detrimentally affect their existing rights, and such amendments must be approved by the majority of Participants notified. In addition, the Committee may add to, vary, or amend the rules of the Plans by way of a separate schedule in order that the Plans operate to take account of local legislative and regulatory treatment for Participants or the relevant Group company, provided that the parameters of these arrangements will provide no greater benefits than the rules of the Plans as summarised above.
General	Cash bonus, shares acquired and awards and any other rights granted pursuant to the Plans are non-pensionable.
Non-transferability of awards	Awards are not transferable, except in the case of a Participant for whom a trustee is acting, in which case the trustee will be able to transfer the benefit to the Participant or by will or the laws of descent and distribution.

VCP term sheet

The following table sets out the key terms of the VCP in further detail:

<table>
<tr><th>Feature</th><th>Detail</th></tr>
<tr><td>Type of incentive</td><td>Awards of units ("Performance Units") have no value on grant but subject to the satisfaction of performance criteria can convert and give participants the right to be granted a Nil-Cost Option at the end of a three year performance period. Vested Nil-Cost Options may be exercised until the tenth anniversary of the date of grant of the Performance Units.</td></tr>
<tr><td>Eligibility</td><td>• Executive Directors and other key Executives will participate.
• Non-Executive Directors are not eligible to participate in the VCP.</td></tr>
<tr><td>Allocation of Performance Units</td><td>• The table below sets out the number of Performance Units allocated to the Executives:
<table>
<tr><th>Role</th><th>% share of Performance Units</th><th>Number of Performance Units</th></tr>
<tr><td>Chief Executive Officer</td><td>33%</td><td>330,000</td></tr>
<tr><td>Chief Financial Officer</td><td>17%</td><td>170,000</td></tr>
<tr><td>Other Executives</td><td>50%</td><td>500,000</td></tr>
<tr><td>Total</td><td>100%</td><td>1,000,000</td></tr>
</table></td></tr>
<tr><td>Measurement date</td><td>3 years from 1 January 2013. However, the holding period before the Nil-Cost Option vests will be 3 years from the date of grant the Performance Units on 11 March 2013. Awards in the form of Performance Units have been granted to each participant however any such Awards shall be subject to shareholders approving the VCP at the Annual General Meeting.</td></tr>
<tr><td>Conversion of awards</td><td>• Awards of Performance Units will convert on the Measurement Date to Nil-Cost Options subject to the achievement of a share price ("Measurement Price") of at least £1.50 ("Threshold Price").
• Provided the Measurement Price is above £1.50, a percentage of the additional value created is used to create a pool ("Maximum Incentive Value") in line with the following table:
<table>
<tr><th>Threshold Prices</th><th>Contribution percentage -
% of total value created allocated to participants</th></tr>
<tr><td>Below £1.50</td><td>0%</td></tr>
<tr><td>Between £1.50 - £2.00</td><td>5%</td></tr>
<tr><td>Above £2.00</td><td>7.5%</td></tr>
<tr><td>Total</td><td>1,000,000</td></tr>
</table>
• The Maximum Incentive Value, calculated in accordance with the table above and multiplied by the number of share in issue at the Measurement Date, will be divided by the total number of Performance Units (i.e. one million) to calculate the value of a unit. The aggregate value of a Participant's Performance Units is calculated by multiplying the value of a unit by the number of Performance Units subject to their award. The value is then divided by the share price ("Measurement Price") on conversion to determine the number of Nil-Cost Options over shares.
• The Measurement Price used to calculate the number of shares subject to Nil-Cost Options will be the average share price over the 30 day period prior to the end of the performance period.</td></tr>
<tr><td>Dilution limits</td><td>• In addition to the Dilution limits set out above; the total number of shares that can be issued or market purchased under the VCP is limited to one million shares.</td></tr>
</table>

Feature	Detail
Cessation of employment	Performance Units • If a Participant leaves employment prior to the conversion of Performance Units into Nil-Cost Options they will normally lapse unless the Committee in its absolute discretion decides otherwise. • If a Participant's cessation of employment is the result of specified events, for example injury, disability, ill health, retirement, redundancy or death, or at the Committee's discretion; the Committee may determine that part or all of that participant's awards may be converted into Nil-Cost Options. • In applying this discretion, the Committee shall pro-rate the number of Performance Units subject to the award capable of conversion upon the proportion of the relevant three year performance period completed on the date of cessation. Further, Performance Units shall only be converted if the attached performance criteria are satisfied. The performance criteria will be measured on the normal Measurement Date at the end of the three year performance period applying to the relevant award. Nil-Cost Options • Any outstanding Nil-Cost Options will be exercisable for a period following the date of cessation as determined by the Committee.
Change of control	Performance Units • In the event of a takeover, reconstruction, amalgamation or winding up of the Company the three year performance period will end at the date of the change of control. • Performance Units may convert into Nil-Cost Options granted immediately prior to the change of control, based on the satisfaction of the performance criteria. • The share price used to calculate the Maximum Incentive Value will be based on the offer price per share rather than the 30 day closing average share price prior to the change of control. The Committee has the discretion to consider whether it is appropriate to adjust the number of Performance Units which convert to reflect the time elapsed from the date of grant to the occurrence of the event. • It should be noted that awards of Performance Units will not convert where the change of control does not amount to a proper change of control of the Company i.e. new ownership of the Company. Nil-Cost Options • On a change of control any outstanding Nil-Cost Options or Nil-Cost Options granted in connection with the change of control will be exercisable for a period of time set by the Committee.
Variation in capital	• On a variation of the capital of the Company, the Threshold Prices in relation to awards of Performance Units and the number of ordinary shares subject to a Nil-Cost Option may be adjusted in such manner as the Committee determines and the advisors of the Company confirm to be fair and reasonable.

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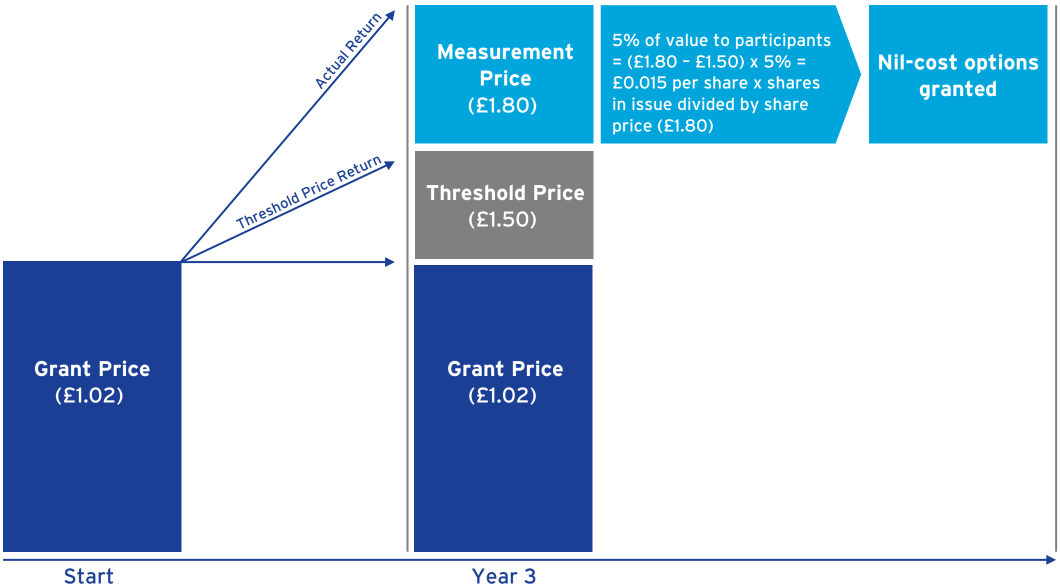
continued



Employee Benefit Trust

The Company intends to establish or utilise an existing discretionary employee benefit trust to be used in conjunction with the Plans (the "Employee Trust"). The Employee Trust will be established as an employees' share scheme within the meaning of section 1166 of the Companies Act 2006 and will have full discretion with regard to the application of the trust fund (subject to recommendations from the Committee). The Company will be able to fund the Employee Trust to acquire shares in the market and/or to subscribe for shares at nominal value in order to satisfy awards granted under the Plans. Any shares issued to the Employee Trust in order to satisfy awards of shares will be treated as counting towards the dilution limits that apply to the Plans. For the avoidance of doubt, any shares acquired by the Employee Trust in the market will not count towards these limits. In addition, unless prior shareholder approval is obtained, the Employee Trust will not hold more than 5% of the issued share capital of the Company at any one time (other than for the purposes of satisfying awards of shares that it has granted).

Note: This Appendix summarises the main features of the Plans, but does not form part of them, and should not be taken as affecting the interpretation of the detailed terms and conditions constituting the rules. Copies of the rules will be available for inspection at the Company's registered address, STV Group plc, Pacific Quay, Glasgow, G51 1PQ during usual office hours (Saturdays, Sundays and statutory holidays excepted) from the date of despatch of the Chairman's letter up to and including the date of the Annual General Meeting, and at the meeting itself. The Directors reserve the right, up to the time of the meeting, to make such amendments and additions to the rules of the Plans as they consider necessary or desirable, provided that such amendments and additions do not conflict in any material respect with the summary set out in this Appendix.

Designed and produced by Tayburn

STV Appeal 2013

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