



**ANNUAL REPORT  
AND ACCOUNTS 2014**

**COMMERCIALY FOCUSED  
CREATIVELY LED**

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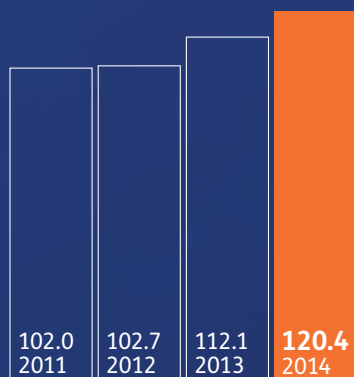
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# 2014 FINANCIAL HIGHLIGHTS

## Revenue

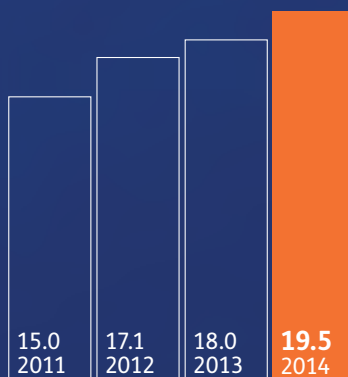
(£ millions)



+7%

## Operating Profit

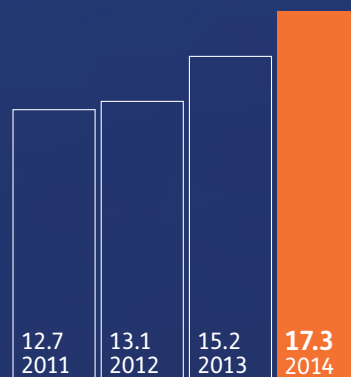
(£ millions)



+8%

## Pre-tax Profit

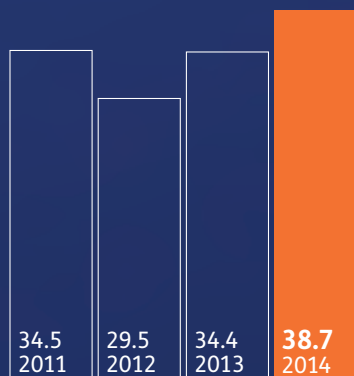
(£ millions)\*



+14%

## EPS

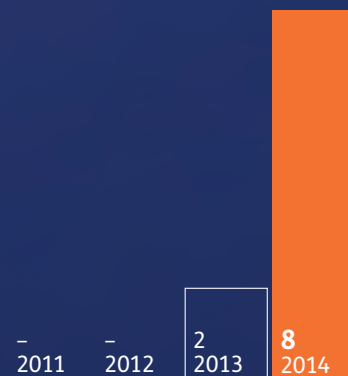
(pence)\*



+13%

## Dividends Per Share

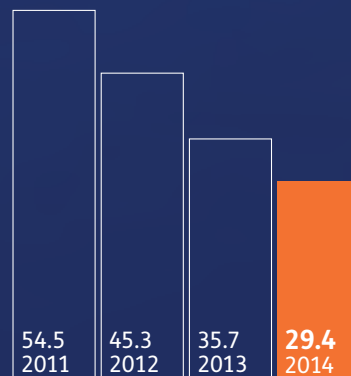
(pence)



+300%

## Net Debt

(£ millions)



-18%

\* pre-exceptionals and IAS 19

# MEET THE STV FAMILY

## CORE CHANNEL



Peaktime audience 3x  
most watched commercial  
channel in Scotland

## ON DEMAND

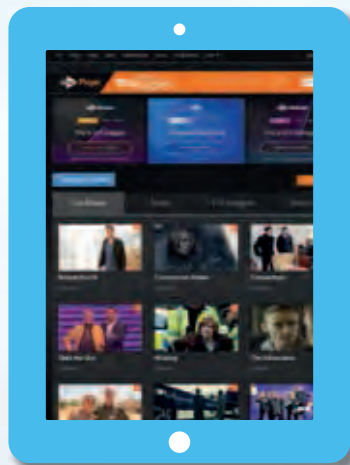


14m streams in 2014

## ONLINE



3.6m monthly  
unique browsers



**The STV Family of consumer services showcases our commitment to ensure our consumers can access STV's content free of charge anywhere, anytime.**

Through the STV family we are successfully increasing our commercial market share and extending the services available to consumers.

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CITY CHANNELS



---

CITY APP



---

Achieved **1m** combined reach

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**500k** monthly browsers



# ENGAGING WITH OUR CUSTOMERS



**Rob Woodward**  
Chief Executive

## **A high profile year for Scotland was a key driver for STV's strong performance in 2014.**

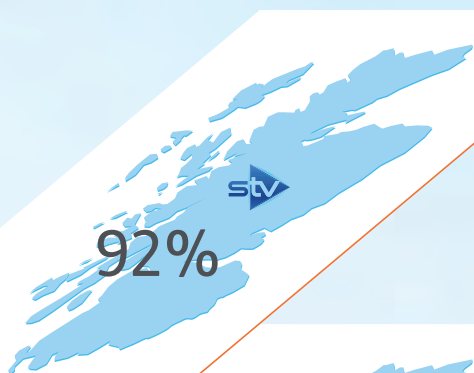
In February 2014, the licence renewal process concluded when we agreed new terms of our two Channel 3 broadcast licences with Ofcom. The new licences came into effect on 1 January 2015 and have been renewed for the maximum term of 10 years.

The confirmation of licence renewal has allowed us to extend our banking facility with a maturity date of June 2019, resulting in a lower interest margin being payable reflecting the strong trading position and normalised balance sheet of the Group.

These factors combine to provide a solid base from which to develop our aims and objectives for 2015 and beyond.

## COVERING SCOTLAND

STV is Scotland's leading media brand connecting with consumers and creating opportunities for commercial partners across channels and platforms at a national, regional and city level.



### Network Coverage

Each month STV reaches over 92% of Scots on air

**3.6m**  
viewers



### Micro Regions

STV's micro regions offer advertisers the opportunity to geo-target their TV marketing campaigns

**£12.6m**  
regional airtime revenues



### City TV

STV Glasgow launched June 2014  
STV Edinburgh launched January 2015

**1m**  
reach



### City Apps

STV Glasgow, STV Edinburgh, STV Aberdeen and STV Dundee available to download for free as Apps

**500k**  
monthly browsers

# CHIEF EXECUTIVE'S REVIEW CONSUMER

continued

## 2014 – what a year!



### Engaging with our audience

In order to deliver on our ambition to be a leading consumer focused business, we need to know our consumers and their preferences. Consumer data is a priority metric for the business and by the end of the year we had accumulated one million consumer records, exceeding our KPI target of 0.8m.

### CONSUMER INSIGHTS

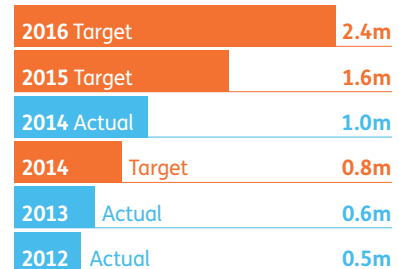
(millions)

#### Why it's important

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

#### How we measure it

It is the number (in millions) of unique consumer records held on our consumer database.



A major contributor to this was the 2014 FIFA World Cup Brazil which delivered a high volume of streams on the STV Player. To coincide with the matches available on STV, STV Live via the STV Player and stv.tv, we introduced mandatory registration offering an increased insight into the consumers utilising STV's range of services. The World Cup resulted in 480,000 streams on the STV Player and 171,000 new registrations.



## CONSUMER ENGAGEMENT

(mins per day per user)

### Why it's important

These measures indicate the depth of the consumer base of the STV Family of services.

### How we measure it

It is the monthly average minutes per day that consumers spend on each service sourced from BARB and Comscore.

#### STV Audience

2016 Target	41 mins
2014 Actual	41 mins
2013 Actual	41 mins

#### STV Player

2016 Target	41 mins
2014 Actual	46 mins
2013 Actual	37 mins

#### City TV

2016 Target	10 mins
2014 Actual	2 mins
2013 Actual	n/a

#### City Apps

2016 Target	6 mins
2014 Actual	2 mins
2013 Actual	2 mins

#### STV.TV

2016 Target	6 mins
2014 Actual	3 mins
2013 Actual	3 mins

The successful transformation of STV into a consumer focused Company with an integrated offering required a refreshed approach to marketing and promotion of our services. This focus has led to some organisational changes to ensure that we have the required level of support for each of our core products across the STV Family: STV; City TV; digital city services; STV Player; and stv.tv.

Our refreshed KPIs introduced two new measures for all of the core consumer platforms within the STV Family to enable measurement of reach and engagement with consumers. We are determined to deliver the highest quality consumer experience and these stretching targets ensure that the business is focused on a strong multi-channel offering.

The development of the STV Family has allowed us to create a recognisable brand family of services. This was cemented with a review of branding ahead of the launch of our first City TV channel, STV Glasgow, in June.

The latest evolution of the STV brand creates a unified look and a cohesive brand family that reflects the consumer focus of the business.

The branding refresh also incorporated a redesign of the STV news studios and sets. This delivered a refreshed look for viewers across Scotland demonstrating our focus on high quality public service broadcasting and reinforced our commitment to provide a platform for debate ahead of the referendum on Scottish independence in September.

## CONSUMER REACH

(monthly average millions)

### Why it's important

These measures indicate the breadth of the consumer base of the STV Family of services.

### How we measure it

It is the monthly average audience in millions from sources including BARB and Comscore.

#### STV Audience

2016 Target	3.6m
2014 Actual	3.6m
2013 Actual	3.6m

#### STV Player

2016 Target	1.0m
2014 Actual	0.7m
2013 Actual	0.5m

#### City TV

2016 Target	1.0m
2014 Actual	0.6m
2013 Actual	n/a

#### City Apps

2016 Target	1.0m
2014 Actual	0.4m
2013 Actual	0.2m

#### STV.TV

2016 Target	3.6m
2014 Actual	3.6m
2013 Actual	3.0m

# CHIEF EXECUTIVE'S REVIEW

## CONSUMER

continued

### Commercially focused

A big year for Scotland resulted in a big year for STV and the 2014 FIFA World Cup Brazil was just one of the highlights in the commercial calendar.

The 2014 Ryder Cup at Gleneagles, the Commonwealth Games in Glasgow, and the referendum on Scottish independence all ensured that the focus was on Scotland throughout the year. This offered opportunities for targeted advertising campaigns that delivered results for clients.

Weather sponsor Thomson has committed to a second year of sponsorship following a successful campaign in 2014. The travel company utilised the daily sponsorship of STV's weather bulletins with additional activity including interactive competitions and takeovers on the STV weather website page to drive brand awareness.

### CONSUMER DIVISION 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.

2016 Target	18.0%
2015 Target	17.5%
2014 Actual	17.8%
2014 Target	16.5%
2013 Actual	17.8%
2012 Actual	18.3%

The new City TV channels also attracted new commercial partners, including STV Glasgow festive sponsor The St Enoch Centre. The shopping centre combined its on air sponsorship with desktop and digital activity for a targeted campaign at a key time in the retail calendar.

### Innovation

The introduction of a brand new City TV service, STV Glasgow, was followed by the launch of STV Edinburgh in January 2015.

The two City TV channels represent a significant commitment and investment for STV as we have been awarded 12 year licences for each channel. Each channel is delivered in conjunction with a higher education college or university and offers students the opportunity to work in a live media environment.

STV Glasgow broadcasts to a potential audience of two million viewers in the west of Scotland and STV Edinburgh has a potential reach of one million viewers in the east.

Since launch, STV Glasgow and STV Edinburgh have reached a combined monthly audience of over one million with an engaging mix of news, innovative formats and classic dramas from the STV archive.

The launch of City TV has also delivered a strong performance for the relevant City Apps as we seek to integrate content across platforms and create a second screen experience for viewers to interact with their local channel. The city sites experienced an uplift in browsers of 77% between the first six months of the year and the last six of 2014, following the launch of STV Glasgow.

In October, we also confirmed we had submitted applications to deliver local TV in Aberdeen, Ayr and Dundee and are awaiting a final decision from Ofcom.

### Digital growth

A strategic focus that has been embedded in our KPIs is to grow the non-broadcast share of earnings to a third. This ambition combines our digital activity with the growth of the STV Productions business to diversify our earnings and reduce dependence on airtime revenue.

The digital business is delivering against stretching KPIs and the team continues to develop and evolve existing products, create new products, and explore opportunities for STV on new platforms. The number of platforms increased in 2014 with the launch of STV Player on Amazon Fire TV and Xbox 360 making STV content available for free to an even wider audience.

### NON-BROADCAST EARNINGS SHARE

(%)

#### Why it's important

Our strategy is to diversify the Group's earnings from being over 90% driven by broadcast to a more broadly balanced base.

#### How we measure it

It is calculated as non-broadcast operating profit (digital and productions) divided by total operating profit and expressed as a percentage.

2015 Target	33%
2014 Actual	21%
2013 Actual	19%
2012 Actual	11%

The digital margin exceeded the 2014 KPI of 30% with potential for further growth in this area as we look to develop the next generation of key products, including the STV Player, our news Apps and digital city services.

The multi-platform approach also helped boost digital revenues as this KPI was also met in 2014.

### DIGITAL REVENUES

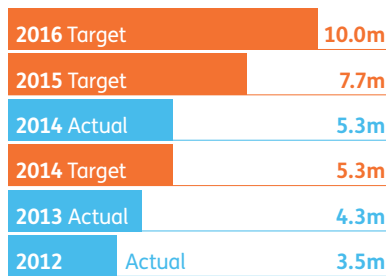
(£ million)

#### Why it's important

Digital revenue growth is a key strategic objective and this measure tracks its delivery.

#### How we measure it

It is the value of digital revenues generated from the STV family of services.



### DIGITAL MARGIN

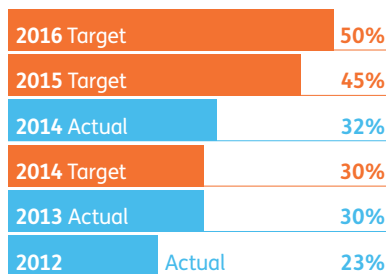
(%)

#### Why it's important

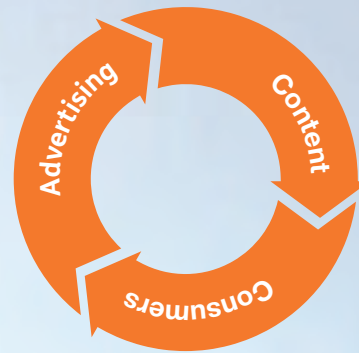
Margin improvement across the period provides evidence of profitable growth.

#### How we measure it

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



## Business model



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

#### 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.

**Measurement:** The key corporate KPIs are used to monitor and measure the progress of each division in fulfilling its strategy.

## Strategic growth aims to 2017

Target a normalised EPS CAGR of 10% across 2014-2017 underpinned by 11 KPI growth targets

# CHIEF EXECUTIVE'S REVIEW

## CONSUMER

continued

### Delivering relevant content

A key indicator of the success of our programming strategy is the aim to deliver a share in excess of the ITV Network. This has been achieved for the fifth consecutive year.

### PEAK TIME AUDIENCE

(v ITV Network)

#### Why it's important

Our programme strategy results in more Scottish based content appearing on screen and it is important that an audience share is delivered at least equivalent to that of the ITV Network.

#### How we measure it

Peak audience (18:00-22:30) for all adults is compared to the ITV Network.

2014 Actual	+0.3 share pts
2013 Actual	+1.5 share pts
2012 Actual	+1.3 share pts

Alongside popular national content, such as *The X Factor* and *Coronation Street*, we aired a number of strong home-grown productions for viewers in Scotland on Channel 3.

We also launched our HD service on Sky and Freesat in April, making our content available to viewers within STV's licence areas on satellite in high definition. A regionalised service for consumers in Dundee on Freesat and Sky followed in September. The micro-region approach not only allows STV to deliver content that is locally relevant but enables our advertisers to reach their consumers with a targeted approach.

Popular sponsored series, such as *Too Good to Waste* sponsored by Greener Scotland of the Scottish Government and *RBS - Finding Scotland's Real Heroes*, sponsored by The Royal Bank of Scotland, returned to the peak-time schedule.

A third series of *Animal 999* aired giving viewers an insight into the work carried out by Scotland's leading animal welfare charity, the Scottish SPCA.

In October, a brand new series set out to follow in the footsteps of broadcaster Tom Weir. *On Weir's Way with David Hayman* brought together original footage from the Tom Weir programmes with new footage of revered Scottish actor David Hayman. The eight episodes drew an average audience of 358,000 viewers with archive episodes repeated on City TV channel, STV Glasgow, after the new series on STV.

We also aired a documentary to commemorate the Scottish women of World War I on 11th November. *The Women Who Went to War - A Great Adventure*, narrated by Kirsty Wark, revealed the story of the ladies of the Scottish Women's Hospitals who travelled 2,000 miles to Serbia in Eastern Europe to deliver medical assistance.

Sport continues to perform well on the STV schedule with the 2014 FIFA World Cup Brazil, UEFA Champions League and November's Scotland v England friendly match attracting high ratings. The best watched World Cup match, Uruguay v England, attracted a share of 44% and an average audience of 852,000 Scots. The Scotland v England match achieved an average audience of 797,000 with a 35% share.

In addition to strong viewing figures, the STV schedule also drove streams on the STV Player, bringing a more diverse profile of viewers to the STV Family of services. The Player attracts a higher ABC1 audience and younger viewers than the traditional STV audience.

Popular STV Player content included the soaps, *Coronation Street* and *Emmerdale*, entertainment shows *The X Factor* and *Britain's Got Talent*, and sport, such as the Scotland v England friendly which achieved 35,000 streams. The best watched individual programme on catch-up was the first referendum debate; *Salmond & Darling - The Debate* delivered over 73,000 streams.

### LONG FORM VIDEO STREAMS

(million)

#### 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 annual total in millions.

2016 Target	21m
2015 Target	18m
2014 Actual	14m
2014 Target	14m
2013 Actual	11m
2012 Actual	5m

### Providing a platform for debate

An integrated consumer offering includes the popular news and current affairs output delivered by our news team. Public Service Broadcasting ('PSB') is at the heart of what we deliver to our consumers and the role STV played in the run up the referendum on Scottish independence is an excellent example of our multi-platform approach as we seek to maintain our position as the 'voice of Scotland'.

In August, we secured the first live landmark TV debate between First Minister Alex Salmond and the leader of Better Together, Alistair Darling. The debate was hosted by STV's political editor Bernard Ponsonby from the Royal Conservatoire of Scotland in Glasgow in front of an audience of 350 members of the public that represented views from all sides. The debate reached a TV and online audience of over 1.7 million and was the best performing political debate in Scotland for over 10 years.

We also hosted a second live TV debate from the capital with a studio audience. *Yes or No - The Debate* saw three representatives from each side of the referendum debate discuss key topics on the 2nd September. This debate also aired on ITV Border and was broadcast across the ITV network later that evening.

With less than a week to the vote, we delivered the first social media debate of the referendum in conjunction with Facebook. Users were invited to pose questions in advance and the debate was hosted live from STV studios and simultaneously broadcast on STV Glasgow and streamed live on Facebook.

In addition to on air programming, the referendum was covered extensively online with dedicated Scotland Decides pages updated regularly by the online news team.

In order to inform our programming and bring viewers all the latest news and analysis, STV News undertook six polls in conjunction with research company Ipsos MORI. The first poll was published on the 18th September 2013 with exactly one year to go until the referendum, and the final poll was published on 17th September 2014, the day before the vote.

Earlier in the year, we also broadcast a programme that concluded our national debating competition for school pupils in secondary years five and six. *Referendum: The Next Generation* was the result of a Scotland wide competition that was open to secondary pupils offering them the opportunity to participate in debates on subjects related to the referendum on Scottish independence. The competition was delivered in conjunction with Debating Matters and engaged schools from all 32 local authority areas.

STV's aim to be a leading consumer focused Company, underpinned by our renewed licences to deliver PSB content, is the focus of our business. A more cohesive STV Family of services and targets for the key business areas are now in place and we believe we are well placed to deliver sustainable and profitable growth.

# CHIEF EXECUTIVE'S REVIEW PRODUCTIONS

## The productions business continues to secure returning formats and develop a strong pipeline of new commissions based on a strategy to diversify genres.

STV Productions business delivered revenues of £13.3 million, short of the 2014 KPI of £16.8m, reflecting a shortfall in deliveries against target.

### PRODUCTION REVENUE

(£ million)

#### Why it's important

Increasing production revenues is a key strategic aim which increases the diversification of the Group's revenue sources.

#### How we measure it

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

2016 Target	23.0m
2015 Target	20.0m
2014 Actual	13.3m
2014 Target	16.8m
2013 Actual	13.5m
2012 Actual	10.2m

#### Strategic partners

In January, Munich-based Red Arrow International began its role as STV's worldwide distributor for completed programmes and formats outside the UK.

An increase in demand for high quality drama from the new drama channels ITV Encore and UKTV Drama has resulted in high UK secondary sales for our rich archive of content, such as *Rebus* and *Dr Finlay*, and international sales remains a key source of income for the business.

*Antiques Road Trip* is particularly popular with strong territories including Scandinavia, Australia and New Zealand.

A key partnership announced in 2014 was the agreement with Warner Bros. International Television Production to globally distribute our new format *The Link* for the international market.

In May 2014, a jointly developed action-adventure drama series based on the life of Rob Roy was announced in conjunction with FremantleMedia.

The business also continued to work with GroupM on a number of co-produced projects, including the ITV entertainment series *Let Me Entertain You* which aired in spring 2014, and a documentary for Channel 5, *Britain's Deadliest Roads*.

#### Returning formats

In 2014, the number of hours produced totalled 138 with a range of commissions and returning series.

It has been a particularly strong year for returning formats and STV has secured commissions for a new series of *Catchphrase*, including celebrity versions, *The Lie*, *The Link*, *Antiques Road Trip* and *Celebrity Antiques Road Trip*.

An initial run of 25 episodes of *The Link* was announced in March and aired from early May on BBC One. The first series averaged an audience in excess of one million viewers per episode, securing a commission for a second series. The second series of 40 episodes was delivered at the end of 2014 and aired in early 2015.

*The Lie* was recommissioned for TV3 in Ireland and STV in Scotland. A deal was also struck with S4C/Cwmni da for the game format and eight episodes have been made

for Welsh audiences to air in 2015. The second run of *The Lie* totals 60 episodes across the three broadcasters with strong international interest and options secured, particularly in France where a pilot was produced.

*Catchphrase* was commissioned for a further 13 episodes, including three celebrity episodes, and continues to deliver strong ratings for ITV, and ITV2 for repeat episodes, and an income via the *Catchphrase* App.

*Antiques Road Trip* and *Celebrity Antiques Road Trip* also returned to BBC One and BBC Two with further series to air following an announcement for four new series of *Antiques Road Trip* and one new series of the celebrity version. This takes the total number of series to 12 *Antiques Road Trip* and four *Celebrity Antiques Road Trip*. A further fifth series of *Celebrity Antiques Road Trip* was commissioned in November.

#### Diversifying genres

Two successful specialist factual documentaries aired on BBC One and BBC Two.

*Tutankhamun: The Truth Uncovered* was an international co-production with STV Productions and Cream Productions, Canada for BBC One, Discovery Canada and the Smithsonian Channel.

*Swallowed by the Sea: Ancient Egypt's Greatest Lost City* aired on BBC Two.

A further transmission pilot was delivered for Animal Planet in the US. *Life After Chernobyl* is due to air in 2015.

The appointment of Sarah Brown as head of drama represents a continuing focus in this genre. Sarah joins from BBC Drama Production where she was an executive producer.

In August, we announced that STV Productions has secured the television rights to the bestselling novel *Elizabeth is Missing* by Emma Healey. This title is being developed by STV Productions as a three part series.

STV Productions also co-produced a number of crime documentaries with BBC ALBA, including *The Real Jekyll and Hyde?*, *Sgeulachd Deacon Brodie and Baby Killer?* and *Sgeulachd Jessie King*.

In the entertainment genre a pilot was filmed for fully interactive quiz show *You Against The Nation*. Two hour long documentaries were also delivered for Channel 5, *Britain's Deadliest Roads* and *Britain's Worst Commutes*.

The productions business delivered a margin of 3.0% in 2014.

## PRODUCTION MARGIN

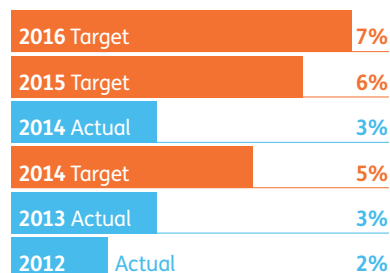
(%)

### 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.



The key ambition for the productions' business is to drive growth and build a production business of scale from a Scottish base. We will continue to work with our partners in the year ahead to deliver on this ambition.

## Returning series

Returning series are a key part of STV Productions' business with BBC, ITV, TV3 and STV all ordering new episodes of content that has proved popular with audiences:



*Catchphrase*



*The Lie*



*The Link*



*Antiques Road Trip and  
Celebrity Antiques Road Trip*

## There have been several financial highlights in 2014, including:

- Strong revenue growth, especially digital revenues
- Significant capital investment in our news infrastructure and digital operations
- A return to dividend payments
- A new eleven year pension deficit funding agreement being concluded
- An amendment and extension of the Group's bank facility to June 2019 on improved terms.

At the same time, we have delivered another year of strong performance against the financial KPIs and continued to reduce net debt which now stands at 1.4x EBITDA at the year end.

### Revenue

Total revenue was up 7% at £120.4m (2013: £112.1m) with strong contributions from national airtime and digital revenues.

Consumer division revenues were up 9% at £107.1m (2013: £98.6m), with national revenues again performing strongly, up 8%, ahead of the television market.

Digital revenues were up 23% at £5.3m (2013: £4.3m) meeting their KPI target and reflecting continued growth in catch up viewing of long form video on the STV Player.

Production division revenues were marginally down at £13.3m (2013: £13.5m) as the expected growth from new commissions, particularly in the drama genre, did not occur.

### Operating profit

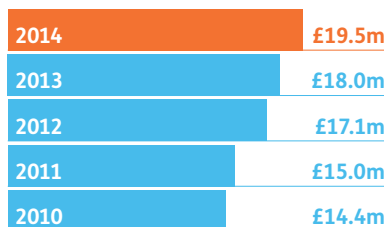
Operating profit increased by 8% to £19.5m (2013: £18.0m). This strong performance was driven by the Consumer division which increased operating profits by £1.5m to £19.1m (2013: £17.6m) and delivered margins

ahead of the KPI target and flat year on year at 17.8% (2013: 17.8%). This was a very good performance given the cost headwinds from higher network programme costs, carriage on SkyHD and continued investment in our digital operations. This investment in digital continues to be rewarded with profits from these activities growing to £1.6m (2013: £1.3m) generating an operating profit margin of 30%, in line with the KPI target.

Productions operating profit was flat at £0.4m (2013: £0.4m) with a flat margin of 3% (2013: 3%) which reflected the lack of revenue growth in 2014.

### OPERATING PROFIT

(million)



+8%

### Finance costs

Net finance costs fell again in 2014 to £2.2m (2013: £3.7m), mainly due to a reduction in cash interest costs as net debt fell and the interest margin payable also reduced due to lower debt levels and the lower interest margin payable under the amended and extended bank facility.

### Statutory result

The statutory result for the year after tax was a profit of £14.7m (2013: £12.2m). The Group's effective tax rate was unchanged at 15% (2013: 15%) as prior year losses continue to be utilised. It is now anticipated that corporation tax payments will resume in 2016.

### Earnings Per Share (EPS)

EPS before IAS19 non-cash pension interest increased by 13% to 38.7p (2013: 34.4p) On a statutory basis EPS also amounted to 38.7p (2013: 32.2p).

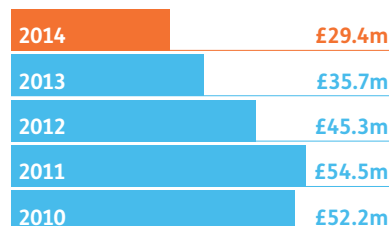
### Cashflow and net debt

Net debt fell by a further 18% in 2014 to £29.4m (2013: £35.7m). The key measure of operating profit converted to free cashflow was lower than usual at 79% (2013: 94%) due to the highest level of capital expenditure investment in the business since 2006 when the Group was significantly different in operations and scale. Capital expenditure totalled £5.3m and included over £2.0m of investment in news cameras and equipment as well as significant investment in our digital services and broadcast infrastructure.

The debt reduction is also after higher pension deficit funding payments (£5.8m) and the recommencement of dividends (£1.6m). Net debt at 31 December 2014 represented 1.4x EBITDA (2013: 1.9x) and is on track to meet the revised goal of sub 1.0x EBITDA by the end of 2015.

### DEBT REDUCTION

(million)



-18%



### Balance sheet

The principal movements on the Group's balance sheet were the reduction in net debt noted above and a movement from a pension surplus to deficit on an IAS19 basis. The 2013 year end surplus of £1.1m, net of deferred tax, moved to a deficit of £11.8m, also net of deferred tax, due to a fall in the discount rate used to present value the liabilities and the inclusion of a future improvement in life expectancy assumption this year based on wider industry practice.

In July 2014, we announced an agreement with the defined benefit pension schemes' trustees over the 2012 triennial valuation. This will see the funding deficit of approximately £83m being cleared over 11 years by payments averaging £7m per annum which are tax deductible. The significant difference between the IAS19 deficit and the funding deficit is due to differing interest rates being used to discount the liabilities to present value – the IAS19 basis uses a higher corporate bond rate while the funding deficit basis uses a gilt rate. The next triennial valuation will take place during 2015.

### Dividends

The Group recommenced dividend payments during 2014 with the first being the final 2013 dividend of 2.0p per share which was paid in May 2014. This was followed by the interim 2014 payment, also of 2.0p per share, which was paid in October 2014. A final 2014 payment of 6.0p per share has been declared which, subject to approval at the AGM in April, will be paid to shareholders in May 2015. This would result in total dividends of 8.0p per share for 2014 – quadruple the 2013 level. We will continue to follow a progressive dividend policy and the 2015 total payment is expected to be 10.0p per share – an increase of 25% on 2014 levels.

As at 16 March 2015, the Group had been notified of the following interests of 3% or more in its shares:

Shareholders	Shares	%
<b>Blackrock Inv Mgt</b>	3,250,296	8.27
<b>UBS Global Asset Mgt</b>	3,231,164	8.22
<b>JP Morgan Asset Mgt</b>	3,143,954	8.00
<b>Odey Asset Mgt</b>	3,000,000	7.63
<b>Threadneedle Asset Mgt</b>	2,264,186	5.76
<b>Crystal Amber Asset Mgt</b>	2,230,700	5.68
<b>Artemis Fund Managers Ltd</b>	2,061,593	5.25
<b>Miton Group plc</b>	1,899,949	4.83
<b>Cavendish Asset Mgt</b>	1,882,757	4.79
<b>Slater Investments</b>	1,303,062	3.32
<b>AXA Framlington</b>	1,258,681	3.20

### 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.

### Compliance

Part of the information that fulfils the Companies Act requirements of the Directors' Report can be found in the Performance Review on pages 14 to 16. The Group's principal operating subsidiaries are listed in note 2 of the Company financial statements and details of the principal risks and uncertainties facing the Group can be found on pages 17 and 18.

### 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 into account the amendment and extension of the banking facility in June 2014, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation 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

# PERFORMANCE REVIEW

continued

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.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the Group and parent company financial statements respectively
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors consider that the annual report and accounts for the year ended 31 December 2014, when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

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 pages 28 and 29 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
- 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 corporate website and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

STV's risk register has been developed in a way which allows the key risks facing STV to be summarised and actions taken to improve control tracked.

The risk 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 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 biannual basis by the Board, with the Audit Committee conducting an in-depth annual review.

A further in-depth refresh of the Risk Register will be carried out in 2015.

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

**Regulatory environment**

Our television business is operated under licences which are regulated by Ofcom and on 11 February 2014 both licences were renewed for a further 10 year term through to 2024. These Channel 3 licences contain conditions around contribution to public service broadcasting, programme production and compliance with Ofcom's codes. As licensees 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**

The 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 through STV's Commercial Director who manages the sales relationship with ITV.

**Pension scheme shortfalls**

We believe that the STV pension schemes are relatively strong, and the investment strategy is calculated to reduce any material 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 LIBOR interest rates could have an adverse impact on the financial position and business results. STV is exposed to a variety of financial risks that arise from and apply to its activities: currency risk; credit risk; liquidity risk; and cash flow interest rate risk. The Group's borrowings are denominated in Sterling. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

## PRINCIPAL RISKS

continued

STV uses derivative financial instruments to hedge certain risk exposures.

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

### **a) Currency risk**

STV operates almost wholly within the UK and is exposed to minimal currency risk. The Group's borrowings are denominated in Sterling. Currency risk arises primarily with respect to the Euro and US dollar and from future commercial transactions and trade assets and liabilities in foreign currencies.

### **b) Credit risk**

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

### **c) Liquidity risk**

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

### **d) Cash flow interest rate risk**

STV has no significant interest bearing assets and its income and operating cash flows are substantially independent of changes in market interest rates. The Group policy is to hedge 50% of floating rate borrowing interest risk.



**Rob Woodward**  
Chief Executive

### **Our people**

As a talent led, consumer focused Company with creativity at its heart, our people are the driving force behind the progress and achievements delivered in 2014.

During 2014, a programme based upon the Company's internal values - The STV Way - designed to increase employee engagement, enabled staff to embrace these values as they delivered their goals and objectives.

Through The STV Way everyone in the business is encouraged to be bold; to stand together; and to strive to surprise in responding to future challenges and opportunities. Two years ago a highly participative series of employee engagement sessions were undertaken involving staff from all areas of the business to define the values and organisational culture of STV. Through these sessions The STV Way was defined.

This behavioural framework has formed the backdrop of our people strategy and through this, and the focus this provides in how we interact with colleagues across the Company and with our consumers and external stakeholders, we have developed a strong cultural compass and collective sense of purpose that is at the core of how staff ensure they are effective in deepening relationships with our consumers and commercial partners.

### **Reward and recognition**

We continue to benchmark all areas of remuneration against a UK-wide media industry peer group. This approach has provided a transparent grading and remuneration banding framework against which all roles are evaluated relative to a peer group and across the wider industry.

This approach has ensured that as the rate of external recruitment has increased during 2014, with 22% growth in permanent staff, the Company's market competitive salary and benefits structure has enabled staff of a consistently high calibre to be attracted and for retention levels to be maintained.

Two years ago the Company committed that, following a period of relative salary restraint as the macro-economic outlook was less positive and relatively uncertain, it would seek to address the proportion of staff positioned on salary bands below the market rate for their role. Therefore, in 2014 salary awards in a range from 1% to 5%, were awarded. This resulted in an average award of 2.8% for staff, with the exception of the leadership team. The leadership team, who have foregone salary increases over recent years, had increases to base salary re-instated with an award of 2% in 2014 to ensure market competitiveness, support retention and to reflect business performance.

Ensuring employee rewards and benefits remain market competitive, particularly when recruitment activity has increased, has resulted in a review of the Company's benefits offering during 2014. STV Benefits have been repositioned and new employee benefits have been introduced including a flexible holiday plan and a computer purchase scheme.

### **STV Pulse**

To ensure rigour in the measurement of employee engagement levels, the Company's online employee opinion survey, STV Pulse, was launched in 2014. This 'pulse' style employee opinion survey is designed to provide staff with regular opportunities to express their views and opinions on a wide range of areas whilst providing the Company with a tracking and measurement tool.

Within STV Pulse surveys undertaken to date, a net promoter score measuring how likely respondents are to recommend STV as a place to work is measured and tracked. The STV Pulse also tracks employee perceptions of the extent to which the employee values: to be bold; stand together; and strive to surprise, are being applied.

## Performance driven culture

As the business maintains a strong operational focus on achievement of the KPIs to deliver business plan targets, this approach is underpinned by the assignment of individual performance goals and targets to all staff. Through this process staff are provided with a clear vision of the strategic aims and priorities of the Company and these are translated to a team and individual level to ensure that every employee gains an understanding of the contribution they make towards the KPIs.

The employee performance review and goal setting process has been reviewed during 2014. Going forward, appraisal of performance will be extended beyond assessment against performance goals to include an assessment of behaviour and approach against the values of The STV Way.

The Company's culture is founded on the principle that everyone can make a difference and should strive to achieve continuous improvement.

Regular staff briefings are held by the leadership team to promote increased understanding and awareness of the wider business amongst staff and provide further opportunities for staff to have their say. Our 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 Chief Executive Officer conducts regular all staff sessions 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.

The partnership relationship with the trade unions, recognised by the Company for the purposes of collective bargaining, has continued to develop and progress during 2014. This is maintained through the encouragement and facilitation of regular briefing on business priorities and progress.

## Learning and development

In addition to individual learning and development requirements identified through the annual employee performance and development process, through The STV Way, a programme of learning opportunities has been delivered for staff during 2014. This broad programme ranges from a leadership development programme delivered in conjunction with the Centre for Strategic Leadership at the University of Edinburgh, to staff drop in sessions where an insight can be gained into other areas of the business.

A theme of open access learning opportunities delivered during 2014 has been to seek to increase understanding of technology and platform developments to enhance the service delivered to consumers. This has been supported by a programme of training in the Agile project development approach through to encouraging participation in Mass Open Online Courses (MOOCs), each supported by a business sponsor with a depth of understanding or knowledge in the subject area to facilitate and mentor participants.

The Company continues to foster close relationships with a broad network of colleges and universities to support the development of future talent to the industry and to support the Company's future resourcing requirements. In particular, during 2014 formal partnerships with two leading Scottish universities, Glasgow Caledonian University and Edinburgh Napier University were launched to support the delivery of the new City TV services.

Through these partnerships, students are being provided with opportunities to develop their skills in a live broadcast and production environment; engage with consumers, particularly through social media; and will be provided with opportunities to showcase content they develop.

During 2014 we have provided employment opportunities for over 600 freelance staff.

As STV Productions continues to secure recommissions of long running series, this is contributing to more stable employment opportunities for freelance staff working in television production in Scotland, deepening the talent pool and making a positive impact to the creative economy of Scotland.

Over 60 work placements have been provided to students in secondary, further and higher education ranging from supported placements of one week to long-term internship programmes.

The Company also participated in a pilot programme developed by the NUJ to provide training leading to a Modern Apprenticeship. The Modern Apprenticeship in Digital Journalism is currently being evaluated and it is the Company's aim to increase the scope of this investment in the future.

### Equal opportunities and diversity

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 ensure that the Company engages effectively with audiences and consumers and attracts a diverse pool of creative talent are monitored on an ongoing basis. The aim of these policies is to ensure that all employees and potential employees are treated in a fair and equitable manner regardless of their age, disability, marital status, family responsibility, race, colour, ethnic background, nationality, religion or belief, gender, gender identity or sexual orientation.

A diverse workforce enables the Company to respond better to and reflect our audiences and consumers in all their diversity and it is important that a working environment is created which enables our employees to thrive and achieve their full potential.

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 2014.

The Company 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. Overall, the Company is committed to appointing the best available person to a role, regardless of gender.

The overarching aim in making any new appointments to the Board must always be to select the best candidate to enhance functionality and to improve decision making as the primary focus is the strength of the Board. All appointments will continue to be based on merit, measured against objective criteria and the skills and experience the individual offers.

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 the Company Secretary and as at 31 December 2014, 49% of STV's staff were female, the same as last year.

### 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 refresher courses are carried out on a continual basis and we have a full complement of 54 first aiders located throughout STV sites. Eleven of our staff at Pacific Quay are also trained in the use of the on-site defibrillator and five staff in Craigshaw where we now have a defibrillator on-site.

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.

	2014		2013		% change
	Male	Female	Male	Female	
Directors	66.7%	33.3%	75%	25%	up 33%
Leadership Team	70%	30%	70%	30%	none
Employees	51%	49%	51%	49%	none

# CORPORATE RESPONSIBILITY

Continued

We have continued to place our news and creative teams, and our new STV Glasgow and STV Edinburgh channel teams, on safety training with a Chartered Health and Safety Consultant who specialises in media safety training. A total of 32 staff this year have completed the safety training.

	2014	2013	2012
Total accidents	<b>11</b>	29	29
Number attributable to driver error	<b>6</b>	24	12
Percentage attributable to driver error	<b>54%</b>	83%	41%

## Health and safety performance in 2014

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

	2014	2013	2012
RIDDOR three-day reportable accidents	<b>1</b>	0	3
Total of all accidents	<b>7</b>	5	11

## Donations

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

## 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 and is a member of The Prince's May Day Network, a collaboration of businesses addressing climate change which was founded by HRH The Prince of Wales.

Throughout 2014 we have been able to recycle 100% of our waste (with the introduction of Refuse Derived Fuel ('RDF') via our waste management contractor), resulting in no waste being diverted to landfill.

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 30 members of staff taking part in this initiative. STV also took part in National Bike Week and had our own STV Cycle to Work Day on 24th July with approximately 25 staff participating.

During 2014 STV started recycling old mobile phones via SHP. They uplift all of the redundant mobiles, recycle them and then send us a cheque which we then put back into the STV Appeal. During 2014 we recycled 34 handsets and raised over £200 for the charity.

## Reporting greenhouse gas emissions

Assessment parameters	
<b>Boundary summary</b>	All entities and all facilities either owned or under operational control were included
<b>Materiality threshold</b>	Materiality was set at 5%
<b>Intensity ratio</b>	Emissions per £m of revenue

Greenhouse gas emission source	FY2014		FY2013	
	(tCO <sub>2</sub> e)	(tCO <sub>2</sub> e/£m revenue)	(tCO <sub>2</sub> e)	(tCO <sub>2</sub> e/£m revenue)
Scope 1*	<b>486.51</b>	<b>4.04</b>	442.26	3.94
Scope 2**	<b>2095.94</b>	<b>17.4</b>	1,924.24	17.17
Statutory total (Scope 1 & 2)	<b>2,582.45</b>	<b>21.45</b>	2,366.50	21.11

\* Scope 1: emissions from activities and sources we own and control e.g. cars.

\*\* Scope 2: emissions associated with our consumption of purchased electricity, heat, steam, and cooling, heating offices etc.



## Explanations

### Scope 1 Travel

Increase in the travel emissions due to:

- the increase in staff travelling back and forth to London – relocation of staff to the London office (Sales/Creative) has resulted in more travel between the offices
- increased Production presence based in London office
- rail travel has increased. Staff have been encouraged to travel via rail rather than air to reduce costs and emissions
- increase in international travel during the year – France for D Day (News), Amsterdam x 2 visits for Technology Seminar (Technology), Egypt and Ukraine for new Production (Content), attendance at Board meetings for Michael Jackson, Non-Executive Director (resident in USA).

### Scope 2 Energy

- gas usage has increased – increase in staff in Glasgow office and Studio 2 usage for *The Riverside Show*
- electricity usage has increased – increase in staff in Glasgow office and Studio 2 usage for *The Riverside Show*.

### Waste

Biffa (previously Shanks) recycle 100% of our waste via refuse derived fuel ('RDF'), so no waste is going to landfill.

## GHG emissions statement

STV has reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

These regulations require us to state the annual emissions in tonnes of carbon dioxide:

- from activities for which we are responsible, including the combustion of fuel and the operation of our facilities; and
- resulting from the purchase of electricity, heat, steam or cooling by us for our own use.

There is no prescribed methodology under the regulations, but the independent standard we have chosen to use in order to ensure effective emissions management and transparency in reporting, is the UK Government's Environmental Reporting Guidance (2013 version).

STV must also express our emissions by way of an intensity ratio to allow the comparison of our performance over time and also with other similar types of organisations.

GHG emissions are to be reported as a gross figure in tonnes of CO<sub>2</sub>e and the intensity ration we have chosen is CO<sub>2</sub>e per million pounds of revenue.

**2014 was a record year for the STV Appeal with £2.6 million raised to help children and young people affected by poverty.**

This money has already been distributed across all 32 local authority areas in Scotland to a range of large and small projects.

The money raised by the STV Appeal is distributed to provide practical help like food and warm clothes; create opportunities for training and employability; and enable social and emotional support for those who need it most.

In its first four years the STV Appeal has raised over £8.2 million and fundraising for the STV Appeal 2015 is already underway.



# STV APPEAL 2014



### STV Appeal 2014

The STV Appeal is a charity committed to fighting child poverty in Scotland. It was launched in 2011 by STV and The Hunter Foundation and in 2013 The Wood Foundation pledged its support to the Appeal for projects in the North East. Now firmly established as a major Scottish charity, the STV Appeal has had a very successful fourth year and raised the sum of £2.6 million for children and young people living in poverty.

Since launch, the STV Appeal has raised over £8.2 million which has funded 297 big and small grants to projects across all 32 local authority areas in Scotland, providing much needed support to over 37,000 children.

The money raised by the STV Appeal helps make a real difference in the lives of Scotland's children and young people by providing practical help like food and warm clothes; creating opportunities for training and employability; and enabling social and emotional support for those who need it most.

A fundamental principal of the STV Appeal is that every single penny raised by the STV Appeal stays in Scotland and 100% of donations are spent on the children who need it most. All overheads are met by STV and The Hunter Foundation and in 2014, the Scottish Government once again committed to match fund the first £1m raised.

Work is now underway to distribute this year's funds to charities across the country. The STV Appeal endeavours to work beyond reactive grant-making, to identify and target key areas of unmet need. The charity works alongside experts from across Scotland to change perceptions and attitudes towards child poverty and invest in solutions. 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.

It is part of STV culture that all members of staff can make a difference and the Appeal relies on the support of our employees who fundraise and volunteer throughout the year. By climbing Ben Nevis, cycling between Glasgow and Edinburgh, and holding various fundraising events, staff contributed over £100,000 to the Appeal and they are able to see the difference they make when distributing the grants to projects where they can meet the project workers and people the Appeal supports.

Money is raised through individual donations from STV consumers, community groups and schools as well as fundraising led by corporate partners. Leading businesses, including The Royal Bank of Scotland, Optical Express, Lidl and ScottishPower are proud supporters of the Appeal and encourage their staff and customers to support the fundraising efforts to support the fight against child poverty in Scotland.

The STV Appeal is now in its second year as charity partner of Freshnlo Pedal for Scotland. This year, the number of Pedal for Scotland cycle events increased and greater numbers of individuals, staff members and corporate partners got on their bikes to support the Appeal.

Freshnlo Pedal for Scotland was one of the many events celebrated in a week of dedicated Appeal programming in 2014. A series of engaging, entertaining and celebrity packed programmes were screened in October, culminating in a star-studded live show hosted by Lorraine Kelly where the total sum raised was revealed.

STV's Appeal programming celebrated the many fantastic fundraising activities taken on by celebrities and communities across Scotland. This included Lorraine Kelly's Shimmy across Scotland, a 24 hour dance challenge, and a Highland Challenge completed by STV's own Sean Batty with support from local schools, communities and STV staff. Programming also focussed on inspiring fundraising stories from across the country and projects and charities working tirelessly to improve the lives of children living in poverty.

Through the distinct schedule of programming, online platforms and social media channels, the STV Appeal can use its privileged position to raise awareness of the issue of child poverty, make a real difference and speak up for those children who can't.

**Rob Woodward**  
Chief Executive

## CHAIRMAN'S STATEMENT



**Baroness Margaret Ford**  
Chairman

### **2014 was a significant year for Scotland and a year of opportunity, positive momentum and progress for STV.**

The Company set out its aim to provide the platform for the 'voices of Scotland' during a landmark year and I am immensely proud of the extent to which staff across the business embraced this opportunity, increasing the Company's profile and position, relevance and reputation.

On taking up my appointment as Chairman last year, I confirmed the Company's strategy to achieve growth through the diversification of earnings from its growth businesses – digital services and STV Productions – whilst continuing to build the core business through securing an increased share of the advertising revenue market in Scotland. I also set out my commitment to create sustainable value and deliver capital return for shareholders.

I am pleased to confirm that the Company's performance during 2014 has enabled both to be delivered and the progress achieved during the past year, particularly in the consumer business, will underpin continued growth in the future.

### **Strategic aims**

Strong financial performance has been delivered against our key measures. We have an ambitious aim to deliver one third of earnings from non-broadcast activities by the end of 2015. Whilst progress has been made towards this during the past year, the relative progress being achieved is diminished as the resilience of the core business has continued to strengthen as the television advertising market stabilises and STV continues to outperform the UK TV market.

Looking to the longer term beyond 2015, the Board has announced an additional growth target to achieve a normalised EPS Compound Annual Growth Rate of 10% across the period from 2014 to 2017.

This aim is stretching and ambitious and delivery will be underpinned by pursuit of the current strategic priorities and achievement of the KPI targets.

### **Stability and investment certainty**

Ensuring the Company has a stable foundation and environment conducive to growth are key objectives of the Board. This has been an area of strategic focus across the Company over recent years. During 2014 considerable progress was made to create stability and certainty for investors through the successful management of key regulatory, financial and political risks.

Most notably, the renewal of the Channel 3 broadcast licences for a maximum term of 10 years, effective from January 2015, and based on the agreement of new commercial and contractual arrangements with ITV and securing STV's position as an affiliate of the Channel 3 Network, provide a stable operating environment and cost base.

In June the extension until 2019 of the Group's banking facilities on improved terms created further financial stability. Additionally the agreement of a long term deficit recovery plan, through a pension valuation agreement with the pension scheme trustees, was secured.

Finally, through the outcome of the referendum on independence for Scotland, a potential risk was settled. Following the referendum, the Company engaged with the Smith Commission seeking that broadcasting remain a matter reserved for Westminster. The Smith Commission has reached this conclusion and this outcome, securing as it does a consistent approach to policy determination and regulation recognises the requirements of STV operating as part of a cohesive UK wide network.

The satisfactory resolution of all of these key factors provides forecasting certainty, financial flexibility and stability and a platform to pursue sustainable growth.

### New consumer connections and commercial opportunities

Increasing the consumer reach of the Company through the delivery of informative, relevant and entertaining content to support the growth of commercial market share are at the heart of the Company's activities.

This has been supported during 2014 through the development of the STV Family of branded consumer products. Within this portfolio new consumer products and services, including the highly innovative City TV services now launched in Glasgow and Edinburgh, are successfully creating new opportunities for advertisers and commercial partners whilst extending the consumer reach of the business.

Through the STV Family, the business is successfully using its unrivalled audience connection through core channel, STV, to launch new non-broadcast services, further extending consumer engagement. As the STV Family of services grows, the business is well positioned to take advantage of future changes in the market.

### STV Productions

STV Productions has continued to make progress in securing returning formats, a key element of the strategy to grow as a thriving multi-genre content production business whilst delivering a flat performance year on year.

The talented and highly creative team that has been formed has been strengthened to bring a refreshed focus to achieving success in the drama genre.

### Financial performance

Strong financial performance has been delivered against our key financial measures. Group revenues are up 7% to £120.4m (2013: £112.1m), reflecting an improved advertising revenue market and growth in digital activities. Revenues in STV Productions were broadly flat year on year.

The continued focus on stabilising the balance sheet resulted in a further reduction in net debt, down 18%, at £29.4m (2013: £35.7m) and below the target ratio of 1.5x net debt: EBITDA and IAS19 interest.

Profit before tax increased by 21% to £17.3m (2013: £14.3m).

At the beginning of 2014, new KPI targets were announced, including metrics focused on consumer engagement and reach for each consumer service. The strong operational performance achieved in the past year is reflected in six of the eight KPIs with a 2014 target being met or exceeded.

### Dividend

The Group returned to dividend payments during 2014, underpinning the Board's confidence in the robust financial position of the Group and the strength of the balance sheet.

The Board will recommend a final ordinary dividend of 6.0 pence per share, giving a total dividend for the year of 8.0 pence per share (2013: 2.0 pence per share). Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 22 May 2015.

The Board remains committed to a progressive dividend policy in the long term.

### Board changes

Two new Non-Executive Directors were appointed to the board during 2014. Christian Woolfenden joined the board in June and Anne-Marie Cannon was appointed in November.

Jamie Matheson, Non-Executive Director, will retire from the board at the AGM in April 2015 having served for 8 years during the turnaround and transformation of the Company. On behalf of the Board, I would like to thank Jamie for his valued contribution and wise counsel throughout those years.

### Conclusion

The Company's strong track record of delivery resulted in a transformed financial position, unparalleled audience and consumer engagement which is extending across a growing family of products and services. This combined with a strong brand legacy and a growing reputation as a content producer all served to position STV as a commercially focused, creatively led business capable of delivering its strategic aims.

The talent, commitment and drive of our staff are key contributors to the success of the Company. On behalf of your Board, I would like to thank them and the leadership team for their commitment and contribution during a successful year and thank shareholders for your support for the Company during 2014.

**Baroness Margaret Ford**  
Chairman

## BOARD OF DIRECTORS



### **Margaret Ford (57)** **Chairman<sup>3</sup>**

Appointed to the Board in June 2013, Margaret Ford has over 20 years experience as a Non-Executive Director and Chairman of private and listed companies and extensive experience of working with Government. She is currently a Non-Executive Director of Taylor Wimpey plc, Segro plc and Grainger plc and is the former Chairman of Barchester Healthcare Limited, the private healthcare provider. From 2009 to 2012, she was a member of the Olympic Board and Chairman of the Olympic Park Legacy Company. She was appointed to the House of Lords in 2006 and sits as an Independent Peer. Margaret is Chairman of the STV Appeal and in March 2015 was elected a fellow of the Royal Society of Edinburgh.

### **Rob Woodward (55)** **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 achieved a dramatic turnaround of legacy businesses and built a set of successful new media and digital businesses. Rob was previously an MD of UBS Warburg and global COO of corporate finance in Media and Communications. Prior to this he was Managing Partner of Deloitte's European Telecoms Media and Technology business

and UK strategy consulting practice. Rob is a trustee of the STV Appeal charity. Rob was appointed Pro-Chancellor and Chair of the Council of City University London in February 2012, is a Trustee of Nesta and a Non-Executive Director of Regeneris plc. In November 2014 Rob was appointed Chairman of the National Invest in Young People Group, which will lead work to support employer involvement in developing Scotland's young workforce.

### **George Watt (47)** **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 DeltaDNA (formerly GamesAnalytics Ltd) and SpaceandPeople plc. George is also an executive committee member of the Scottish Council for Development and Industry and a trustee of the STV Appeal.

### **David Shearer (55)** **Senior Independent Director<sup>1,3</sup>**

Appointed to the Board in February 2007, David is an experienced board member, corporate financier and turnaround specialist and was previously Senior

Partner for Scotland & Northern Ireland and a UK Executive Board member of Deloitte LLP. He has recently stood down as Co-Chairman of Martin Currie (Holdings) Limited following its sale to Legg Mason Inc., is Chairman of Aberdeen New Dawn Investment Trust plc and the Scottish Edge fund and a Director of Mithras Investment Trust plc. He was previously the Chairman of Mouchel Group and Crest Nicholson plc and a Non-Executive Director of City Inn Limited in each case standing down after completing the successful restructuring of these businesses. He was also a Non-Executive Director of Renold plc, Superglass Holdings plc and Scottish Financial Enterprise and a Governor of The Glasgow School of Art.

### **Jamie Matheson (60)** **Non-Executive Director<sup>1,2</sup>**

Appointed to the Board in March 2007. Jamie's career spans some 40 years principally in the financial sector. He was, for eight years until his retirement in March 2013, 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 a Non-Executive Director of Maven Income and Growth VCT5 PLC from 2001 to 2013. He is a Director of Scottish Financial Enterprise and he has a number of charitable interests including being a Director of The HMS Victory Preservation



**left to right by row, from top left**

Margaret Ford  
 Rob Woodward  
 George Watt  
 Genevieve Shore  
 Anne Marie Cannon  
 David Shearer  
 Jamie Matheson  
 Michael Jackson  
 Christian Woolfenden

Company. Jamie is Chairman of the Beatson Cancer Charity, a Non-Executive Director of Latchways plc and Chairman of Saracen Fund Managers Ltd.

**Michael Jackson (57)**  
**Non-Executive Director** <sup>2</sup>

Appointed to the Board in May 2009, Michael is an advisor, investor and director for digital and television businesses in the US and UK. Previously he was President of Programming at InterActiveCorp, the internet conglomerate, where he was responsible for overseeing the development, acquisition and distribution of content based websites. Prior to this Michael was Chairman of Universal Television Group, in charge of the creative and strategic direction of the television business. He served four years as Chief Executive Officer of Channel 4 Television, where, in addition to commissioning programmes, he refocused the channel to exploit digital opportunities and launched two new channels, FilmFour and E4. Before joining Channel 4, Michael worked as Controller of BBC1 and Director of Television, and as Controller of BBC2. He was previously a Non-Executive Director of EMI Group plc. Michael is a Non-Executive Director of Nutopia, an independent TV production company based in the UK and USA and of Peters, Fraser & Dunlop, the UK literary agency.

**Genevieve Shore (45)**  
**Non-Executive Director** <sup>2,3</sup>

Genevieve Shore joined the Board in March 2012. Genevieve has been working in digital strategy and technology for the last seven years, most recently as the CIO and Chief Product Officer for Pearson PLC where she had responsibility for all enterprise platforms from the cloud, finance and data systems to content delivery and learning services. Previously Genevieve has held leadership roles with Pearson Group including Global Digital Director, Penguin and Group Sales Director, Penguin. Genevieve is an advisory board member of Great Fridays, a digital design services company in San Francisco and of Scoot & Doodle and the Education Appstore. She is a Non-Executive Director of Moneysupermarket.com Group Plc and of Next 15 Communications Group plc.

**Christian Woolfenden (36)**  
**Non-Executive Director** <sup>1</sup>

Appointed to the Board in June 2014, Christian Woolfenden has extensive consumer marketing and digital experience. He is Managing Director for Paddy Power, the betting and gaming operator. Previously Christian was Global Brand Director for Bacardi, responsible for marketing and product innovation in over 20 markets worldwide. Christian began his career at Procter & Gamble working in both finance and marketing roles across key European businesses.

**Anne Marie Cannon (57)**  
**Non-Executive Director**

Anne Marie Cannon joined the Board in November 2014 and has over 30 years experience in the energy industry and investment banking. For the past 14 years Anne Marie was a senior advisor at Morgan Stanley specialising in international upstream mergers and acquisitions. Anne Marie has previously held financial and commercial roles with Shell UK, J Henry Schroder Wagg and Thomson North Sea and was an Executive Director on the Boards of Hardy Oil and Gas and British Borneo. She served on the Board of Aker ASA and is currently is a Non-Executive Director with Premier Oil and Deputy Chair of Det Norske Oljeselskap.

**Key**

- 1** Audit Committee
- 2** Remuneration Committee
- 3** Nomination Committee

# CORPORATE GOVERNANCE REPORT

## Principles statement

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

The Board has a 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 2014, the Company has complied fully with the UK Corporate Governance Code 2012 ('the Code') and this section, together with the report by the Directors on remuneration, set out on pages 44 to 62, 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](http://www.frc.org.uk).

## Board of Directors

The membership of the Board throughout the year and up to the date of signing the financial statements was as follows:

<b>Chairman</b>	Baroness Margaret Ford
<b>Chief Executive Officer</b>	Rob Woodward
<b>Chief Financial Officer</b>	George Watt
<b>Non-Executive Directors</b>	David Shearer (Senior Independent Director) Jamie Matheson Michael Jackson Genevieve Shore Vasa Babic (retired 23 April 2014) Christian Woolfenden (appointed 1 June 2014) Anne Marie Cannon (appointed 1 November 2014)

The powers of the Directors (including in relation to the issue or buy back of shares) are exercisable 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 OF DIRECTORS



- 11% Chairman
- 22% Executive Directors
- 67% Non-Executive Directors



### **Board appointment, balance and independence**

The Board has considered the independence of the Non-Executive Directors and regards all of the current Directors to be of independent character and judgement.

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 sectors 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 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 during the year to 31 December 2014.

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. She 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.

**CORPORATE GOVERNANCE REPORT**

continued

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
- 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.

**Board meetings**

Attendance of Board members at Board and Committee meetings held in 2014 is set out below:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
<b>Number of meetings held:</b>	<b>9</b>	<b>3</b>	<b>4</b>	<b>2</b>
<b>Attendance:</b>				
Margaret Ford	9	3*	3*	2
David Shearer	9	3		2
Rob Woodward	9	3*		1*
George Watt	9	3*		
Vasa Babic (resigned 23/04/14)	3	1	2	
Jamie Matheson	8	2	4	
Michael Jackson	8		4	
Genevieve Shore	9		2**	2
Christian Woolfenden (appointed 01/06/14)	5	2		
Anne Marie Cannon (appointed 01/11/14)	1			

\*Attended at the invitation of the respective Chairman.

\*\* Appointed to Remuneration Committee as Chairman following the resignation of Vasa Babic

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](http://www.stvplc.tv), 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
- risk management, internal control policies and corporate governance arrangements.

All Directors attended the annual Strategy Day held in October 2014 and considered it an extremely useful forum at which to discuss in detail STV's goals and objectives and its overall strategic direction.

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 2014 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 and declaration of dividend
- approval of the 2015 Budget
- approval of a share premium reduction
- approval of new financial PR advisors.

#### **Strategy**

- presentations on initiatives to grow revenue
- approval of the Company's strategy
- brand refresh.

#### **Corporate development**

- agreement of STV's corporate objectives and values for 2014
- application for the Aberdeen, Ayr and Dundee local TV licences
- planning for the launch in early 2015 of the Edinburgh local TV service.

#### **Governance and risk**

- review of reports on risk and the appropriateness of the financial statements being prepared on a going concern basis
- review and approval of the Risk Register
- approval of the internal audit plan for 2015
- approval of the 2015 AGM Resolutions
- approval of the appointment of Christian Woolfenden and Anne Marie Cannon
- performance evaluation
- review and consideration of the pensions deficit and funding plan
- ensuring impartiality during Referendum programming.

#### **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.

#### **Corporate Social Responsibility**

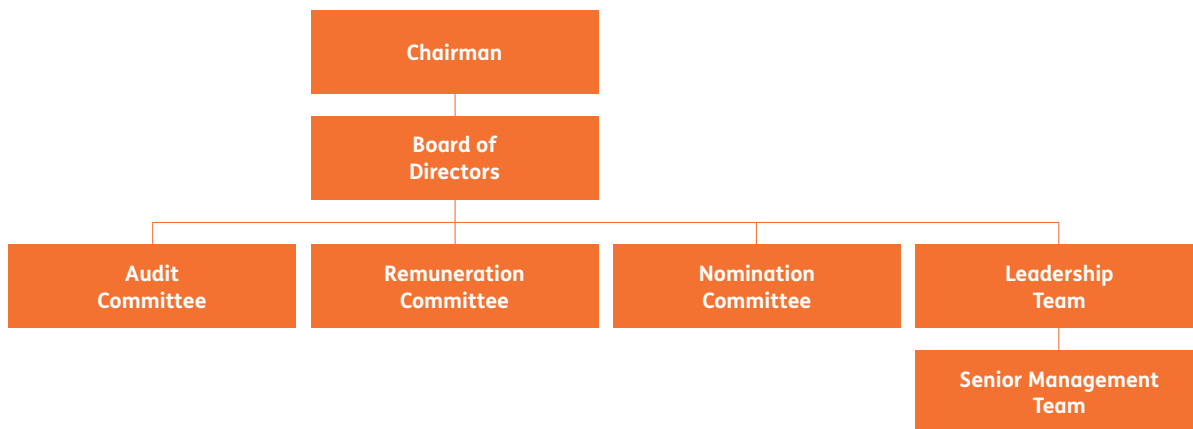
- involvement in the STV Appeal 2014.

# CORPORATE GOVERNANCE REPORT

continued

## Board committees

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



<p><b>Leadership</b></p> <p><b>Board of Directors</b></p>	<ul style="list-style-type: none"> <li>• Determines long-term direction and strategic aims</li> <li>• Sets framework of appropriate and robust controls</li> <li>• Ensures efficient and effective operation of the business</li> <li>• Engages with shareholders and stakeholders</li> </ul>
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<p style="text-align: center;">▼</p> <p style="text-align: center;"><b>Audit Committee</b></p> <ul style="list-style-type: none"> <li>• Monitors the integrity of the published financial statements</li> <li>• Reviews the effectiveness of internal financial controls</li> <li>• Reviews the operation of the risk management process</li> <li>• Discusses with the Company's auditors, matters arising from their work</li> <li>• Reviews the scope of work and reports produced by the internal auditors</li> <li>• Monitors and reviews the effectiveness of the internal audit function and the external auditors</li> </ul> <hr/> <p><b>Page 35</b> <b>Audit Committee Report</b></p>	<p style="text-align: center;">▼</p> <p style="text-align: center;"><b>Remuneration Committee</b></p> <ul style="list-style-type: none"> <li>• Determines and agrees with the Board the framework for the remuneration policy</li> <li>• Reviews the ongoing appropriateness and relevance of the remuneration policy</li> <li>• Approves the design of, targets for, and payments from any performance related pay schemes</li> <li>• Reviews the design of all share incentive plans</li> <li>• Determines the remuneration packages for Executive Directors and other senior executives</li> <li>• Reviews and notes annually the remuneration trends across the Company</li> </ul> <hr/> <p><b>Page 44</b> <b>Remuneration Committee Report</b></p>	<p style="text-align: center;">▼</p> <p style="text-align: center;"><b>Nomination Committee</b></p> <ul style="list-style-type: none"> <li>• Reviews the structure, size and composition of the Board</li> <li>• Reviews succession plans and makes recommendations to the Board</li> <li>• Identifies and nominates candidates for approval of the Board</li> <li>• Recommends to the Board membership of the Board Committees</li> </ul> <hr/> <p><b>Page 35</b> <b>Nomination Committee Report</b></p>
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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, retired 23 April 2014)

Genevieve Shore (Chairman, appointed on 23 April 2014)

Jamie Matheson

Michael Jackson

The activities of the Remuneration Committee are described within the report by the Directors on remuneration which can be found on pages 44 to 62. The terms of reference of the Remuneration Committee are available on request and on the Company's website [www.stvplc.tv](http://www.stvplc.tv)

#### **Report from the Nomination Committee**

The members of the Committee during the year were:

Baroness Margaret Ford (Chairman)

David Shearer

Genevieve Shore

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

At the start of the year, the Nomination Committee recommended and the Board subsequently agreed, that at least one additional Non-Executive Director be sought to ensure progressive refreshing of the Board.

Given that a formal tender had been carried out in 2013 in order to select a recruitment consultant to assist STV in its appointment of a new chairman, it was unanimously agreed that the services of Isabel Bird from Bird & Co Group be re-engaged for these purposes. Neither Ms Bird nor Bird & Co Group have any other connection with STV.

The process carried out by the Committee was vigorous and robust, firstly evaluating the balance of skills, experience, independence and knowledge currently on the Board and in light of this, creating a specification of the role sought including an assessment of the time commitment expected. Consideration was also given to the benefits of diversity on the Board.

The Committee reviewed the profiles of nine candidates, from which a shortlist was created and the Committee met with each. After discussion, it was agreed that the appointments of Christian Woolfenden and Anne Marie Cannon as Non-Executive Directors be recommended to the Board. This was unanimously agreed and Christian and Anne Marie joined the Board on 1 June and 1 November 2014 respectively.

#### **Report from the Audit Committee**

The members of the Committee during the year were:

David Shearer (Chairman)

Vasa Babic (resigned 23 April 2014)

Jamie Matheson

Christian Woolfenden (appointed on 19 June 2014)

## CORPORATE GOVERNANCE REPORT

continued

The Audit Committee, chaired by David Shearer, who has recent and relevant financial experience, is authorised by the Board to investigate any activity within its terms of reference and to seek any information it requires from any employee. All employees are directed to co-operate with any request made by the Committee. The Audit Committee has written terms of reference which are available on request and on the Company's website [www.stvplc.tv](http://www.stvplc.tv)

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
- d) puts the auditors in the role of advocate for STV.

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.

Significant issues considered by the Audit Committee in relation to the 2014 financial statements included the following:

### **Deferred production stock**

Deferred production stock forms part of inventory and is stated in the accounts at the lower of cost and net realisable value. Programme costs are expensed in line with expected future revenues which are a judgemental area. A detailed forecast of future sales is prepared by management based on historic experience and expected future trends. Management's treatment and disclosures in relation to deferred production stock were considered to be appropriate.

### **Pensions**

Following the agreement of the tri-ennial actuarial funding valuation in July 2014, the assumptions adopted by STV had been updated from those used at 31 December 2013 and the appropriateness of the updated assumptions was considered by PwC.

The assumptions in relation to discount rate, salary increases, RPI and CPI were all within a range that management considered appropriate and were consistent with assumptions being used by other companies. Although the assumptions in relation to mortality had historically been lower than were typically used by other companies, STV's figures were supported by an independent report obtained by management and were unchanged from 31 December 2013. However, in 2014, the Company has included an allowance for future improvements in life expectancy in line with industry practice.

Management's treatment and disclosures in relation to IAS19 were considered to be appropriate.

### **Goodwill**

At least annually management undertakes a detailed formal impairment review of goodwill. The most significant judgements are in setting the assumptions underpinning the calculation of the value in use of the cash generating unit, specifically the achievability of the short term financial budget assumptions underlying the valuation process. Specific focus is also given to the long term growth rate and discount rate. Business Plans and budgets are Board approved and underpin the cash flow forecasts. In the current year, a detailed review was undertaken of the results of the testing and underlying assumptions of the impairment model and it was agreed that no impairment was required.

### **Independence of the external auditor**

The Audit Committee is responsible for approving non-audit work and in order to seek to preserve auditor's 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 keeps this policy under review. PwC also has an internal process whereby pre-engagement approval of all non-audit services is required to be given by the Audit Partner.

During the year under review, the non-audit work carried out by PwC consisted mainly of advice in relation to tax developments and tax compliance. Given that much of the information was 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.

### **External audit effectiveness**

With regard to the requirement for the Audit Committee to assess the effectiveness of the external audit process, a formal framework is now in place whereby a questionnaire is completed annually by each member of the Audit Committee and by the Chief Financial Officer. Feedback is also sought from STV's finance team. The comprehensive questionnaire covers various aspects of the external audit process, including the audit team; how the audit is both planned and executed; the role of management; and communication. Once completed, the feedback from the process is considered by the Audit Committee and thereafter provided both to the auditors and to management. Following this process, the Audit Committee concluded that the external audit process operated effectively and efficiently.

### **Internal audit**

Deloitte LLP ('Deloitte') are the Company's internal auditor 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.

Business plans and budgets are Board approved and underpin the cash flow forecasts. In the current year, PwC undertook a detailed review of the results of the testing and underlying assumptions of the impairment model and agreed that no impairment charge was required.

**CORPORATE GOVERNANCE REPORT**

continued

Deloitte attends all meetings of the Audit Committee and provides 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.

**Committee activities**

The principal activities undertaken by the Board Committees during 2014 included:

Month	Committee	Activity
January	Nomination	Succession Planning
January	Remuneration	Performance Evaluation (2013)
February	Audit	Review of Year End Results Review of Auditor report on Year End Results Review of Prelim Announcement Review of Annual Report Review of Independence of Auditors Review of external audit/non-audit fees Approval of Internal Audit Plan for the year Review of internal controls/risk management
March	Remuneration	Approval of Remuneration Report
August	Audit	Review of Half Year Results Review of Auditor report on Half Year Results Internal Audit update Review of internal controls/risk management
October	Audit	In depth Business Risk Review Internal Audit Update Performance Evaluation
October	Nomination	Succession Planning Performance Evaluation
October	Remuneration	Review of Executive Remuneration Policy
December	Remuneration	Review of Remuneration Policy Performance Evaluation (2014) Approval of Executive Director: <ul style="list-style-type: none"> <li>- Bonuses</li> <li>- Salary and bonus for 2015</li> <li>- Bonus Plan targets</li> </ul>

**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.



### Senior Management Team

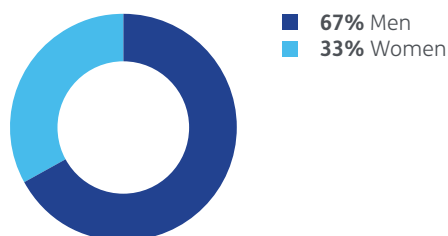
The Senior Management Team is made up of approximately 35 managers from around the Group who meet monthly to discuss strategy, share knowledge and address specific issues.

### Diversity

STV takes the concept of diversity seriously and further details can be found on page 21.

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.

### BOARD BY GENDER



STV has chosen not to target a specific number or percentage of women for its Board, although one third of its Directors is female, but to concentrate its efforts on encouraging more women to remain within the Company and progress through the ranks to senior positions. The number of female staff remained the same as last year, at 49%.

### 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 to ensure that Directors' knowledge, skills and familiarity with the Company's businesses and people are updated and maintained. 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 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.

# CORPORATE GOVERNANCE REPORT

continued

The Chairman spoke with each of the Directors individually to canvass their respective opinions 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.

With regard to the evaluation of the Chairman's performance, the Senior Independent Director spoke with each Director individually.

On completion of the 2014 performance evaluation, each Director was found to make an effective contribution and was well prepared and informed regarding items to be considered by the Board. The mix of skills and experience of Directors was felt to be appropriate and the Board continued 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 and in particular, the smooth process in place regarding the appointment of the two new Non-Executive Directors was noted.

The evaluation process further concluded that the Board was made up of strong and independent minded Non-Executive Directors who 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.

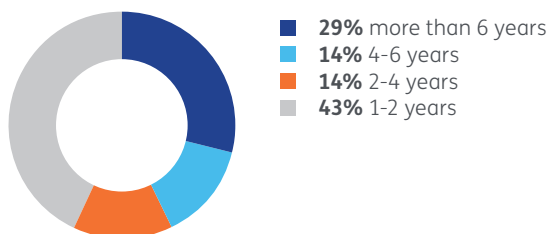
The Chairman reported the results of the evaluations at the Board meeting held on 24 February 2015. The Nomination Committee confirmed to the Board that the contributions made by the Directors offering themselves for re-election at the AGM in April 2015 continue to be effective and that the Company should 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. 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 pages 28 and 29. The Chairman has confirmed that the Directors retiring and seeking re-election have been subject to performance evaluation, apart from Anne Marie Cannon who joined the Board on 1 November 2014, 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.

## TENURE OF NON-EXECUTIVE DIRECTORS AND CHAIRMAN



## 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 together with 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 their statutory audit work.

During 2014, the following reviews were carried out by the internal auditors: (i) broadcasting revenue assurance; (ii) health and safety governance; (iii) freelance staff management; and (iv) social media controls.

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 re-forecasting
- 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 and procedures to monitor the control systems in place to reduce these risks to an acceptable level
- 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.

The presentation and content of the Risk Register has been developed in a way which allows:

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

## CORPORATE GOVERNANCE REPORT

continued

The Risk Register 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 bi-annual 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 mitigating controls is graded as either strong, adequate or weak and any additional controls required are 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 judgements 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
- 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 Audit Committee. No such concerns were raised by staff during the year.

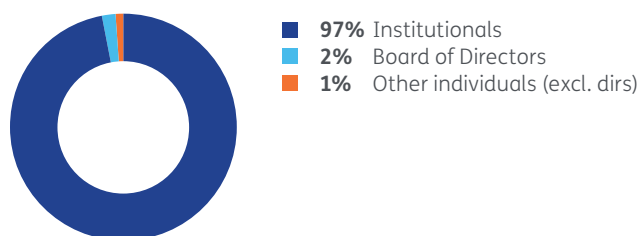
The risk management framework and internal controls system across the Company, which are subject to continuous development, provides the basis on which the Company has complied with the Code provisions on internal control.

### Relations with shareholders

STV's corporate website at [www.stvplc.tv](http://www.stvplc.tv) has information for institutional and private shareholders alike and shareholders seeking information may contact the Company directly throughout the year. In addition, STV has an electronic communication facility to allow shareholders to receive information more quickly and in a manner more convenient for them.

The Board 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.

### SHAREHOLDERS BY TYPE



### 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](mailto:jane.tames@stv.tv). We encourage shareholders to make maximum use of our website to access Company reports, notices of meetings and general shareholder information. Shareholders can also check their shareholding at any time by visiting the Registrar's website at [www.capitashareportal.com](http://www.capitashareportal.com).

# REMUNERATION REPORT



**Genevieve Shore**

Chairman of the Remuneration Committee

## ANNUAL STATEMENT

On behalf of the Board, I am pleased to introduce the Directors' Remuneration Report for the year ended 31 December 2014. With our existing remuneration framework due to expire at the end of 2015 we have taken this opportunity to review our plans and present them in a timely manner.

The Committee reconfirmed the key principles which should underpin the executive remuneration framework as:

- closely aligning rewards with the delivery of Company strategy
- ensuring a significant proportion of the awards are based upon long term success criteria
- reflecting changes in best practice and governance
- simplifying and streamlining the framework for clarity and effectiveness
- ensuring market competitiveness.

### Aligning remuneration to our strategy

As set out earlier in this report, the Board has a clear strategic vision to achieve growth and create shareholder value. As we diversify earnings through our digital and production businesses, we will also continue to focus upon growing our share of our core businesses and advertising revenues.

A key objective for the Committee in the review was to simplify the arrangements, improve the level of alignment with the strategy outlined above and reflect areas of best practice, but all within the existing reward opportunities.

### Proposed changes to our Remuneration Policy

Following the review, we are now proposing the following key changes:

- introduction of a simplified annual bonus framework under which 20% of any bonus earned must be deferred for three years under a new Deferred Bonus Plan ('DBP'). The annual opportunity will remain unchanged at 125% of salary and continue to be based on stretching performance targets (currently operating profit, cash flow and personal objectives aligned to the KPI targets). The new bonus framework will apply from 2016 onwards (to replace the existing Bonus Plan which expires at the end of 2015)
- introduction of a new Long Term Incentive Plan ('LTIP') which will provide annual awards of shares, up to a maximum of 100% of salary, which vest after three years based on stretching performance targets. For the 2015 award, vesting will be based on a combination of EPS growth, relative TSR and non-broadcast earnings growth targets. These measures are closely aligned to our strategic aims for the next three years and the interests of our shareholders. The LTIP will replace the Value Creation Plan which is due to expire at the end of 2015
- we will introduce comprehensive recovery provisions to reduce or reclaim incentives in certain circumstances and which will apply to all elements of variable remuneration.

An extensive shareholder consultation on the new arrangements was conducted in early 2015 and I would like to thank those who took part for providing valuable input which was taken into account by the Committee in finalising the proposals. The majority of the shareholders consulted have been highly supportive of the approach the Committee has adopted.

To implement the changes above, we will be seeking shareholder approval at the 2015 AGM for a revised Remuneration Policy set out on pages 46 to 54 of this report and the new DBP and LTIP share plans. With this revised framework in place and aligned to our strategic objectives, the Committee expects the new Policy to remain in place until a further vote is required in 2018.

In reviewing the Policy, the Committee considered the time horizons in the incentive framework in the context of the stated views of some investors. The Committee concluded that a vesting/performance period of three years remains appropriate for STV in the context of our business model, talent markets, shareholding requirements and the current shareholdings of our Executive Directors. The Committee will keep this area under review.

### Summary of the framework

Following the changes, we now have a simple and transparent remuneration framework aligned with our strategy and the interests of our shareholders, as summarised below:

Salary/ Benefits/Pension	New bonus framework	LTIP
<ul style="list-style-type: none"> <li>- Market competitive fixed pay</li> <li>- Salary increases 2% for 2015</li> <li>- Fixed benefits allowance (£16k) and cash pension allowance (20% of salary)</li> </ul>	<ul style="list-style-type: none"> <li>- Applicable from 2016 onwards</li> <li>- Maximum: 125% of salary</li> <li>- 20% of any bonus deferred for three years</li> <li>- Linked to challenging performance targets (currently operating profit, cash flow and personal objectives)</li> </ul>	<ul style="list-style-type: none"> <li>- First awards after 2015 AGM</li> <li>- Maximum: 100% of salary</li> <li>- Shares vest after three years based on the delivery of stretching performance target ranges</li> <li>- 50% EPS growth</li> <li>- 30% Non-broadcast operating profit</li> <li>- 20% relative TSR vs FTSE Small Cap</li> </ul>
Recovery provisions – apply to bonus and LTIP awards		
Shareholding guidelines – Executive Directors to build holding of 100% of salary		

The Executive Directors received salary increases of 2% with effect from 1 January 2015. The average salary award to staff was 2.8% and it was agreed that this increase, the first increase to base salary levels of the Executive Directors since 2007, was appropriate to ensure alignment with the market.

### 2014 outcomes

As a result of the strong financial performance delivered in 2014, payments have been triggered under the Bonus Plan through achievement of operating profit, PBT and personal objectives targets. The Executive Directors received bonus payments of 58% of salary (48% of bonus potential maximum). The performance achieved and the payment levels achieved against plan targets are set out in the table on page 55.

No long-term incentives vested during the year and the next vesting date for a long-term incentive plan will be in 2016 for the 2013 Value Creation Plan which expires at the end of 2015. As a result of the improved share price performance since grant, the Value Creation Plan is on track to generate rewards at the end of the performance period.

The Annual Report on Remuneration provides additional detail on the payments and awards made to the Directors in the year and on our intentions for 2015. The Annual Report on Remuneration together with this Annual Statement is subject to an advisory shareholder vote at the AGM on 30 April 2015.

I look forward to receiving your support for all of the remuneration related resolutions at our AGM.

### Genevieve Shore

Chairman of the Remuneration Committee

# REMUNERATION REPORT

continued

## DIRECTORS' REMUNERATION POLICY

This Remuneration Policy ('the Policy'), determined by the Company's Remuneration Committee ('the Committee'), will be effective following shareholder approval at the 2015 Annual General Meeting.

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with this Policy where the terms of the payment were agreed (i) before the Policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

The Committee may make minor amendments to the Policy (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval.

### Policy table for Executive Directors

Objective and link to strategy	Operation	Maximum opportunity	Performance conditions
<b>Base salary</b>			
The Committee sets salaries as a retainer for the Executive Directors to recognise status and responsibility to deliver the strategy	<p>When determining the salary of the Executive Directors, the Committee takes into consideration a number of factors including:</p> <ul style="list-style-type: none"> <li>the scale and complexity of the Company and the scope and responsibilities of the role</li> <li>the skills, experience and performance of the individual</li> <li>the Committee's assessment of the competitive environment including consideration of similar positions in organisations of broadly similar size and complexity, in particular companies within the media sector</li> <li>pay and conditions throughout the Company</li> </ul> <p>Salaries are normally reviewed annually, with any changes effective from 1 January in the financial year</p>	<p>There is no prescribed maximum salary</p> <p>In general, any salary increase for Executive Directors will be in line with other employees in the Group</p> <p>The Committee retains discretion to award larger increases where considered appropriate to reflect the factors described in this table</p> <p>Salaries with effect from 1 January 2015 are set out on page 55</p>	None
<b>Benefits</b>			
To provide competitive levels of employment benefits consistent with role	<p>Executives are entitled to receive a taxable cash allowance in lieu of benefits in kind, including car and private medical insurance. This cash benefits allowance is excluded from the calculation of any other benefit provided by the Company</p> <p>The Executive Directors are eligible to participate in the Company's all employee share plans, as offered from time to time, on the same terms as all employees</p>	<p>Benefit values vary year-on-year, depending on premiums, and the maximum potential value is the cost of the provision of the benefits outlined</p> <p>Participation in all employee share plans is subject to HMRC plan rules and limits</p>	None



Objective and link to strategy	Operation	Maximum opportunity	Performance conditions
<b>Pension</b>			
To provide competitive levels of retirement benefit	The Group operates a defined benefit ('DB') scheme (closed to new members), a defined contribution ('DC') scheme and a group personal pension plan. Executive Directors have the option to receive a taxable cash allowance in lieu of pension benefits  George Watt was a participating member of the Scottish and Grampian Television Retirement Benefits Scheme, which is an approved defined benefits occupational pension scheme, until 31 March 2010, when he became a deferred member. No benefits accrued under this scheme during 2014	The maximum pension contribution or taxable cash allowance in lieu of pension is 20% of salary	None

Objective and link to strategy	Operation	Maximum opportunity	Performance conditions and assessment
<b>Annual bonus</b>			
Aligns reward to the delivery of annual financial and strategic performance measures. Deferral creates long term alignment with shareholders	This framework will apply with effect from the 2016 financial year (the Bonus Plan described on page 49 will apply in 2015)  Provides an opportunity for additional reward (up to a maximum specified as a % of salary) based on annual performance against targets set and assessed by the Committee  A proportion of any bonus (20%) is deferred into Company shares under the terms of the STV Deferred Bonus Plan ('DBP') and normally vest over three years, subject to continued employment  Recovery and dividend equivalent provisions apply (see explanatory notes)	125% of salary	Payment is determined by reference to performance assessed over one financial year based on a range of financial and strategic performance measures  These measures currently include: <ul style="list-style-type: none"> <li>operating profit</li> <li>cash flow</li> <li>personal objectives</li> </ul> As well as determining the measures and targets, the Committee will also determine the weighting of the various measures, which will normally be weighted towards the financial measures  At threshold and target performance 12.5% and 50% of base salary, respectively, is currently payable  The Committee has discretion to use different or additional measures, weightings or payout schedules to ensure that the bonus framework appropriately supports the business strategy and objectives for the relevant year  The Committee has the discretion to adjust targets for any exceptional events that may occur during the year

# REMUNERATION REPORT

continued

Objective and link to strategy	Operation	Maximum opportunity	Performance conditions and assessment
<b>Long Term Incentive Plan</b>			
Aligns reward to the delivery of long-term financial performance delivered for shareholders	<p>Awards are made under the terms of the STV Long Term Incentive Plan, subject to approval by shareholders at the 2015 Annual General Meeting</p> <p>Awards are normally in the form of a right to acquire shares in the Company for a zero or nominal amount</p> <p>Awards vest over a period of at least three years, subject to the satisfaction of performance conditions</p> <p>A post-vesting holding period may apply</p> <p>Recovery and dividend equivalent provisions apply (see explanatory notes)</p>	The maximum award in respect of a financial year is 100% of salary	<p>Vesting is determined by reference to performance assessed over a period of at least three years, based on performance measures which the Committee consider to be aligned with the delivery of strategy and long term shareholder value. For awards to be made in 2015, the measures are:</p> <ul style="list-style-type: none"> <li>• earnings per share ('EPS') – 50%</li> <li>• non-broadcast operating profit – 30%</li> <li>• relative total shareholder return – 20%</li> </ul> <p>The Committee has discretion to use different or additional measures or weightings to ensure that the LTIP remains appropriately aligned to the business strategy and objectives</p> <p>The Committee has the discretion to adjust targets for any exceptional events that may occur during the year</p> <p>The threshold level of vesting is 20% of the maximum award</p>
<b>Shareholding requirement</b>			
To strengthen long term alignment with shareholders	Executive Directors are required to hold shares equivalent to 100% of their annual salary	The required level of holding is 100% of salary	None

## Notes to the Policy table

### Changes to remuneration policy from previous policy

The following changes have been made to the previous Policy:

- introduction of a new bonus framework to replace the Bonus Plan with effect from 2016. This includes an element of deferral under the DBP
- introduction of a new LTIP to replace the VCP
- introduction of recovery provisions.

### Recovery provisions

Awards of variable remuneration made under the Policy Table for Executive Directors are subject to recovery provisions which allow the Committee to reduce or cancel unvested DBP/LTIP awards, or seek to reclaim paid or deferred cash or DBP/LTIP awards, in certain circumstances.

The recovery provisions for the annual bonus apply for three years from the date of payment of the bonus/grant of deferred shares, and two years from the date of vesting under the LTIP. The circumstances which may trigger the recovery provisions are as follows:

- a material misstatement of the Company's (or any Group members) audited financial results
- misconduct on the part of the participant
- an error in assessing a performance condition
- action by a participant or participants which resulted in a material breach and subsequent loss of the Company's Channel 3 licence(s).

### Dividend equivalents

The Committee may determine that the number of shares to which a participant's DBP or LTIP award relates shall increase to take account of dividends that would have been paid on vested shares on such terms as it determines, or that an equivalent amount should be paid in cash.

### Performance measures and targets

The Committee selects performance measures for the annual bonus which appropriately support the business strategy and objectives for the relevant year. The financial metrics used (such as operating profit) are the key metrics used by the Directors to oversee the operation and performance of the business. Personal measures allow the Committee to reward the delivery of key strategic objectives. The performance measures for the LTIP are aligned with the delivery of strategy and long term shareholder value. The performance targets are determined annually by the Committee, and are set at an appropriately stretching level taking into account relevant business forecasts.

### Discretion

The Committee has discretion in several areas of policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules.

### Differences in remuneration policy for all employees

All employees of STV are entitled to base salary, pension and benefits. The maximum opportunity available is based on the seniority and responsibility of the role. Long-term incentive awards are only available to the leadership team and key senior staff by invitation.

### Legacy incentive plans

The table below summarises the terms of the incentive plans approved by shareholders at the AGM on 24 April 2013 (and contained in the Remuneration Policy approved by shareholders at the AGM on 23 April 2014). These arrangements are due to expire based on performance up to the end of 2015 and no further awards will be made under these plans.

Objective and link to strategy	Operation	Maximum opportunity	Performance conditions and assessment
<b>Bonus Plan</b>			
The Bonus Plan aligns reward to key strategic objectives over the short-medium term	<p>The Bonus Plan operates in respect of three Plan Years (2013, 2014 and 2015)</p> <p>Contributions to each participant's Bonus Plan account are made following the publication of the audited financial statements, based on the satisfaction of the performance targets</p> <p>Following the end of each of the three Plan Years, 50% of the balance in the account is paid out. The remaining 50% is deferred as shares</p> <p>The balance of the account pays out in the fourth year (payable upon confirmation of 2016 full year results)</p> <p>A forfeiture provision applies such that 50% of the account balance is forfeited if a minimum threshold target is not met in any financial year</p>	<p>The Maximum Annual Contribution is 125% of salary for all Executive Directors</p> <p>At threshold performance bonus payable is equivalent to 12.5% of base salary and at target performance, bonus payable is equivalent to 50% of base salary</p>	<p>Performance targets will be set annually based on a range of financial and strategic measures including:</p> <ul style="list-style-type: none"> <li>• Operating profit</li> <li>• Cash flow</li> <li>• Personal objectives</li> </ul> <p>As well as determining the measure and targets, the Committee will also determine the weighting of the various measures to ensure that they support the business strategy and objectives for the relevant year</p> <p>The Committee has the discretion to adjust targets or performance measures for any exceptional events that may occur during the year</p>

# REMUNERATION REPORT

continued

Objective and link to strategy	Operation	Maximum opportunity	Performance conditions and assessment												
<p><b>Value Creation Plan</b></p> <p>The Value Creation Plan ('VCP') was implemented to align the interests of the Executive Directors with those of shareholders by focusing on delivering superior returns to shareholders</p>	<p>Performance Units were granted to Executive Directors on 11 March 2013. No further awards have or will be made to the Executive Directors</p> <p>Subject to the performance criteria being met at the end of a three year performance period (which ends on 31 December 2015), these Performance Units will convert into a Nil-Cost Option over sufficient shares to deliver the participant's share of the Maximum Incentive Value</p> <p>The Nil-Cost Option may be exercised until the tenth anniversary of the date of grant of the Performance Units</p>	<p>The number of Performance Units allocated to Executive Directors was:</p> <table border="1"> <tr> <td><b>R Woodward</b></td> <td>330,000</td> </tr> <tr> <td><b>G Watt</b></td> <td>170,000</td> </tr> </table> <p>The aggregate number of Performance Units under option as a result of the VCP is limited to one million.</p>	<b>R Woodward</b>	330,000	<b>G Watt</b>	170,000	<p>The Maximum Incentive Value for all participants will be conditional upon achieving an average share price of £1.50 or higher over the last 30 days of the three year performance period (the Measurement Price). The share price at date of grant on 1 January 2013 was £1.00. Provided the Measurement Price is above £1.50, a percentage of the additional value created is used to create a pool (the Incentive Value) in line with the table below:</p> <table border="1"> <thead> <tr> <th>Measurement price</th> <th>Contribution percentage<sup>1</sup></th> </tr> </thead> <tbody> <tr> <td>Below £1.50</td> <td>0%</td> </tr> <tr> <td>£1.50-£2.00</td> <td>5%</td> </tr> <tr> <td>Above £2.00</td> <td>7.5%</td> </tr> </tbody> </table> <p>1 The contribution percentage is the proportion of the value created allocated to participants</p> <p>The Incentive Value, calculated in accordance with the table above will be multiplied by the number of shares in issue at the Measurement Date to determine the Maximum Incentive Value for all participants.</p>	Measurement price	Contribution percentage <sup>1</sup>	Below £1.50	0%	£1.50-£2.00	5%	Above £2.00	7.5%
<b>R Woodward</b>	330,000														
<b>G Watt</b>	170,000														
Measurement price	Contribution percentage <sup>1</sup>														
Below £1.50	0%														
£1.50-£2.00	5%														
Above £2.00	7.5%														

## Non-Executive Directors

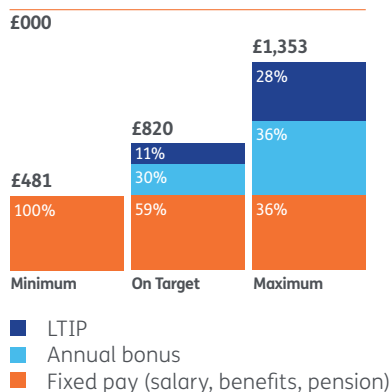
The table below sets out the key elements of the policy for non-Executive Directors:

Objective and link to strategy	Operation	Maximum opportunity
To attract Non-Executive Directors with the requisite skills and experience	<p>The fees of the Non-Executive Directors are 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)</p> <p>The fee for Non-Executive Directors encompasses a basic fee and may also include supplementary fees for committee or other duties</p> <p>The Chairman receives a single fee for all duties</p> <p>Fees are normally reviewed annually with changes effective from 1 January</p> <p>Fees are paid in cash</p> <p>The Chairman and Non-Executive Directors do not participate in any bonus or share incentive scheme, nor do they participate in any pension arrangements</p>	<p>Fees are set at a level which reflects skills, experience, time commitment and appropriate market data</p> <p>Fees are set within the limits set by the Articles of Association</p> <p>Fees with effect from 1 January 2015 are set out on page 56</p>

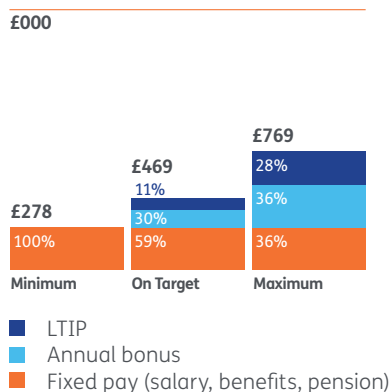
## Illustrations of application of remuneration policy

The graphs below seek to demonstrate how pay varies with performance for the Executive Directors based on the Policy Table for Executive Directors.

### Rob Woodward



### George Watt



Assumptions used in determining the level of pay-out under given scenarios are as follows:

- Minimum – reflects fixed pay only (base salary as at 1 January 2015, benefits, and cash in lieu of pension contributions at 20% of salary).
- Target – reflects fixed pay, target bonus (62.5% of salary) and LTIP awards (100% of salary) vesting at threshold performance (25% of maximum).
- Maximum – reflects, maximum bonus (125% of salary) and LTIP awards vesting in full (100% of salary).

**REMUNERATION REPORT**

continued

**Recruitment remuneration policy**

The Committee's approach to recruitment remuneration is to pay no more than it considers necessary to secure appropriate candidates to the role.

The principle is that the pay of any new recruit would be assessed following the same principles as for the Executive Directors. The structure of the remuneration package would therefore normally include the components, and be subject to relevant maxima, as set out in the Policy Table for Executive Directors. Salaries would typically be set at an appropriately competitive level to reflect skills and experience. They may be set at a level to allow future salary progression to reflect performance in role. The Executive Director would be eligible to participate in the annual bonus and LTIP for the year subject to a maximum level of variable remuneration which may be awarded (excluding any compensatory awards referred to below) at 225% of salary.

Where an individual forfeits remuneration with a previous employer as a result of appointment to the Company, the Committee may make compensatory payments or awards to facilitate recruitment. In determining the structure of these commitments, the Committee will normally seek to replicate, as far as practicable, the timing and performance requirements of remuneration foregone. Such payments or awards could include cash (where cash-based remuneration is forfeited) as well as share awards. There is no limit on the value of such compensatory awards, but the Committee's intention is that the value awarded would be no more generous than a broadly equivalent economic value of the forfeited remuneration.

In instances where the new Executive Director relocates from one workbase to another, the Company may provide compensation to reflect the cost of relocation. The level of relocation package will be assessed on a case by case basis but will take into consideration any cost of living differences, housing allowance and schooling in accordance with the Company's normal relocation package for employees.

Where an existing employee is promoted to the Board, the policy would apply from the date of promotion but there would be no retrospective application of the policy in relation to subsisting incentive awards or remuneration arrangements. Accordingly, existing elements of the remuneration package of the employee would be honoured and form part of the ongoing remuneration for the person concerned.

**Service contracts**

When setting notice periods the Committee has regard to market practice and corporate governance best practice. Notice periods will not be greater than 12 months.

Director	Date of contract/ letter of appointment	Unexpired term	Notice period by Company or Director
<b>Executive</b>			
R Woodward	28 February 2007	Rolling contract	12 months
G Watt	27 February 2001	Rolling contract	12 months

Director	Date of contract/ letter of appointment	Date(s) of (re)appointment	Unexpired as at March 2015
<b>Non-Executive</b>			
Baroness Ford	1 June 2013	23 April 2014	2 years 11 months
D Shearer	28 February 2007	23 April 2014	2 years 11 months
J Matheson	5 March 2007	24 April 2013	1 year 11 months
M Jackson	1 May 2009	23 April 2014	2 years 11 months
G Shore	1 March 2012	18 April 2012	11 months
C Woolfenden	1 June 2014	-	2 years 3 months
A M Cannon	1 November 2014	-	2 years 8 months

### Policy on payment for loss of office

When determining any loss of office payment the Committee will always seek to minimise cost to the Company whilst seeking to reflect the circumstances in place at the time.

In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or normal resignation. In other circumstances Executive Directors may be entitled to receive compensation for loss of office which will be paid monthly for a maximum of twelve months. Such payments will be equivalent to the monthly salary, pension supplements, and benefits that the Executive would have received if still in employment with the Company. Executive Directors will be expected to mitigate their loss within a 12 month period of their departure from the Company.

The treatment of incentive awards would be determined by the relevant plan rules. If the individual is a 'good leaver', the treatment of awards will be as set out in the table below (which also describes the Committee's areas of discretion). The 'good leaver' circumstances are death, ill-health, injury, disability, the sale of the business or entity that employs the participant out of the Group, or for any other reason at the Committee's discretion (redundancy, and retirement by agreement with the Company are also 'good leaver' terms under the Bonus Plan and VCP). If the individual is not a good leaver, unvested awards will lapse in full. It is the Committee's policy to only apply its discretion to determine an individual is a 'good leaver' where the circumstances at the time are, in its opinion, sufficiently exceptional, and to provide a full explanation to shareholders where discretion is exercised.

### Treatment of awards for a 'good leaver'

<b>Annual bonus (2016 onwards)</b>	The Committee has discretion to make a payment under the annual bonus in respect of the year of cessation. This would reflect performance in the year and be pro-rated to reflect the period worked in that year.
<b>DBP</b>	Unvested DBP awards will usually continue, unless the Committee determines that the award should vest as soon as reasonably practicable following the date of cessation. An award will normally vest in full but the Committee retains discretion to determine the extent to which it vests, taking account of the period of time that has elapsed since the award was granted until the date on which the participant ceases to hold office or employment with the Group.
<b>LTIP</b>	Unvested LTIP awards will usually continue, unless the Committee determines that the award should be released as soon as reasonably practicable following the date of cessation. The Committee will decide the extent to which an unvested award vests in these circumstances, taking into account the extent to which any performance condition is satisfied and, unless the Committee in its discretion determines otherwise, the period of time that has elapsed since the award was granted until the date of cessation.

### Legacy plans

<b>Bonus Plan</b>	The Company will make a distribution to the Executive Director of the whole of the plan account at the date of cessation. Further, on the next normal Measurement Date, if the Board determines that a Bonus Plan Contribution should be made, then the Executive's Contribution will be pro-rated to reflect the period worked in that performance year.
<b>VCP</b>	The Committee may use its discretion to determine that all or a proportion of the Performance Units shall convert on the Measurement Date. The Committee has the discretion whether to pro-rate the number of Performance Units that may convert into Nil-Cost Options at the normal Measurement Date. For Performance Units that are converted on termination, the Committee can determine the period over which the Nil-Cost Options may be exercised. On termination of employment after the Measurement Date, the Executive Director will be entitled to exercise their Nil-Cost Options at any time during the period permitted by the Committee.

# REMUNERATION REPORT

continued

There is no contractual provision agreed prior to 27 June 2012 that could impact the quantum of payment.

The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's discharge of office or employment.

## Change of control

<b>DBP</b>	An award will normally vest in full but the Committee retains discretion to determine the extent to which it vests, taking account of the period of time that has elapsed since the award was granted until the date on which the participant ceases to hold office or employment with the Group.
<b>LTIP</b>	Awards will vest, taking into account the extent that any performance condition has been satisfied, and, unless the Committee determines otherwise, the period of time which has elapsed between the grant date and the relevant event. Alternatively, the Committee may permit participants to exchange awards for equivalent awards which relate to shares in a different company.

## Legacy plans

<b>Bonus Plan</b>	The value of Participant's Plan Account will be released. The Committee will take into account such factors as it considers relevant in relation to the Bonus Plan Contribution for the year in which the event occurs, including the proportion of the Bonus Plan Year elapsed at the date of the event.
<b>VCP</b>	The three year performance period will end on a change of control. Performance Units may convert into Nil-Cost Options immediately prior to the change of control, based on the satisfaction of the performance criteria. In exceptional circumstances the Committee may, in its absolute discretion, determine the proportion of the Performance Units which shall be capable of conversion shall be reduced to take account of the period from the date of Change of Control as a proportion of the period from the award date until the original Measurement Date.

## Consideration of employment conditions elsewhere in the Company

In making annual pay decisions the Committee gives consideration to pay and employment conditions in the rest of the Company. The Committee is provided with data on the remuneration structure for the Executive leadership team, and uses this information to work with the HR team to ensure consistency of approach throughout the Company.

To appraise itself of conditions elsewhere in the Company, the Committee invites the HR & Communications Director to present on the proposals for salary increases for the employee population generally, and on any other changes to remuneration policy within the Company.

The 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.

Although the Committee takes into account the pay and conditions of other employees, the Company did not consult with employees when developing the Policy. No comparison metrics were used by the Committee.

## Consideration of shareholder views

The views of the Company's shareholders are very important and the Committee welcomes constructive feedback with respect to the remuneration policies or structure which we take on board to formulate our arrangements. The Committee consulted with its major shareholders in early 2015 to receive feedback on the remuneration policy and the introduction of the new bonus framework and LTIP. The major shareholders consulted were supportive of the proposed introduction of the new incentive arrangements and overall remuneration policy.



## ANNUAL REPORT ON REMUNERATION

This section of the report sets out how the Policy will be implemented in 2015 and how it was implemented during 2014. Some sections of this report, where indicated, have been audited.

### Statement of implementation of remuneration policy for 2015

#### Executive Directors

The salaries for 2015 are set out below:

Executive Director	2014 Salary £000	2015 Salary £000	% increase
R Woodward	380	388	2%
G Watt	214	218	2%

Salary levels of employees throughout the Company were increased by an average of 2.8% in 2015. The base salary increases for the Executive Directors represent the first increase since 2007 and this will continue during 2015.

Benefits and pension will be provided for as set out in the Policy Table for Executive Directors.

In 2015, the Executive Directors will participate in the Bonus Plan as described in the table on page 49. This will represent the final year of participation in this plan (from 2016 the Executive Directors will participate in the new annual bonus framework as described in the Policy Table for Executive Directors on page 47. The bonus will be based on stretching targets set for the performance measures in the table below. The Committee is of the opinion that the performance targets for the Bonus Plan are commercially sensitive, and that it would be detrimental to the interests of the Company and its shareholders to disclose them at this time. It is the Committee's intention to disclose the targets after the end of the financial year if the Committee is satisfied they are no longer sensitive.

Performance measure	Weighting	Threshold bonus contribution (% of salary)	Maximum bonus contribution (% of salary)
Operating profit	50%	6.25%	62.5%
Cash flow	25%	3.125%	31.25%
Personal objectives	25%	3.125%	31.25%
Totals		12.5%	125%

In 2015, subject to shareholder approval at the AGM, the Executive Directors will receive awards under the LTIP as described in the Policy Table for Executive Directors on page 48. Awards to Executive Directors will be made at the level of 100% of salary and will vest after three years subject to the following performance targets:

Performance measure	Calibration of targets	Weighting	Threshold vesting (25% of maximum)	Maximum vesting
EPS	Annualised growth in adjusted EPS from FY14 to FY17	50%	7%	12%
Non-broadcast operating profit	Operating profit for non-broadcast activities in FY17	30%	£4.0m	£9.0m
Relative TSR	Ranked position of the Company's total shareholder return ('TSR') against the constituents of the FTSE Small Cap Index (using 3 month averaging)	20%	Median	Upper quartile

There is no vesting for below threshold performance and straight-line vesting between threshold and maximum.

**REMUNERATION REPORT**

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**Non-Executive Directors**

The fees for the Chairman and Non-Executive Directors effective at 1 January 2015 will remain unchanged from 2014:

Executive Director	£
Chairman fee	95,000
Basic NXD fee	32,500
Additional fees:	
SID	12,500
Sitting on the Company's Audit and/or Remuneration Committees	5,000
Chairing the Audit or Remuneration Committee	2,500

**Single total figure of remuneration****Executive Directors (audited)**

The table below sets out the single total figure of remuneration for each Executive Director for the 2014 financial year. Comparative figures for 2013 are also shown.

Executive Director		Salary (£000)	Taxable benefits (£000)	Annual bonus (£000)	Long-term incentives (£000)	Pension	Total
R Woodward	<b>2014</b>	<b>380</b>	<b>16</b>	<b>189</b>	<b>n/a</b>	<b>76</b>	<b>661</b>
	2013	380	16	129	n/a	76	601
G Watt	<b>2014</b>	<b>214</b>	<b>16</b>	<b>106</b>	<b>n/a</b>	<b>43</b>	<b>379</b>
	2013	214	16	73	n/a	43	346

**Notes**

Taxable Benefits – Includes a taxable cash allowance in lieu of benefits-in-kind, including car and private medical insurance.

Annual Bonus – this includes the value of bonus earned in respect of the relevant financial year (including any amount deferred under the Bonus Plan and re-valued in accordance with the plan rules).

Long-term incentives – No long-term incentives vested by reference to either financial year. Pension – Both Executive Directors receive a taxable cash allowance in lieu of pension. George Watt is a deferred member of the defined benefits scheme and as such no additional value was accrued by him under this plan during the year.

### Non-Executive Directors (audited)

The table below sets out the single total figure of remuneration for each non-Executive Director. Non-Executive Directors do not participate in any of the Company's incentive arrangements nor do they receive any benefits.

Non-Executive Director	Financial year	Basic fees £	Additional fees <sup>1</sup> £	Total fees £
Baroness Ford	2014	95,000	–	95,000
	2013	55,416	–	55,416
D Shearer	2014	43,333	7,500	50,833
	2013	40,000	7,500	47,500
V Babic <sup>2</sup>	2014	10,000	2,500	12,500
	2013	30,000	7,500	37,500
J Matheson	2014	31,667	5,000	36,667
	2013	30,000	5,000	35,000
M Jackson	2014	31,667	5,000	36,667
	2013	30,000	5,000	35,000
G Shore	2014	31,667	5,000	36,667
	2013	30,000	5,000	35,000
C Woolfenden <sup>3</sup>	2014	15,958	3,000	18,958
A M Cannon <sup>3</sup>	2014	5,417	–	5,417

#### Notes

1 Additional fees relate to a fee of £5,000 per annum for sitting on one or more of the Company's Audit and Remuneration Committees and an additional fee of £2,500 per annum to reflect the additional duties involved in chairing the Audit and Remuneration Committees.

2 Vasa Babic retired by rotation in April 2014.

3 Christian Woolfenden was appointed on 1 June 2014 and Anne Marie Cannon was appointed on 1 November 2014.

### Annual bonus (audited)

The table below sets out the targets and achieved performance against the performance targets for the Bonus Plan for the year ended 31 December 2014.

Performance condition	Weighting	Annual contribution (% salary)		Performance targets		Actual performance outcome	Contribution to Plan account for 2014 (% salary)	Contribution to Plan account for 2014 (£000)		
		Threshold	Maximum	Threshold	Maximum			R Woodward	G Watt	
Operating Profit	25%	3.125%	31.25%	£17.1m	£21.8m	£19.5m	18%	70	39	
Group										
PBT	25%	3.125%	31.25%	£14.8m	£18.9m	£17.3m	21%	78	45	
Cash flow	25%	3.125%	31.25%	£12.6m	£16.1m	£11.8m		Target not met		
Personal objectives	25%	3.125%	31.25%		See below		19%	71	40	
Total	100%	12.5%	125%	-	-	-	58%	219	124	

**REMUNERATION REPORT**

continued

The personal objectives were set at the start of the year by the Committee. These targets related to key strategic business targets, specifically the growth of the digital and Production businesses; reduction of key strategic risks to increase financial stability and investment certainty and progress against KPIs. The Committee assessed performance against these targets and concluded that they had been partially satisfied at the end of the financial year, resulting in a bonus payment equal to 18.75% of salary to each Executive Director. The Committee considers that the actual performance targets and outcomes relating to the personal objectives are commercially sensitive at this current time and are therefore not disclosed.

**Bonus deferred under the Bonus Plan (audited)**

Under the Bonus Plan, the earned bonus for the year is added to each individual Executive Director's plan account. Half of the balance on the plan account at the end of the financial year is released and 50% deferred in accordance with the terms of the plan (see page 49). The deferred balances on each Executive Director's plan account are set out below.

	A	B	C	D	E	F	G	H
Executive Director	Plan account brought forward (shares)	Plan account brought forward (£)	Contribution into plan account for 2014 (£)	Plan account balance following contribution for 2014 <sup>1</sup> (£)	Amount released following contribution for 2014 (£)	Amount released from plan account for 2014 (50% of column C) (£)	Plan account carried forward (£)	Plan account carried forward (shares)
R Woodward	43,245	129,086	219,609	377,452	188,726	109,805	188,726	51,705
G Watt	24,376	72,764	123,791	212,765	106,383	61,896	106,382	29,145

<sup>1</sup> Plan account balance following contribution for 2014 includes revaluation of plan account brought forward ('b') as per plan rules.

The plan account balance carried forward is subject to an annual performance condition related Forfeiture Threshold. Where the Forfeiture Threshold is not achieved in the following Bonus Plan year, 50% of the balance of the plan account earned in respect of previous Bonus Plan years but not paid will be forfeited.

The Committee considered the Forfeiture Threshold and determined that none of the plan account should lapse.

**Scheme interests awarded in 2014 financial year (audited)**

No scheme interests were awarded to the Executive Directors during 2014.

**Payments to past Directors (audited)**

No payments to past Directors were made during the year.

**Payments for loss of office (audited)**

No payments for loss of office were made during the year.

### All employee share plans

The Savings Related Share Option Plan ('SAYE') which was launched in 2011, reached maturity on 1 September 2014. Rob Woodward and George Watt exercised their options over 7,337 shares respectively which had been awarded, under the scheme, at a price of 123p.

A new three year SAYE plan was launched in November 2014 at a price of 338p. Rob Woodward was granted 2,662 options and George Watt was granted 5,325 options.

### Statement of Directors' shareholding and share interests (audited)

Executive Directors are required to build up a shareholding equal to 100% of salary. The table below summarises the Directors' interests in shares and the extent to which the shareholding requirements have been achieved. The Non-Executive Directors are not subject to a shareholding guideline.

Director	Number of beneficially owned shares <sup>1</sup>	Number of deferred Bonus Plan shares subject to conditions	Number of SAYE options subject to conditions	Total interests held at 31 Dec 2014	Shareholding requirements
<b>Executive</b>					
R Woodward	519,322	51,705	2,662	519,322	Met
G Watt	265,769	29,145	5,325	265,769	Met
<b>Non-Executive</b>					
Baroness Ford	25,958	-	-	25,958	-
D Shearer	100,000	-	-	100,000	-
J Matheson	12,500	-	-	12,500	-
M Jackson	-	-	-	-	-
G Shore	16,063	-	-	16,063	-
C Woolfenden	-	-	-	-	-
A M Cannon	-	-	-	-	-

#### Notes

1 Beneficial interests include shares held directly or indirectly by connected persons.

### Dilution

The following table sets out the current level of dilution against the limits in the Bonus Plan and VCP 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	6.07	1.93
5% dilution in ten years	4.29	1.37

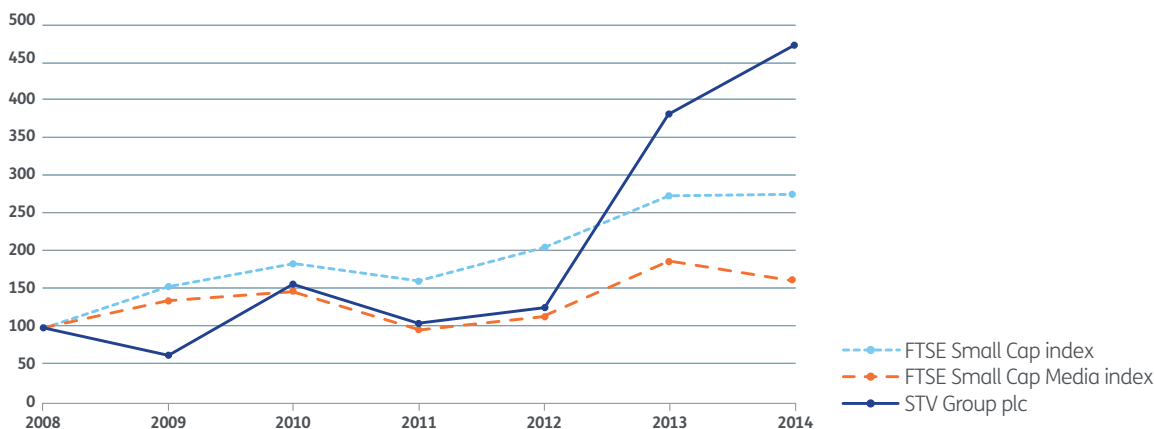
The DBP and LTIP will be subject to a limit of 10% in ten years.

# REMUNERATION REPORT

continued

## Performance graph and table

The graph below shows the Company's performance, measured by total shareholder return ('TSR'), compared with the performance of the FTSE Small Cap and FTSE Small Cap Media indices. The FTSE Small Cap index will be used for performance measurement under the new LTI and the FTSE Small Cap Media index provides a comparison of performance in the media sector.



The table below shows the Chief Executive Officer's remuneration over the past six years.

Year	Single figure of total remuneration (£000) R Woodward <sup>1</sup>	Bonus pay-out (as % maximum opportunity) <sup>1,2</sup>	Long-term incentive vesting rates (as % maximum opportunity)
<b>2014</b>	<b>661</b>	<b>46</b>	–
2013	601	54	–
2012	696	31	100%
2011	958	15	–
2010	472	90	–
2009	472	–	–

### Notes

1 2011 single figure of remuneration of £958,000 includes deferred bonus payment of £427,500 from 2010 bonus plan which carried performance conditions.

2 Maximum potential bonus opportunity has varied in the period between 2009 and 2014 and therefore this is not a like-for-like comparison.

### Percentage change in Chief Executive Officer's remuneration

The table below shows the percentage increase in the salary, benefits and annual bonus of the Chief Executive Officer and all employees (on a per capita basis) between 2013 and 2014.

	Salary	Taxable benefits	Bonus
Chief Executive Officer	2%	0%	46%
All employees	2.8%	0%	n/a

### Relative importance of spend on pay

The table below sets out the relative importance of spend on pay in the 2014 and 2013 financial years. These were the most significant outgoings for the Company in the last financial year.

Significant distributions	2014	2013	% change
Overall spend on pay	£19.4m	£16.5m	17%
Dividend or share buyback	£1.6m	-	-

### Consideration by the Directors' of matters relating to Director's remuneration

#### Members of the Committee

During the year, the Committee comprised of the following Independent Non-Executive Directors: Vasa Babic, Michael Jackson, Jamie Matheson and Genevieve Shore (who replaced Vasa Babic as Chairman of the Committee when he stepped down from the Board on 23 April 2014). The Committee met four times during the year.

The Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and the senior management and for setting the remuneration packages for each Executive Director. The Committee also has oversight of the remuneration policy and packages for other senior members of staff. The Committee has formal terms of reference which describes its full remit and which can be downloaded from the STV website.

**REMUNERATION REPORT**

continued

**Advisors to the Committee**

The Committee seeks independent advice to assist in considering executive remuneration. This includes updating the Committee on trends in compensation and governance matters and advising the Committee in connection with the design and operation of the Company's incentive arrangements.

During the year, the Committee received advice from PricewaterhouseCoopers LLP, who had been selected by the Committee in 2008 (as Halliwell Consulting) through a competitive tendering process. In September 2014, following a competitive tendering process, the Committee appointed Deloitte LLP to advise on the development of the new incentive framework.

Both PricewaterhouseCoopers LLP and Deloitte LLP are members of the Remuneration Consultants' Group and have signed up to that Group's Code of Conduct on executive remuneration consulting. On that basis, the Committee is satisfied that the advice received was objective and independent. PricewaterhouseCoopers LLP was also the Company's statutory auditors during the period. The Committee reviewed the nature of the services provided and was satisfied that no conflict of interest existed in the provision of these services, and that the advice provided was objective and independent.

In the course of its deliberations during the period under review, the 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.

**Statement of voting at general meeting**

The table below shows the remuneration related votes at the AGM held on 23 April 2014.

	Votes for	%	Votes against	%	Total votes cast	Votes withheld*
2013 Remuneration Report	24,974,079	92.92	1,901,634	7.08	26,875,713	3,746
2013 Remuneration Policy	25,210,955	93.80	1,666,713	6.20	26,877,668	1,791

\* A vote withheld is not a vote in law and counts neither for nor against a resolution.

**Genevieve Shore**

Remuneration Committee Chairman

16 March 2015



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# STV GROUP PLC CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditors' Report to the Members of STV Group plc

## Report on the group financial statements

### Our opinion

In our opinion, STV Group plc's group financial statements (the 'financial statements'):

- give a true and fair view of the state of the group's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('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.

### What we have audited

STV Group plc's financial statements comprise:

- Consolidated Balance Sheet as at 31 December 2014;
- Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- Consolidated Statement of Cash Flows for the year then ended;
- Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

## Our audit approach

### Overview



- Overall group materiality: £865,000 which represents 5% of profit before tax
- We performed audit work over all segments of the business
- Taken together, the segments and functions where we performed our audit work accounted for 100% of group revenues and 100% of group profit before tax
- Retirement benefit obligations
- Production inventory carrying value
- Goodwill impairment assessment

### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
<p><b>Retirement benefit obligations</b> Refer to page 35 (Audit Committee Report), page 72 (Significant Accounting Policies) and page 88 (notes).</p> <p>The group has a net retirement benefit obligation of £14.9m that is significant in the context of the group balance sheet and is dependent on key judgemental assumptions, including discount rate, inflation rate and mortality rates adopted by the Directors in the actuarial valuation. Slight movements in these assumptions can have a significant impact on the overall obligation. In particular, the mortality assumption was outside the range that we would typically expect to see and hence additional focus was placed on the consideration of this assumption.</p>	<p>We considered the reasonableness of the key assumptions used in the actuarial valuation, being the discount rate, inflation rate (based on the Retail Price Index and the Consumer Price Index) and mortality rates, assessing if they were within our expected range.</p> <p>All actuarial assumptions, with the exception of the mortality assumptions, fell within our expected range based on our knowledge and experience. For the mortality assumptions we used our specialist knowledge and experience to challenge the Directors on their rationale and what evidence they had to support it. Taking into account factors relating to the specific industry and location of the business, which the Directors evidenced through mortality studies they had commissioned, we agreed that the judgements made by the Directors were reasonable.</p>
<p><b>Productions inventory carrying value</b> Refer to page 35 (Audit Committee Report), page 72 (Significant Accounting Policies) and page 84 (notes).</p> <p>Production inventory of £14.8m relates to associated costs incurred in the production of programming which is deferred on the Balance Sheet at the point of initial sale and charged to the income statement in line with the associated forecast future revenue. The charge to the income statement and the carrying value of the deferred production inventory are therefore based on judgements made by the Directors of associated future revenue.</p>	<p>We analysed the Directors' assessment of each production in the catalogue to determine, based on the past history of sales and licence periods, the appropriateness of their projected future revenues for each production individually, which are expected to be generated through associated sales in the UK and overseas.</p> <p>We considered the actual sales in 2014 against last year's forecast to establish the level of accuracy in the Directors' forecasting, and also re-performed calculations of forecast revenues to arrive at a net present value.</p> <p>Finally, we performed sensitivities on the key assumptions for future revenue to satisfy ourselves that no impairment of inventory was required. We concluded that there was sufficient headroom and that the carrying value of inventory was not greater than its net realisable value.</p> <p>From the testing performed, we consider that the judgements exercised by the Directors are reasonable and appropriate, and that the carrying value of deferred production inventory is not materially misstated.</p>
<p><b>Goodwill impairment assessment</b> Refer to page 35 (Audit Committee Report), page 72 (Significant Accounting Policies) and page 82 (notes).</p> <p>The Group goodwill balance of £7.9m at the year-end relating to the Production business is tested for impairment by the Directors, at least, on an annual basis. This requires the Directors to prepare a value in use calculation that incorporates a number of significant judgements about the future profitability of the Productions business. The audit risk that we focused on is that the goodwill balance may be overstated and that an impairment charge may be required.</p>	<p>We evaluated the Directors' cash flow forecasts and their underlying assumptions, including comparing them to the latest Board approved budgets, and testing the underlying calculations. We then performed sensitivity analysis over the key drivers and assumptions, being the discount rate and growth rate as well as the underlying cash flows, considering the headroom under various scenarios. We determined that although significant growth is required in order to support the carrying value of goodwill, actual cash flows would need to be less than half what is being forecast by the Directors before an impairment would be required, which we deem unlikely.</p> <p>We challenged the discount rate by assessing the cost of capital for the company and comparable organisations and found it to be in line with our expectations.</p> <p>We also consider the long term growth rate of 2% beyond the three year cash flows as being in line with our expectations.</p>

# STV GROUP PLC CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditors' Report to the Members of STV Group plc continued

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

We performed audit work over all segments of the business.

Taken together, the segments and functions where we performed our audit work accounted for 100% of group revenues and 100% of group profit before tax.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Overall group materiality</b>	£865,000 (2013: £717,000)
<b>How we determined it</b>	5% of profit before tax
<b>Rationale for benchmark applied</b>	Consistent with last year, we applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £42,000 (2013: £35,900) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 15, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting.

The going concern basis presumes that the group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

## Other required reporting

### Consistency of other information

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### ISAs (UK & Ireland) reporting

#### Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>information in the Annual Report is:                             <ul style="list-style-type: none"> <li>materially inconsistent with the information in the audited financial statements; or</li> <li>apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or</li> <li>otherwise misleading.</li> </ul> </li> </ul>  | We have no exceptions to report arising from this responsibility. |
| <ul style="list-style-type: none"> <li>the statement given by the Directors on page 16, in accordance with provision C.1.1 of the UK Corporate Governance Code ('the Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's performance, business model and strategy is materially inconsistent with our knowledge of the group acquired in the course of performing our audit.</li> </ul> | We have no exceptions to report arising from this responsibility. |
| <ul style="list-style-type: none"> <li>the section of the Annual Report on page 38, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.</li> </ul>  | We have no exceptions to report arising from this responsibility. |

### Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

### Directors' remuneration

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, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on Directors' remuneration. We have no exceptions to report arising from these responsibilities.

### Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 15, the Directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and ISAs (UK & 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.

#### What an audit of financial statements involves

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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Other matter

We have reported separately on the company financial statements of STV Group plc for the year ended 31 December 2014 and on the information in the Directors' Remuneration Report that is described as having been audited.

#### Kenneth Wilson (Senior Statutory Auditor)

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

17 March 2015

- a) The maintenance and integrity of the STV Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**CONSOLIDATED INCOME STATEMENT**

Year ended 31 December 2014

	Note	2014 £m	2013 £m
<b>Revenue</b>	5	<b>120.4</b>	112.1
Net operating expenses	6	<b>(100.9)</b>	(94.1)
<b>Operating profit</b>		<b>19.5</b>	18.0
Finance costs – borrowings	8	<b>(2.2)</b>	(2.8)
– IAS 19 pension	8	<b>–</b>	(0.9)
		<b>(2.2)</b>	(3.7)
<b>Profit before tax</b>		<b>17.3</b>	14.3
Tax charge	9	<b>(2.6)</b>	(2.1)
<b>Profit for the year</b>		<b>14.7</b>	12.2
<b>Earnings per share</b>			
Basic	11	<b>38.7p</b>	32.2p
Diluted	11	<b>37.6p</b>	31.2p

The notes on pages 72 to 93 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Year ended 31 December 2014

	Note	2014 £m	2013 £m
<b>Profit for the year</b>		<b>14.7</b>	12.2
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Remeasurement on defined benefit pension schemes	27	<b>(22.1)</b>	21.2
Deferred tax credit/(charge)	21	<b>4.4</b>	(4.9)
<b>Other comprehensive (expense)/income for the year net of tax</b>		<b>(17.7)</b>	16.3
<b>Total comprehensive (expense)/income for the year</b>		<b>(3.0)</b>	28.5

at 31 December 2014

	Note	2014 £m	2013 £m
<b>Non-current assets</b>			
Goodwill	12	7.9	7.9
Other intangible assets	13	1.6	0.7
Property, plant and equipment	14	8.8	6.7
Investments	15	1.2	0.9
Deferred tax asset	21	7.4	5.1
Retirement benefit asset	27	–	1.3
		<b>26.9</b>	<b>22.6</b>
<b>Current assets</b>			
Inventories	16	18.3	17.6
Trade and other receivables	17	23.1	21.4
Cash and cash equivalents	18	19.8	8.8
		<b>61.2</b>	<b>47.8</b>
<b>Total assets</b>		<b>88.1</b>	<b>70.4</b>
<b>Equity attributable to owners of the parent</b>			
Ordinary shares	23	19.6	19.5
Share premium	23	101.8	112.0
Merger reserve		173.4	173.4
Other reserve		0.6	0.3
Accumulated losses		(291.9)	(297.6)
<b>Total equity</b>		<b>3.5</b>	<b>7.6</b>
<b>Non-current liabilities</b>			
Borrowings	20	49.2	–
Derivative financial instruments	19	0.2	–
Retirement benefit obligations	27	14.9	–
Provisions	22	0.6	0.8
		<b>64.9</b>	<b>0.8</b>
<b>Current liabilities</b>			
Borrowings	20	–	44.5
Trade and other payables	19	19.3	16.9
Provisions	22	0.4	0.6
		<b>19.7</b>	<b>62.0</b>
<b>Total liabilities</b>		<b>84.6</b>	<b>62.8</b>
<b>Total equity and liabilities</b>		<b>88.1</b>	<b>70.4</b>

The notes on pages 72 to 93 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 68 to 93 were approved by the Board on 16 March 2015 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 2014

	Ordinary shares £m	Equity attributable to owners of the parent			Accumulated losses £m	Total Equity £m
		Share premium £m	Merger reserve £m	Other reserve £m		
<b>Balance at 1 January 2014</b>	19.5	112.0	173.4	0.3	(297.6)	7.6
Profit for the year	-	-	-	-	14.7	14.7
Remeasurement loss	-	-	-	-	(22.1)	(22.1)
Deferred tax thereon	-	-	-	-	4.4	4.4
<b>Total comprehensive expense for the year</b>	-	-	-	-	(3.0)	(3.0)
Share premium reduction	-	(11.0)	-	-	11.0	-
Issue of share capital	0.1	0.8	-	-	-	0.9
Own shares acquired	-	-	-	-	(0.9)	(0.9)
Value of employee services	-	-	-	-	0.2	0.2
Equity-settled share-based payments	-	-	-	0.3	-	0.3
Dividends	-	-	-	-	(1.6)	(1.6)
<b>Balance at 31 December 2014</b>	<b>19.6</b>	<b>101.8</b>	<b>173.4</b>	<b>0.6</b>	<b>(291.9)</b>	<b>3.5</b>
<b>Balance at 1 January 2013</b>	19.5	112.0	173.4	0.4	(326.2)	(20.9)
Profit for the year	-	-	-	-	12.2	12.2
Remeasurement gain	-	-	-	-	21.2	21.2
Deferred tax thereon	-	-	-	-	(4.9)	(4.9)
<b>Total comprehensive income for the year</b>	-	-	-	-	28.5	28.5
Equity-settled share-based payments	-	-	-	(0.1)	0.1	-
<b>Balance at 31 December 2013</b>	<b>19.5</b>	<b>112.0</b>	<b>173.4</b>	<b>0.3</b>	<b>(297.6)</b>	<b>7.6</b>



# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Note	2014 £m	2013 £m
<b>Operating activities</b>			
Cash generated by operations	24	20.9	18.3
Interest paid		(1.8)	(2.5)
Pension deficit funding – recovery plan payment		(5.5)	(4.2)
<b>Net cash generated by operating activities</b>		<b>13.6</b>	<b>11.6</b>
<b>Investing activities</b>			
Purchase of investment		(0.3)	(0.3)
Capitalised web development and branding spend		(1.0)	(0.7)
Purchase of property, plant and equipment		(4.0)	(0.7)
<b>Net cash used in investing activities</b>		<b>(5.3)</b>	<b>(1.7)</b>
<b>Financing activities</b>			
Net borrowings drawn/(repaid)		4.3	(5.0)
Dividends paid		(1.6)	–
<b>Net cash generated from/(used by) financing activities</b>		<b>2.7</b>	<b>(5.0)</b>
<b>Net increase in cash and cash equivalents</b>		<b>11.0</b>	<b>4.9</b>
Cash and cash equivalents at beginning of year		8.8	3.9
<b>Cash and cash equivalents at end of year</b>	24	<b>19.8</b>	<b>8.8</b>

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

## Reconciliation of movement in net debt Year ended 31 December 2014

	Note	2014 £m	2013 £m
<b>Opening net debt</b>		<b>(35.7)</b>	<b>(45.3)</b>
Net increase in cash and cash equivalents		11.0	4.9
Movement in debt financing		(4.7)	4.7
<b>Closing net debt</b>	24	<b>(29.4)</b>	<b>(35.7)</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

## 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

The following new standards, amendments to standards or interpretations are mandatory for the first time for accounting periods beginning on or after 1 January 2014:

		Effective date
IFRS 9	Financial instruments: classification and measurement	01 January 2018
IFRS 10	Consolidated financial statements	01 January 2014
IFRS 11	Joint arrangements	01 January 2014
IFRS 12	Disclosure of interests in other entities	01 January 2014
IFRS 15	Revenue from contracts with customers	01 January 2017
IAS 32 (amendment)	Financial instruments: presentation on offsetting financial assets and financial liabilities	01 January 2014
IAS 36 (amendment)	Impairment of assets: Recoverable amount disclosures for non-financial assets	01 January 2014
IAS 39 (amendment)	Financial instruments: Recognition and measurement on the novation of and the continuation of hedging	01 January 2014
IFRIC 21	Levies	01 January 2014

The above list of standards were either not relevant for the Group or had no 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.

### Basis of preparation

The consolidated financial statements have been prepared in accordance with IFRS and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted by the European Union (EU) and with those parts of 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.

In adopting the going concern basis for preparing the financial statements, 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 into account the amendment and extension of the banking facility in June 2014, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

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.

### Consolidation

The financial statements comprise a consolidation of the financial statements of the Company and all its subsidiaries up to 31 December each year. Subsidiaries include all entities over which the Group has the power to

govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which the Group has the power to control and de-consolidated from the date that control ceases. On consolidation, intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. 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.

### 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.

### Dividends

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

### Pensions

For defined benefit pension schemes, the difference between the fair value of the assets and the present value of the defined benefit obligation is recognised as an asset or liability in the balance sheet. The defined benefit obligation is actuarially calculated using the projected unit credit method.

The defined benefit cost is made up of three categories:

The service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, is charged to operating profit in the year.

The net interest expense or income is recognised within finance costs. Net interest expense includes a credit representing the expected return on the assets of the retirement benefit schemes and a charge representing the expected increase in the liabilities of the retirement benefit schemes during the year.

Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

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

### Intangible assets

#### Goodwill

Goodwill arising on consolidation represents the excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of acquisition. Goodwill is recognised as an asset and assessed for impairment annually or more frequently as triggering events occur. Any impairment is recognised immediately in the income statement.

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.

# NOTES TO THE FINANCIAL STATEMENTS

continued

## Other intangible assets

Other intangible assets are held at cost less accumulated amortisation and any provision for impairment. Included within intangible assets are assets in the course of construction which comprise primarily web development projects including directly attributable costs to bring the assets into use and may include capitalised borrowing costs. Amortisation is provided at the following rates per annum to write off the costs of other intangible assets, less residual value, on a straight line basis from the date on which they are brought into use:

Internally generated software	between 10% and 25%
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## Property, plant and equipment

The Group's policy is to state property, plant and equipment at cost less accumulated depreciation and any recognised impairment loss. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided to write off the cost of tangible non-current assets, less estimated residual values, by equal annual instalments as follows:

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

Residual values and useful economic lives are reviewed annually. Depreciation is charged on all additions to, or disposals of, depreciating assets in the year of purchase or disposal.

Any impairment in value is charged to the income statement.

## 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.

## Leasing

All leases are operating leases and the costs in respect of operating leases are charged on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, a rent free period) is recognised as deferred income and is released over the life of the lease.

## Inventories

Inventories are stated at the lower of cost or 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.

The carrying value of inventory is assessed each year at the balance sheet date.

### **Provisions**

Provisions are recognised when the Group has a present obligation as a result of past events, 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. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date.

### **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.

### **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.

### **Taxation**

Taxation expense comprises current and deferred tax. Tax is recognised in the income statement, except to the extent it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is also recognised in other comprehensive income or directly in equity.

Current tax is based on taxable profits for the financial period using tax rates that are in force during the period. 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 financial years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on temporary 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 is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the reversal of the temporary difference can be controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

# NOTES TO THE FINANCIAL STATEMENTS

continued

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. 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 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.

## Financial instruments

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

### 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

Investments are measured at reporting dates at cost.

### 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.

### Bank borrowings

Interest-bearing bank loans and overdrafts are initially recorded at fair value being 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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 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.

#### 4. Critical accounting estimates and judgements

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

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 12.

##### 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 27.

##### Inventory

Deferred production stock forms part of inventory and is stated in the accounts at the lower of cost or net realisable value. Programme costs are expensed in line with expected future revenues. A detailed forecast of future sales is prepared by management based on historic experience and expected future trends. £1.4m was written off as an expense during the year (2013: £2.1m).

## NOTES TO THE FINANCIAL STATEMENTS

continued

## 5. Business segments

The Group's Chief Executive, the chief operating decision maker, considers the business primarily from a product perspective. Under IFRS 8, the reportable segments are therefore Consumer and Productions.

The performance of the segments is assessed based on a measure of operating profit.

Segment revenues	External sales	
	2014 £m	2013 £m
Consumer	107.1	98.6
Productions	13.3	13.5
	120.4	112.1

Revenue in 2014 includes £0.8m of revenues from sources outside the UK (2013: £1.2m).

Segment result	2014 £m	2013 £m
Consumer	19.1	17.6
Productions	0.4	0.4
Operating profit	19.5	18.0
Financing	(2.2)	(3.7)
Profit before tax	17.3	14.3
Tax charge	(2.6)	(2.1)
<b>Profit attributable to owners of the parent</b>	<b>14.7</b>	<b>12.2</b>

Operating profit in 2014 includes £0.4m arising outside the UK (2013: £0.6m).

Segment assets and liabilities	Assets		Liabilities	
	2014 £m	2013 £m	2014 £m	2013 £m
Consumer	39.2	22.2	13.5	11.7
Productions	32.5	37.4	3.9	3.5
<b>Total of all segments</b>	<b>71.7</b>	<b>59.6</b>	<b>17.4</b>	<b>15.2</b>
Unallocated corporate	16.4	10.8	67.3	47.6
Consolidated	88.1	70.4	84.7	62.8



## 5. Business segments (continued)

	Consumer		Productions	
	2014 £m	2013 £m	2014 £m	2013 £m
<b>Other segment information</b>				
Capital additions	5.0	1.4	–	–
Depreciation	2.0	2.1	–	–

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 and other non-current liabilities.

All the net assets in 2013 and 2014 were held in the UK and therefore operate in a single geographical segment.

## 6. Operating expenses by nature

	2014 £m	2013 £m
Programming costs	55.0	54.7
Staff costs	23.2	21.2
Other external charges	18.4	14.1
Depreciation	2.0	2.1
Operating lease charges	2.1	1.9
Other operating charges	0.2	0.1
	<b>100.9</b>	<b>94.1</b>

### Services provided by the Group's auditors

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

	2014 £000	2013 £000
<b>Group</b>		
Fees payable to Company auditors for the audit of parent company and consolidated financial statements	77	75
Fees payable to the Company's auditors and it's associates for other services:		
– The audit of Company's subsidiaries pursuant to legislation	21	15
– Audit-related assurance services	24	25
– Tax advisory services	91	110
– Tax compliance services	41	91
– Other services	51	68
	<b>305</b>	<b>384</b>

Included in the audit fees payable is £5,000 (2013: £5,000) paid in respect of the parent company.

Other services comprise employee benefit advisory services.

	2014 £000	2013 £000
<b>Fees in respect of STV Group plc pension schemes</b>		
Audit	21	20

## NOTES TO THE FINANCIAL STATEMENTS

continued

**7. Staff**

The average monthly number of employees (including Executive Directors) was:

	2014 Number	2013 Number
<b>Consumer and Productions</b>		
Established	411	372
Contract	34	24
	<b>445</b>	<b>396</b>

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

Their aggregate remuneration comprised:

	2014 £m	2013 £m
Wages and salaries	19.4	16.5
Social security costs	1.8	1.6
Other pension costs	2.0	3.1
	<b>23.2</b>	<b>21.2</b>

Included within the 2013 other pension costs is an interest cost of £0.9m.

Details of Directors' remuneration is provided in the Remuneration Report on pages 44 to 62.

**8. Finance costs**

	2014 £m	2013 £m
Bank borrowings	2.2	2.8
Pension finance charge	–	0.9
	<b>2.2</b>	<b>3.7</b>

## 9. Tax charge

	2014 £m	2013 £m
Current tax:		
Current year	–	–
Adjustments in respect of prior years	–	–
	–	–
Deferred tax (see note 21)	2.6	2.1
<b>Tax charge for the year</b>	<b>2.6</b>	<b>2.1</b>

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

	2014 £m	2013 £m
Profit before tax	17.3	14.3
Tax at the UK corporation tax rate of 21.5% (2013: 23.25%)	3.7	3.3
Tax effects of:		
Other expenses not deductible for tax purposes	0.1	0.2
Movement in tax losses and other temporary differences	–	(0.1)
Impact of changes in tax rates	(0.2)	0.4
Adjustments in respect of prior years	(1.0)	(1.7)
<b>Tax charge for the year</b>	<b>2.6</b>	<b>2.1</b>

## 10. Dividends

	2014 £m	2013 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2013 of 2.0p (2012: nil) per share	0.8	–
Interim dividend for the year ended 31 December 2014 of 2.0p (2013: nil) per share	0.8	–
	1.6	–
Proposed final dividend for the year ended 31 December 2014 of 6.0p (2013: 2.0p) per share	2.4	0.8

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 11. 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 year, 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.

	Earnings £m	2014 Weighted average number of shares (m)	Per share Pence	Earnings £m	2013 Weighted average number of shares (m)	Per share Pence
<b>EPS:</b>						
Earnings attributable to ordinary shareholders	14.7	38.0	38.7p	12.2	37.8	32.2p
<b>Basic EPS</b>	14.7	38.0	38.7p	12.2	37.8	32.2p
Potential dilutive ordinary shares		1.1			1.3	
<b>Diluted EPS</b>	14.7	39.1	37.6p	12.2	39.1	31.2p

## 12. Goodwill

Goodwill at 1 January and 31 December 2014 was £7.9m (2013: £7.9m). It comprises capitalised goodwill on acquisitions completed since 1 January 1998 and the cost and impairment provision 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:

Revenue and margin growth (short term)	Based on approved financial budgets
Growth rate (long term)	2%
Discount rate	11%

These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three year period. A terminal value is calculated for cash flows beyond the three year period. 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 21% 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.

### 13. Other intangible assets

	Web development and branding £m
<b>Cost</b>	
At 1 January 2013	–
Additions	0.7
At 1 January 2014	0.7
Additions	1.0
<b>At 31 December 2014</b>	<b>1.7</b>
<b>Accumulated depreciation and impairment</b>	
At 1 January 2013 and 1 January 2014	–
Depreciation	0.1
<b>At 31 December 2014</b>	<b>0.1</b>
<b>Net book value at 31 December 2014</b>	<b>1.6</b>
Net book value at 31 December 2013	0.7

### 14. Property, plant and equipment

	Leasehold buildings £m	Plant, technical equipment and other £m	Total £m
<b>Cost</b>			
At 1 January 2013	0.2	26.2	26.4
Additions	–	0.7	0.7
Write offs	(0.1)	(2.1)	(2.2)
At 1 January 2014	0.1	24.8	24.9
Additions	–	4.0	4.0
Write offs	–	(1.6)	(1.6)
<b>At 31 December 2014</b>	<b>0.1</b>	<b>27.2</b>	<b>27.3</b>
<b>Accumulated depreciation and impairment</b>			
At 1 January 2013	0.1	18.1	18.2
Charge for year	–	2.1	2.1
Disposals	–	(2.1)	(2.1)
At 1 January 2014	0.1	18.1	18.2
Charge for year	–	1.9	1.9
Write offs	–	(1.6)	(1.6)
<b>At 31 December 2014</b>	<b>0.1</b>	<b>18.4</b>	<b>18.5</b>
<b>Net book value at 31 December 2014</b>	<b>–</b>	<b>8.8</b>	<b>8.8</b>
Net book value at 31 December 2013	–	6.7	6.7

**NOTES TO THE FINANCIAL STATEMENTS**

continued

**15. Investments**

	£m
<b>Cost</b>	
At 1 January 2014	0.9
Additions	0.3
<b>At 31 December 2014</b>	<b>1.2</b>

**16. Inventories**

	2014 £m	2013 £m
Recorded programmes and films	<b>18.3</b>	17.6

**17. Trade and other receivables**

	2014 £m	2013 £m
Trade receivables	<b>14.0</b>	10.9
Prepayments and accrued income	<b>8.4</b>	10.0
Other receivables	<b>0.7</b>	0.5
	<b>23.1</b>	21.4

As of 31 December 2014, trade receivables of £1.5m (2013: £0.8m) are past due. These are net of a provision for bad debts of £nil (2013: £nil). Trade receivables relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of the trade receivables is as follows:

	Gross £m	2014 Provision £m	Gross £m	2013 Provision £m
Up to 3 months	<b>14.0</b>	–	10.9	–

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

**18. Cash and cash equivalents**

	2014 £m	2013 £m
Cash and cash equivalents	<b>19.8</b>	8.8

## 19. Trade and other payables

	2014 £m	2013 £m
<b>Current</b>		
Trade payables	2.9	2.8
Accrued expenses	12.2	10.4
Social security and other taxes	4.0	3.5
Other payables	0.2	0.2
	<b>19.3</b>	<b>16.9</b>
<b>Non-current</b>		
Derivative financial instruments (note 29)	0.2	–
	<b>0.2</b>	<b>–</b>

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

## 20. Borrowings

	2014 £m	2013 £m
Bank loans	49.2	44.5
The borrowings are repayable as follows:		
Expiring within 1 year	–	44.5
Expiring in 2 to 5 years	49.2	–

All undrawn committed borrowing facilities are repayable within 2 to 5 years (2013: within one year).

The amount of bank loans is net of £0.4m amortised borrowing costs.

The effective interest rates were as follows:

	2014 %	2013 %
Bank loans (floating)	3.4	4.1

At 31 December 2014, the Group had revolving credit and overdraft bank facilities in place totalling £60.0m. The facility previously consisted of a term facility and a revolving credit and overdraft facility (£25.0m and £32.5m respectively at 31 December 2013). At 31 December 2014, £50.0m of the facility was drawn down.

The amendment and extension to the bank facility was agreed on 4 June 2014 and the £60.0m revolving credit and overdraft facility has a maturity date of June 2019. Security is provided to the debt providers by way of cross guarantees and a share pledge.

The Group has hedged its exposure to fluctuations in interest rates with interest rate swaps of £15.0m (2013: £24.0m). The notional principal amount of the outstanding interest rate swap contracts at 31 December 2014 was £15.0m (2013: £24.0m). A fair value on the interest rate swaps of £0.2m (2013: £nil) has been recognised at 31 December 2014.

## NOTES TO THE FINANCIAL STATEMENTS

continued

**21. Deferred tax**

The analysis of the current deferred tax balances is as follows:

	2014 £m	2013 £m
Deferred tax asset:		
Deferred tax to be recovered after more than one year	(4.7)	(3.7)
Deferred tax to be recovered within one year	(2.7)	(1.4)
	<b>(7.4)</b>	<b>(5.1)</b>
Net deferred tax asset	<b>(7.4)</b>	<b>(5.1)</b>
Deferred tax asset not recognised	<b>(8.1)</b>	<b>(9.1)</b>

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 £8.1m (2013: £9.1m) which has not been recognised relates to a combination of trading tax losses and non-trade debits.

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 2014	(3.3)	(0.3)	(1.7)	0.2	(5.1)
Charge to income	0.7	0.1	0.2	1.1	2.1
Credit to equity	–	–	–	(4.4)	(4.4)
<b>At 31 December 2014</b>	<b>(2.6)</b>	<b>(0.2)</b>	<b>(1.5)</b>	<b>(3.1)</b>	<b>(7.4)</b>

**22. Provisions**

	Onerous lease provisions	
	2014 £m	2013 £m
At 1 January	1.4	1.6
Provided during the year	–	0.5
Utilised during the year	(0.4)	(0.7)
At 31 December	<b>1.0</b>	<b>1.4</b>

The provisions are expected to be utilised:

	Onerous lease provisions	
	2014 £m	2013 £m
Within one year	0.4	0.6
Greater than one year	0.6	0.8
	<b>1.0</b>	<b>1.4</b>



### 23. Share capital and premium

	Number of shares (thousands)	Ordinary shares £m	Share premium £m	Total £m
At 1 January 2014	39,050	19.5	112.0	131.5
Share premium reduction	-	-	(11.0)	(11.0)
Issued during the year	248	0.1	0.8	0.9
<b>At 31 December 2014</b>	<b>39,298</b>	<b>19.6</b>	<b>101.8</b>	<b>121.4</b>

The total authorised number of ordinary shares is 63 million shares (2013: 63 million shares) with a par value of £0.50 per share (2013: £0.50 per share). All issued shares are fully paid.

On 20 February 2014, the Court of Session granted a reduction in the share premium account of £11.0m.

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

	2014 £m	2013 £m
Operating profit	19.5	18.0
Adjustments for:		
Depreciation	1.9	2.1
Depreciation of intangible assets	0.1	-
Share based payment expense	0.3	-
	21.8	20.1
(Increase)/decrease in inventories	(0.7)	0.9
Increase in trade and other receivables	(1.7)	(2.5)
Increase/(decrease) in trade and other payables	1.5	(0.2)
<b>Cash generated by operations</b>	<b>20.9</b>	<b>18.3</b>

#### Analysis of movements in net debt

	At 1 January 2014 £m	Cash flow £m	Non-cash movements £m	At 31 December 2014 £m
Cash and cash equivalents (note 18)	8.8	11.0	-	19.8
Bank borrowings (note 20)	(44.5)	(4.3)	(0.4)	(49.2)
<b>Net debt</b>	<b>(35.7)</b>	<b>6.7</b>	<b>(0.4)</b>	<b>(29.4)</b>

Non-cash movements relate to the amortisation of borrowing costs.

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 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:

	2014 £m	2013 £m
Within one year	1.7	1.6
Between two and five years	6.1	6.7
After five years	7.8	9.3
	<b>15.6</b>	<b>17.6</b>

## 26. Transactions with related parties

During the year £16,000 (2013: £13,000) income was received from related parties and a balance of £2,400 was owed by related parties at 31 December 2014 (31 December 2013: £3,500). These amounts relate to fees received from the Group's investment companies.

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:

	2014 £m	2013 £m
Short-term employee benefits*	1.3	1.3

\*See Remuneration Report pages 56 and 57 for details.

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

## 27. 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 £0.9m (2013: £0.7m).

### 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 to new entrants 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 resulted in an actuarial deficit to be funded by the Group of £83.0m as at 31 March 2014. A recovery plan period of 11 years was agreed with payments of £5.5m in 2014 and between £7.0m and £7.75m from 2015 to 2025 inclusive. These payments are tax deductible.

The 1 January 2012 valuation has been updated to 31 December 2014 by a qualified independent actuary. The major assumptions used by the actuary were:

<b>Key assumptions:</b>	<b>2014</b>	2013
Rate of increase in salaries	<b>1.00%</b>	1.00%
Rate of increase of pensions in payment	<b>2.90%</b>	3.35%
Discount rate	<b>3.60%</b>	4.55%
Rate of price inflation (RPI)	<b>2.90%</b>	3.35%

Mortality assumptions:

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:

	<b>2014 Years</b>	2013 Years
Retiring at balance sheet date:		
Male	<b>15.5</b>	14.3
Female	<b>18.0</b>	17.1
Retiring in 25 years:		
Male	<b>18.6</b>	16.6
Female	<b>21.4</b>	19.5

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected salary increase and mortality. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period assuming that all other assumptions are held constant:

<b>Assumption</b>	<b>Change in assumption</b>	<b>Impact on scheme liabilities</b>
Discount rate	Increase/decrease by 0.25%	Decrease/increase by 3%
Rate of price inflation (RPI)	Increase/decrease by 0.25%	Increase/decrease by 2%
Rate of mortality	Decrease by 1 year	Increase by 3%

**Amounts recognised in the income statement in respect of these defined benefit schemes is as follows:**

	<b>2014 £m</b>	2013 £m
Current service cost – defined benefit	<b>(1.1)</b>	(1.5)
Net interest credit/(expense)	<b>–</b>	(0.9)
	<b>(1.1)</b>	(2.4)

Of the total charge £1.1m (2013: £1.5m) has been included in operating expenses and £nil (2013: £0.9m charge) has been included in finance costs (see note 8).

## NOTES TO THE FINANCIAL STATEMENTS

continued

**27. Retirement benefit schemes (continued)****Amounts recognised in the statement of comprehensive income are as follows:**

	2014 £m	2013 £m
Actuarial (losses)/gains arising from changes in financial assumptions	<b>(22.1)</b>	21.2

**The amounts recognised in the balance sheet were as follows:**

	2014 £m	2013 £m
Present value of defined benefit obligations	<b>(336.2)</b>	(295.7)
Fair value of schemes' assets	<b>321.3</b>	297.0
<b>(Deficit)/surplus in the schemes</b>	<b>(14.9)</b>	1.3

A related offsetting deferred tax credit of £3.1m (2013: charge £0.2m) is included under non-current assets. Therefore the net pension scheme deficit amounts to £11.8m at 31 December 2014 (£1.1m surplus at 31 December 2013).

**The movement in the defined benefit obligation over the year is as follows:**

	2014 £m	2013 £m
At 1 January	<b>295.7</b>	302.4
Current service cost	<b>0.3</b>	0.3
Interest cost	<b>13.1</b>	12.8
Contributions from plan participants	<b>0.1</b>	0.1
Remeasurement losses/(gains):		
Actuarial gains and losses arising from changes in financial assumptions	<b>28.3</b>	(4.2)
Actuarial gains and losses arising from changes in demographic assumptions	<b>15.9</b>	-
Actuarial gains and losses arising from experience adjustments	<b>(0.2)</b>	-
Benefits paid from plan	<b>(17.0)</b>	(15.7)
<b>At 31 December</b>	<b>336.2</b>	295.7

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

	2014 £m	2013 £m
At 1 January	<b>297.0</b>	279.4
Interest income	<b>13.1</b>	11.9
Remeasurement gain/(loss):		
Return on plan assets (excluding interest income)	<b>21.9</b>	17.0
Contributions from the employer	<b>7.0</b>	5.5
Administrative expenses paid from plan assets	<b>(0.8)</b>	(1.2)
Contributions from plan participants	<b>0.1</b>	0.1
Benefits paid from plan	<b>(17.0)</b>	(15.7)
<b>At 31 December</b>	<b>321.3</b>	297.0

**Plan assets comprised the following:**

	£m	2014 %	£m	2013 %
Equities	<b>154.8</b>	<b>48</b>	150.5	51
Debt instruments and cash	<b>166.5</b>	<b>52</b>	146.5	49
	<b>321.3</b>	<b>100</b>	297.0	100

## 28. 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 a Monte Carlo model.

## 29. Financial instruments

### Capital risk management

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

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

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

### Gearing ratio

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

	2014 £m	2013 £m
Total borrowings (note 20)	49.2	44.5
Cash and cash equivalents	<b>(19.8)</b>	<b>(8.8)</b>
Net Debt	<b>29.4</b>	35.7
Total equity	<b>3.5</b>	7.6
Total capital	<b>32.9</b>	43.3
	<b>89%</b>	82%

### 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.

## 29. Financial instruments (continued)

### 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 £15.0m (2013: £24.0m) were entered into on 9 July 2014 and expire in July 2016. 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.

### 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 under policies approved by the Board with financial risks being identified, evaluated and hedged 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. The Group's borrowings are denominated in Sterling. Currency risk arises primarily with respect to the Euro and the US dollar and 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 2014 the Group had no forward foreign currency contracts in place (2013: £nil).

### Credit risk

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

## 29. Financial instruments (continued)

### 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, the aim is to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Group's liquidity reserve (comprises of the undrawn borrowing facility (note 20) and cash and cash equivalents (note 18)) on the basis of expected cash flow. This is generally carried out at a group level. In addition, the Group's liquidity management policy includes projecting cash flows and considering the level of liquid assets necessary to meet these: monitoring balance sheet liquidity ratios against internal targets and bank facility requirements; and maintaining debt financing plans.

### Cash flow interest rate risk

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

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at short-term floating rates expose the Group to cash flow interest rate risk. Group policy is to maintain between 30% and 50% of its core borrowings in hedged instruments.

A monthly sensitivity analysis is carried out, and on the level of borrowings of the Group at 31 December 2014, a movement of 0.25% in interest rates would change the level of interest paid in the year by +/- £0.1m (2013: £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 9 July 2014 and expires in July 2016.

# STV GROUP PLC COMPANY FINANCIAL STATEMENTS

Independent Auditors' Report to the Members of STV Group plc

## Report on the company financial statements

### Our opinion

In our opinion, STV Group plc's company financial statements (the 'financial statements'):

- give a true and fair view of the state of the company's affairs as at 31 December 2014;
- 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.

### What we have audited

STV Group plc's financial statements comprise:

- Company Balance Sheet as at 31 December 2014; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### Other required reporting

#### Consistency of other information

##### Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

### Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

#### Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

#### Other Companies Act 2006 reporting

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. We have no exceptions to report arising from this responsibility.

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 15, the Directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and ISAs (UK & 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.



### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Other matter

We have reported separately on the group financial statements of STV Group plc for the year ended 31 December 2014.

#### **Kenneth Wilson (Senior Statutory Auditor)**

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

17 March 2015

- a) The maintenance and integrity of the STV Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**COMPANY BALANCE SHEET**

at 31 December 2014

	Note	2014 £m	2013 £m
<b>Fixed assets</b>			
Investments	2	<b>48.4</b>	28.2
<b>Current assets</b>			
Debtors			
– due within one year	3	<b>25.4</b>	39.9
– due after one year	3	<b>129.3</b>	138.2
		<b>154.7</b>	178.1
<b>Creditors:</b> amounts falling due within one year	4	<b>(56.1)</b>	(67.6)
<b>Net current assets</b>		<b>98.6</b>	110.5
<b>Net assets</b>		<b>147.0</b>	138.7
<b>Capital and reserves</b>			
Called up share capital	5	<b>19.6</b>	19.5
Share premium account	5	<b>101.8</b>	112.0
Profit and loss account	5	<b>25.0</b>	6.9
Other reserve	5	<b>0.6</b>	0.3
<b>Shareholders' funds</b>		<b>147.0</b>	138.7

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 £9.4m (2013: £10.5m).

The financial statements on pages 96 to 100 were approved by the Board on 16 March 2015 and were signed on its behalf by:

**Rob Woodward**  
Chief Executive

**George Watt**  
Chief Financial Officer

for the year ended 31 December 2014

## 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 2014.

### 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 14.

### 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.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2014  
continued

## 1. Accounting policies continued

### 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.

## 2. Investments

	Subsidiaries £m	Other £m	Total £m
<b>Cost</b>			
At 1 January 2014	27.3	1.1	28.4
Additions	20.0	–	20.0
<b>At 31 December 2014</b>	<b>47.3</b>	<b>1.1</b>	<b>48.4</b>
<b>Provisions for impairment</b>			
At 1 January and 31 December 2014	–	–	–
<b>Net book value at 31 December 2014</b>	<b>47.3</b>	<b>1.1</b>	<b>48.4</b>
Net book value at 31 December 2013	27.3	0.9	28.2

Additions during the year relate to a £20.0m increase in the investment in STV News Services brought about by £20.0m of the £100.0m loan being converted to equity and repaid (see note 3).

### 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
STV Glasgow Limited	Scotland	Television broadcasting

## 2. Investments continued

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 included in the Annual Return.

## 3. Debtors

	2014 £m	2013 £m
<b>Due within one year</b>		
Amounts owed by group undertakings	22.5	37.0
Prepayments and accrued income	1.0	0.8
Deferred tax (note 6)	1.9	2.1
	<b>25.4</b>	<b>39.9</b>
<b>Due after one year</b>		
Amounts owed by group undertakings	<b>129.3</b>	<b>138.2</b>

Included within amounts owed by group undertakings due after one year is a loan of £80.0m 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. On 23 February 2014, £20.0m of the loan was converted to equity and repaid.

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

## 4. Creditors

	2014 £m	2013 £m
<b>Amounts falling due within one year:</b>		
Trade creditors and accruals	–	0.8
Bank loans	–	44.5
Amounts owed to group undertakings	<b>56.1</b>	<b>22.3</b>
	<b>56.1</b>	<b>67.6</b>

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

STV News Services Limited, a fellow subsidiary undertaking, became the new principal borrower when the amendment and extension of the bank facility was agreed on 4 June 2014. The bank loan was accordingly transferred from STV Group plc to STV News Services Limited on that date.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2014  
continued

## 5. 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 2013	19.5	112.0	(11.0)	0.4	120.9
Profit for the year	-	-	10.5	-	10.5
Pension transferred to a fellow group undertaking	-	-	7.3	-	7.3
Equity settled share based payments	-	-	0.1	(0.1)	-
At 1 January 2014	19.5	112.0	6.9	0.3	138.7
Profit for the year	-	-	9.4	-	9.4
Share premium reduction	-	(11.0)	11.0	-	-
Issue of share capital	0.1	0.8	-	-	0.9
Own shares acquired	-	-	(0.9)	-	(0.9)
Value of employee services	-	-	0.2	-	0.2
Equity-settled share based payments	-	-	-	0.3	0.3
Dividends	-	-	(1.6)	-	(1.6)
<b>At 31 December 2014</b>	<b>19.6</b>	<b>101.8</b>	<b>25.0</b>	<b>0.6</b>	<b>147.0</b>

The Caledonian pension scheme was transferred during 2013 to STV Television Limited when it became sponsoring employer of the pension scheme.

On 20 February 2014, the Court of Session granted a reduction in the share premium account of £11.0m.

## 6. Deferred taxation

Deferred taxation is provided as follows:

	Tax losses £m
At 1 January 2014	2.1
Provided in year	(0.2)
<b>At 31 December 2014</b>	<b>1.9</b>
Deferred tax asset not recognised	1.4

Refer to note 3 for the above deferred tax asset.

## 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.

For the year ended 31 December 2014

	IFRS				
	2010 £m	2011 £m	Restated** 2012 £m	2013 £m	2014 £m
<b>Results</b>					
Revenue					
Continuing operations	104.8	102.0	102.7	112.1	<b>120.4</b>
Discontinued operations	6.9	–	–	–	–
	111.7	102.0	102.7	112.1	<b>120.4</b>
Profit from operations before exceptional items					
Continuing operations	14.4	15.0	17.1	18.0	<b>19.5</b>
Discontinued operations	–	–	–	–	–
	14.4	15.0	17.1	18.0	<b>19.5</b>
Profit on ordinary activities before taxation and exceptional items	12.5	14.0	11.7	14.3	<b>17.3</b>
<b>Assets</b>					
Non-current assets	29.1	32.9	28.2	22.6	<b>26.9</b>
Current assets	69.9	53.8	41.9	47.8	<b>61.2</b>
Total assets	99.0	86.7	70.1	70.4	<b>88.1</b>
<b>Equity and liabilities</b>					
Current liabilities	35.4	82.3	22.5	62.0	<b>19.7</b>
Non-current liabilities	83.4	34.1	68.5	0.8	<b>64.9</b>
Equity	(19.8)	(29.7)	(20.9)	7.6	<b>3.5</b>
Total equity and liabilities	99.0	86.7	70.1	70.4	<b>88.1</b>
<b>Key statistics</b>					
Earnings per ordinary share* – basic	34.3p	38.0p	13.0p	32.2p	<b>38.7p</b>
– diluted	32.9p	36.1p	12.5p	31.2p	<b>37.6p</b>
Dividends per ordinary share	–	–	–	2.0p	<b>8.0p</b>

\* 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.

\*\*The 2012 results have been restated to disclose amendments resulting in applying updated IAS19 and also for investments previously held in current assets.

## SHAREHOLDER INFORMATION

### Registrars

Capita Asset Services  
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: [shareholderenquiries@capita.co.uk](mailto:shareholderenquiries@capita.co.uk)  
Website: [www.capitashareportal.com](http://www.capitashareportal.com)

### Independent auditors

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

### Solicitors

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

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

### Principal bankers

Santander UK plc  
2 Triton Square  
Regent's Place  
London NW1 3AN

### Stockbrokers

Peel Hunt  
Moor House  
120 London Wall  
London EC2Y 5ET

### Secretary and registered office

Jane E A Tames  
STV Group plc  
Pacific Quay  
Glasgow G51 1PQ  
Tel: 0141 300 3074  
Email: [jane.tames@stv.tv](mailto:jane.tames@stv.tv)

### Company registration number

SC203873

### Annual Report on internet

The 2014 Annual Report of STV Group plc including the financial statements is available at: [www.stvplc.tv](http://www.stvplc.tv)



### Amalgamation of accounts

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

### Investor relations

For investor enquiries please contact:

Eleanor Marshall

PR Manager

STV Group plc

Pacific Quay

Glasgow G51 1PQ

Tel: 0141 300 3670

Email: [eleanor.marshall@stv.tv](mailto: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](http://www.stvplc.tv)

### Individual Savings Accounts (ISAs)

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

### Dividend Reinvestment Plan

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

### Your shareholding

You can check your shareholding at any time by visiting the Registrar's website at: [www.capitashareportal.com](http://www.capitashareportal.com)

### Capita share dealing services

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

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

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

# NOTICE OF ANNUAL GENERAL MEETING

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

**If you are in any doubt as to the action you should take, you should seek your own advice from a stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000.**

**If you have sold or transferred all of your shares in STV Group plc (the 'Company'), 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 Annual General Meeting 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 a 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 Thursday 30 April 2015 at 11 am for the purpose of considering and, if thought fit, passing the resolutions below.

Resolutions 1 to 14 (inclusive) will be proposed as ordinary resolutions and Resolutions 15 to 18 (inclusive) shall be proposed as special resolutions.

## Ordinary resolutions

1. To receive the annual accounts of the Company for the financial year ended 31 December 2014 which includes the reports of the Directors and the report by the auditors on the annual accounts and the auditable part of the Directors' remuneration report.
2. To approve the Directors' remuneration report, other than the part containing the Directors' remuneration policy in the form set out on pages 55 to 62 of the Annual Report and Accounts for the financial year ended 31 December 2014.

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

3. To approve the Directors' remuneration policy, in the form set out on pages 46 to 54 of the Annual Report and Accounts for the financial year ended 31 December 2014.

Resolution 3 seeks approval (on a binding basis) of the remuneration policy governing Directors' remuneration. Whilst the Directors' remuneration policy was approved by a binding resolution of the Company at the last Annual General Meeting, the Directors consider it appropriate to seek re-approval of the remuneration policy in light of the proposed implementation of the Company's Deferred Bonus Plan and Long Term Incentive Plan (subject to Resolutions 13 and 14 below being passed). If the remuneration policy is approved and remains unchanged, it will be valid for up to three financial years without a new shareholder approval. If the Company wishes to change the Directors' remuneration policy, it will need to put the revised policy to shareholders to vote on before it can implement any new policy.

4. To declare a final dividend of 6.0p per ordinary share for the year ended 31 December 2014.

The Board proposes a dividend of 6.0p per ordinary share for the year ended 31 December 2014. If approved, the recommended dividend will be paid on 22 May 2015 to all holders of ordinary shares who are on the register of members of the Company at close of business on the record date of 17 April 2015.

5. To elect Christian Woolfenden as a Director of the Company, having been appointed since the last Annual General Meeting.

Christian Woolfenden is standing for election following his appointment as a Non-Executive Director on 1 June 2014. The Articles of Association require that a Director appointed by the Board since the last Annual General Meeting should retire at the next Annual General Meeting and stand for election to the Board in order to give shareholders a chance to confirm the appointment.

Biographical details of Christian Woolfenden can be found on page 29 and the Board confirms that he meets the independence criteria as set out in B.1.1 of the UK Corporate Governance Code.

6. To elect Anne Marie Cannon as a Director of the Company, having been appointed since the last Annual General Meeting.

Anne Marie Cannon is standing for election following her appointment as a Non-Executive Director on 1 November 2014. The Articles of Association require that a Director appointed by the Board since the last Annual General Meeting should retire at the next Annual General Meeting and stand for election to the Board in order to give shareholders a chance to confirm the appointment.

Biographical details of Anne Marie Cannon can be found on page 29 and the Board confirms that she meets the independence criteria as set out in B.1.1 of the UK Corporate Governance Code.

7. 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 28 and following formal performance evaluation, Mr Woodward's performance continues to be effective and to demonstrate commitment to the role.

8. To re-elect Genevieve Shore 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 Genevieve Shore can be found on page 29 and the Board confirms that she meets the independence criteria as set out in B.1.1 of the UK Corporate Governance Code. Following formal performance evaluation, Ms Shore's performance continues to be effective and to demonstrate commitment to the role.

## NOTICE OF ANNUAL GENERAL MEETING

continued

9. To re-elect Michael Jackson as a Director of the Company.

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

Biographical details of Michael Jackson can be found on page 28 and the Board confirms that he meets the independence criteria as set out in B.1.1 of the UK Corporate Governance Code. Following formal performance evaluation, Mr Jackson's performance continues to be effective and to demonstrate commitment to the role.

10. 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.

11. To authorise the Audit Committee to fix the remuneration of the auditors of the Company.

12. That for the purpose of Section 551 of the Companies Act 2006, 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 that Act):

- (a) up to an aggregate nominal amount of £6,549,705.
- (b) up to an aggregate nominal amount of £6,549,705 in connection with a rights issue in favour of the 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, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matters, 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; and all unexercised authorities previously granted to the Directors to allot equity securities are revoked.

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 (13,099,410 being shares representing one third of the ordinary issued share capital of the Company as at 16 March 2015, 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 (13,099,410 being shares representing one third of the ordinary issued share capital of the Company as at 16 March 2015, 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 2016. 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 Investment Association and would all stand for re-election at the next Annual General Meeting of the Company.

13. That the STV Group plc Deferred Bonus Plan (the ‘DBP’), the principal terms of which are summarised in the Appendix to this Notice and the Rules of which are produced to the Annual General 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 DBP will provide the facility to grant deferred share awards for the purpose of deferring 20% of any annual bonus earned for a period of three years under the new and simplified annual bonus framework as described in the Remuneration Policy section of the Directors’ Remuneration Report.

14. That the STV Group plc Long Term Incentive Plan (‘LTIP’), the principal terms of which are summarised in the Appendix to this Notice and the Rules of which are produced to the Annual General 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 LTIP will allow annual awards of shares which will vest after a period of at least three years based on performance against targets aligned to the delivery of the Company’s strategy and long term shareholder value. The performance targets for the awards to be made to Executive Directors in 2015 are set out in the Directors Remuneration Report.

### Special resolutions

15. That subject to the passing of Resolution 12, the Directors be and are hereby empowered, pursuant to Section 570 of the Companies Act 2006 to allot equity securities (within the meaning of Section 560 of that Act) for cash either pursuant to the authority conferred by Resolution 12 or by way of a sale of treasury shares as if Section 561 of that 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 an offer of securities (but in the case of the authority granted under paragraph (b) of Resolution 12 by way of rights issue only) in favour of ordinary shareholders of the Company and other persons entitled to participate therein where the equity securities respectively attributable to the interest of all such holders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares held or deemed to be held by them, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or any stock exchange or by virtue of shares being represented by depositary receipts or any other matter.
- (b) the allotment of equity securities (otherwise than pursuant to paragraph (a) above) having a nominal value not exceeding in the aggregate £982,455,

and 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 offers or agreements 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 (1,964,911 ordinary shares, representing 5% of the ordinary issued share capital of the Company as at 16 March 2015) other than to existing shareholders in proportion to their existing shareholdings.

## NOTICE OF ANNUAL GENERAL MEETING

continued

It also allows the Directors to allot shares up to a nominal amount of £13,099,410 (representing two thirds of the Company's issued share capital) on an offer to existing shareholders on a pre-emptive basis. However, unless the shares are allotted pursuant to a rights issue, the Directors may only allot shares up to a nominal value of £6,549,705 (representing one third of the Company's issued share capital). The authority will terminate at the next Annual General Meeting, which must be held no later than 30 June 2016. 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.

16. That the Company be and is hereby generally and unconditionally authorised pursuant to Section 701 of the Companies Act 2006 to make market purchases (as defined in Section 693(4) of that 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 3,929,823 Shares, the aggregate nominal value of which is £1,964,911.
  - (b) the minimum price (excluding expenses) which may be paid by the Company for a Share purchased pursuant to this authority shall be 50p.
  - (c) the maximum price (excluding expenses) 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).
  - (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 3,929,823 Shares, representing 10% of the ordinary share capital of the Company in issue as at 16 March 2015. The maximum price, which may be paid per Share, 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 the 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 16 March 2015 warrants and options to subscribe for 450,731 ordinary shares in the capital of the Company were outstanding, representing 1.15% of the Company's issued ordinary share capital as at 16 March 2015 (excluding treasury shares held by the Company). If the authority to purchase the Company's ordinary shares was exercised in full, these warrants and options would represent 1.27% of the issued ordinary share capital of the Company (excluding treasury shares held by the Company).

17. 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 2006 (following the implementation of the EU Shareholder Rights Directive) permits the holding of general meetings on 14 clear 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.

18. That:

- (a) the final dividend of the Company in respect of the year ended 31 December 2013 paid on 23 May 2014 of 2.0 pence per ordinary share which was paid in technical breach of the Companies Act 2006 (the '2013 Dividend'), be treated and hereby ratified and confirmed as a loan to the shareholders of the Company who received such dividend (the 'Recipients').
- (b) the Directors of the Company be and are hereby authorised to appropriate distributable profits of the Company (as shown in the interim accounts of the Company made up to 31 March 2014 and filed with the Registrar of Companies on 30 July 2014) to the payment of a new dividend, which shall be in an amount equal to the 2013 Dividend (the 'Rectification Dividend').
- (c) the Rectification Dividend shall be made to the Recipients of the 2013 Dividend.
- (d) the Rectification Dividend shall not be satisfied in cash but shall be satisfied by the release of each shareholder of the Company who was a recipient of the 2013 Dividend (or the personal representatives or their successors in title (as appropriate) of his/her estate if he/she is deceased) from the liability to repay the amount already paid to each such shareholder in the respect of the 2013 Dividend.
- (e) any and all claims which the Company may have in respect of the payment of the 2013 Dividend and/or the Rectification Dividend against its shareholders who received the relevant 2013 Dividend (or the personal representatives and their successors in title of the estate of any deceased shareholders) be waived and released and deeds of release in favour of such shareholders (or the personal representatives and their successors in title of their estates in the case of any deceased shareholders) be entered into by the Company in the form of the deeds produced to the Annual General Meeting and signed by the Chairman for the purpose of identification.
- (f) any breach of duty committed by the Directors of the Company (both past and present) arising out of or in connection with the approval, declaration or payment of the 2013 Dividend be and is hereby ratified and that any and all claims which the Company may have against its Directors (both past and present), arising out of or in connection with the approval, declaration and payment of the 2013 Dividend be waived and released and that a deed of release in favour of each of the Company's relevant Directors be entered into by the Company in the form of the deeds produced to the Annual General Meeting and signed by the Chairman for purposes of identification.

This resolution deals with a technical issue which has come to light in respect of the dividend paid in May 2014 by the Company to its shareholders (the '2013 Dividend'). As required by the Companies Act 2006 (the 'Act'), the Company had prepared interim accounts, which confirmed that the Company had distributable reserves of £20,200,000, sufficient to pay the 2013 Dividend. Although the Company's interim accounts were prepared in advance of the proposal to pay the 2013 Dividend, they were not filed with Companies House until 30 July 2014. The failure to file the interim accounts prior to the declaration of the 2013 Dividend renders the payment of the 2013 Dividend an 'unlawful distribution' in technical breach of the Act.

## NOTICE OF ANNUAL GENERAL MEETING

continued

18. continued

Consequently, the Company may have a claim under the Act against past and present shareholders who received the 2013 Dividend to recover the amounts paid in technical infringement of the Act. The Company may also have a claim against those Directors who participated in the relevant board meeting at which the decision was taken to pay the 2013 Dividend. It is clearly not the Company's intention to make any such claim against either its shareholders or its Directors. The Company has been advised by its external legal advisors that this matter can be rectified by the passing by the shareholders of the Company of a special resolution to ratify these breaches and to put the shareholders and Directors into the position which was always intended. This will be effected by (i) treating all of the 2013 Dividend as a loan to each of the shareholders who received it, and (ii) the shareholders' obligation to repay their respective loans will be satisfied by the declaration and approval at the Annual General Meeting of new dividends of the Company equal to the amount of the loans received by each shareholder. In effect, the new dividends will be netted off against the loans so that no further payment will be required to be made to or by the shareholders in respect of the 2013 Dividend or the new dividends so declared.

Resolution 18 will therefore be proposed as a special resolution at the Annual General Meeting to:

- treat the 2013 Dividend as a loan to the shareholders who received it
- approve a new dividend of the Company which is (i) of an amount equal to the 2013 Dividend, (ii) payable to the shareholders who received the 2013 Dividend (in the same proportions as such dividend) and (iii) shall be satisfied by the release of each recipient shareholder from their liability to repay the amount already paid to them in the form of the 2013 Dividend
- waive any rights of the Company against the shareholders who received the 2013 Dividend (or their estates in respect of any deceased shareholders)
- waive any rights of the Company against both past and present Directors who approved the payment of the 2013 Dividend and ratify their breaches of duty
- approve the Company entering into a deed of release in favour of such shareholders and the relevant Directors (or their estates in respect of deceased shareholders or Directors as the case may be) in respect of the 2013 Dividend. A draft form of the deed is available for inspection at the Company's registered office until the time of the Annual General Meeting and at the place of the meeting from 15 minutes before the Annual General Meeting until it ends.

The Company has drawn the attention of HM Revenue & Customs ('HMRC') to the circumstances surrounding the payment of the 2013 Dividend and to the steps that are now proposed to rectify the position. HMRC has confirmed that the tax position of UK shareholders is not affected by any irregularity in the dividends. Thereafter, if shareholders approve this resolution submitted for their approval, it should have no effect on their UK tax position. If any non-UK resident shareholder has any doubts about their tax position, they should consult their own professional advisers.

As a result of their interest in its subject matter, the Directors who are also shareholders (holding beneficially in aggregate approximately 2.39% of the issued share capital of the Company as at 16 March 2015) will not vote on this resolution.

By order of the Board

**Jane E A Tames**

Company Secretary

STV Group plc  
Pacific Quay  
Glasgow G51 1PQ

16 March 2015



**Notes**

1. Information regarding the meeting, including the contents of this notice, details of the total number of shares in respect of which members are entitled to exercise voting rights at the meeting, details of the totals of the voting rights that members are entitled to exercise at the meeting and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice, is available from the Investor Centre at [www.stvplc.tv](http://www.stvplc.tv).
2. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder.
3. A proxy need not be a shareholder of the Company but must attend the meeting to represent you. Your proxy could be the Chairman or other person who has agreed to attend to represent you. Your proxy will vote as you instruct and must attend the meeting for your vote to be counted. Details of how to appoint the Chairman or another person as your proxy using the proxy form are set out in the notes to the proxy form.
4. 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 Asset Services on 0871 664 0300 or [shareholderenquiries@capita.co.uk](mailto:shareholderenquiries@capita.co.uk) (calls cost 10p per minute plus network extras; lines are open 8.30am to 5.30pm Monday to Friday). Alternatively, you may appoint a proxy electronically at [www.capitashareportal.com](http://www.capitashareportal.com). Please see the notes to the form of proxy for further details.
5. 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 Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF no later than 11.00am on 28 April 2015 or 48 hours before the time of any adjournment of the meeting.
6. The return of a completed proxy form, in writing or online or any CREST Proxy Instruction (as described in paragraph 11 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
7. A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person'). The right to appoint a proxy cannot be exercised by a Nominated Person. However, 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.
8. 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 28 April 2015 (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 or the adjourned meeting.

## NOTICE OF ANNUAL GENERAL MEETING

continued

9. As at 16 March 2015 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 39,298,231 ordinary shares of 50p each, carrying one vote each. The Company does not hold any ordinary shares in the capital of the Company in treasury. Therefore, the total voting rights in the Company as at 16 March 2015 are 39,298,231.
10. 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 on the Euroclear website ([www.euroclear.com](http://www.euroclear.com)). 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.
11. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message ('a CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ('EUI') specifications, and must contain the information required for such instructions, 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 Asset Services (IDRA10) by 11.00am on 28 April 2015 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.
12. 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.
13. 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.
14. 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 Asset Services on 0871 664 0300 or [shareholderenquiries@capita.co.uk](mailto:shareholderenquiries@capita.co.uk) (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.

15. 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 Asset Services, 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 [shareholderenquiries@capita.co.uk](mailto:shareholderenquiries@capita.co.uk).

In either case, the revocation notice must be received by Capita Asset Services no later than 8am on 30 April 2015 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.

16. 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
  - it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
17. 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 cannot require the shareholders requesting any such website publication to pay its expenses. 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 auditors 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.

18. 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.

## NOTICE OF ANNUAL GENERAL MEETING

continued

19. 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.
20. 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.
21. 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.
22. 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
- any related document (including the chairman's letter and proxy form), to communicate with the Company for any purposes other than those expressly stated.

**SUMMARY OF THE DEFERRED BONUS PLAN ('DBP')****1. Eligibility**

Any employee (including an Executive Director) of STV Group Plc (the 'Company') or any of its subsidiaries will be eligible to participate in the DBP at the discretion of the Remuneration Committee.

**2. Form of awards**

Awards under the DBP may be in the form of:

- 2.1 a conditional right to acquire ordinary shares in the Company ('Shares') at no cost to the participant ('Conditional Award')
- 2.2 an option to acquire Shares at no cost to the participant ('Nil-Cost Option')
- 2.3 a right to receive a cash amount which relates to the value of a certain number of notional Shares ('Cash Award')

and Conditional Awards, Nil-Cost Options and Cash Awards are together referred to as 'Awards' and each an 'Award'.

References in this summary to Shares include notional Shares to which a Cash Award relates, where appropriate.

**3. Grant of awards**

Awards may only be granted within the six week period following the approval of the DBP by the Company's shareholders, the announcement of the Company's results for any period, or on any day on which the Remuneration Committee determines that exceptional circumstances exist.

An Award may only be granted to an employee who has earned a bonus for the Financial Year immediately preceding the Financial Year in which the Grant Date occurs.

**4. Terms of awards**

Awards may be granted over newly issued Shares, treasury Shares or Shares purchased in the market. Awards are not transferable (other than on death). No payment will be required for the grant of an Award. Awards will not form part of pensionable earnings.

**5. Dividends**

The Remuneration Committee may determine that the number of Shares to which a participant's Award relates shall increase to take account of dividends that would have been paid on vested Shares on such terms as it determines, or that an equivalent amount should be paid in cash.

**6. Overall limits**

The number of Shares which may be issued under the DBP and under any other employees' share plan adopted by the Company in any ten year period may not exceed 10 per cent of the issued ordinary share capital of the Company in issue at that time.

Treasury Shares will be treated as newly issued for the purpose of these limits until such time as guidelines published by institutional investor representative bodies determine otherwise.

# APPENDIX TO THE NOTICE OF ANNUAL GENERAL MEETING

continued

## 7. Reduction for malus and clawback

Where, at any time prior to the third anniversary of the grant date, there is:

- a material misstatement of the Company's (or any Group member's) audited financial results
- misconduct on the part of the participant
- an error in assessing a performance condition applicable to the Award or in the information or assumptions on which the Award was granted or vests
- action by a participant or participants which resulted in a material breach and subsequent loss of the Company's CH3 licence(s).

Awards may be subject to forfeiture or additional conditions, or, to the extent that Awards vest early on death or cessation of employment, repayment (as the case may be), to the extent determined by the Remuneration Committee.

Where there is an ongoing investigation on such third anniversary the Remuneration Committee may extend this period.

## 8. Vesting and exercise

Awards will usually vest on the third anniversary of the grant date (or on such other date as the Remuneration Committee determines). Nil-Cost Options will then normally be exercisable until the tenth anniversary of the grant date.

The vesting of a Conditional Award or the exercise of a Nil-Cost Option is subject to obtaining any necessary approvals or consents from the United Kingdom Listing Authority, the Company's share dealing policy and any other applicable laws or regulations.

At any time before the point at which an Award (which is not a Cash Award) has vested, or a Nil-Cost Option has been exercised, the Remuneration Committee may decide to pay a participant a cash amount equal to the value of the Shares he would otherwise have received.

Any Shares or cash that are to be issued, transferred or paid (as appropriate) to a participant in respect of a vested Award or an exercised Nil-Cost Option (including a Cash Award) will be issued, transferred or paid (as appropriate) as soon as practicable thereafter.

## 9. Cessation of employment

If a participant dies, an unvested Award will, unless the Remuneration Committee determines otherwise, vest in full as soon as reasonably practicable after the participant's death. A participant's personal representatives will normally have 12 months to exercise any vested Nil-Cost Options.

If a participant ceases to hold office or employment with the Group by reason of ill-health, injury, disability, or the sale of the business or entity that employs him out of the Group, or for any other reason at the Remuneration Committee's discretion (except where a participant is summarily dismissed) his unvested Award will usually continue, unless the Remuneration Committee determines that the Award will vest as soon as reasonably practicable following the date of cessation.

An unvested Award will usually vest in full in these circumstances, unless the Remuneration Committee determines otherwise, in which case it will take account of the period of time that has elapsed since the Award was granted until the date on which the participant ceases to hold office or employment. Where Awards vest in these circumstances (or have already vested on cessation), Nil-Cost Options will normally be exercisable for six months.

If a participant ceases to hold office or employment with the Group in any other circumstances, an Award (whether or not vested) shall lapse on the date on which the participant ceases to hold that office or employment.

## 10. Corporate events

In the event of a change of control of the Company, Awards will usually vest in full, unless the Remuneration Committee determines otherwise, in which case it will take into account the period of time which has elapsed between the grant date and the relevant event. Nil-Cost Options will then be exercisable for a period of one month.

Alternatively, the Remuneration Committee may permit participants to exchange Awards for equivalent awards which relate to shares in a different company. If the change of control is an internal reorganisation of the Group or if the Remuneration Committee so decides, participants will be required to exchange their Awards (rather than Awards vesting).

If other corporate events occur such as a winding-up of the Company, demerger, delisting, special dividend or other event which, in the opinion of the Remuneration Committee, may affect the current or future value of Shares, the Remuneration Committee may determine that Awards will vest in full, unless it determines otherwise, in which case it will take into account the period from the grant date to the date of the relevant event. The Remuneration Committee will determine in these circumstances the length of time during which Awards structured as Nil-Cost Options can then be exercised.

## 11. Adjustments

In the event of a variation of the Company's share capital or a demerger, delisting, special dividend, rights issue or other event, which may, in the Remuneration Committee's opinion, affect the current or future value of Shares, the number of Shares subject to an Award and/or any performance condition attached to Awards, may be adjusted.

## 12. Amendment and termination

The Remuneration Committee may amend the DBP or the terms of any Award at any time, provided that prior approval of the Company's shareholders in a general meeting will be required for amendments to the advantage of eligible employees or participants relating to eligibility, limits, the basis for determining a participant's entitlement to, and the terms of, the Shares or cash comprised in an Award and the impact of any variation of capital.

However, any minor amendment to benefit the administration of the DBP, to take into account legislative changes, or to obtain or maintain favourable tax treatment, exchange control or regulatory treatment may be made by the Remuneration Committee without shareholder approval.

No amendment may be made to the material disadvantage of participants in the DBP unless consent is sought from the affected participants and given by a majority of them.

The DBP will usually terminate on the tenth anniversary of its approval by shareholders, but the rights of existing participants will not be affected by any termination.

## 13. Legal entitlement

Participation in the DBP does not form part of the terms of a participant's contract of employment and participants have no rights in respect of DBP benefits.

## 14. Governing law

The DBP will be governed in accordance with the laws of Scotland and the parties submit to the exclusive jurisdiction of the Courts of Scotland.

## 15. Documents on display

The rules of the DBP will be available for inspection from 27 March 2015 until 30 April 2015 at Peel Hunt, Moor House, 120 London Wall, London EC2Y 5ET and at the place of the AGM for at least 15 minutes before and also during the meeting.

# APPENDIX TO THE NOTICE OF ANNUAL GENERAL MEETING

continued

## SUMMARY OF THE LONG TERM INCENTIVE PLAN ('LTIP')

### 1. Eligibility

Any employee (including an Executive Director) of STV Group Plc (the 'Company') or any of its subsidiaries will be eligible to participate in the LTIP at the discretion of the Remuneration Committee.

### 2. Form of awards

Awards under the LTIP may be in the form of:

- 2.1 a conditional right to acquire ordinary shares in the Company ('Shares') at no cost to the participant ('Conditional Award')
- 2.2 an option to acquire Shares at no cost to the participant ('Nil-Cost Option')
- 2.3 a right to receive a cash amount which relates to the value of a certain number of notional Shares ('Cash Award')

and Conditional Awards, Nil-Cost Options and Cash Awards are together referred to as 'Awards' and each an 'Award'.

References in this summary to Shares include notional Shares to which a Cash Award relates, where appropriate.

### 3. Performance conditions

Unless the Remuneration Committee determines otherwise, Awards will be subject to the satisfaction of a performance condition which will determine the proportion (if any) of the Award which will vest at the end of a performance period of at least three years. Awards granted to the Company's Executive Directors under the rules of the LTIP would also be granted within the parameters of the Company's prevailing remuneration policy ('Policy').

Awards which are not subject to a performance condition will vest three years from grant.

Any performance condition may be amended or substituted if one or more events occur which cause the Remuneration Committee to consider that an amended or substituted performance condition would be more appropriate. Any amended or substituted performance condition would not be materially less difficult to satisfy.

### 4. Holding period

Awards may be granted subject to an additional holding period, which will begin on the day immediately after the last day of the performance period and ending at least one year later.

The Remuneration Committee does not currently intend to make Awards subject to a holding period, but it may apply a holding period to future Awards.

### 5. Individual limits

Awards will not be granted to a participant under the LTIP over Shares with a market value (as determined by the Remuneration Committee) in excess of 100 per cent of salary in respect of any financial year. The Remuneration Committee may, in its discretion, grant Awards above this level in circumstances in which it considers a higher limit to be appropriate (Awards granted to Executive Directors would be made within the limits set out in the Policy).

### 6. Grant of awards

Awards may only be granted within the six week period following the approval of the LTIP by the Company's shareholders, the dealing day after the day on which the Company makes an announcement of its results for any period, or on any day on which the Remuneration Committee determines that exceptional circumstances exist.

### 7. Terms of awards

Awards may be granted over newly issued Shares, treasury Shares or Shares purchased in the market. Awards are not transferable (other than on death). No payment will be required for the grant of an Award. Awards will not form part of pensionable earnings.



## 8. Dividends

The Remuneration Committee may determine that the number of Shares to which a participant's Award relates will increase to take account of dividends that would have been paid on vested Shares on such terms as it determines, or that an equivalent amount should be paid in cash.

## 9. Overall limits

The number of Shares which may be issued under the LTIP and under any other employees' share plan adopted by the Company may not exceed 10 per cent of the Issued ordinary share capital of the Company in issue at that time.

Treasury Shares will be treated as newly issued for the purpose of these limits until such time as guidelines published by institutional investor representative bodies determine otherwise.

## 10. Reduction for malus and clawback

Where, at any time prior to the fifth anniversary of the grant date, there is:

- a material misstatement of the Company's (or any Group member's) audited financial results
- misconduct on the part of the participant
- an error in assessing a performance condition applicable to the Award or in the information or assumptions on which the Award was granted or vests
- action by a participant or participants which resulted in a material breach and subsequent loss of the Company's CH3 licence(s).

Awards may be subject to forfeiture, additional conditions or repayment (as the case may be), to the extent determined by the Remuneration Committee. Where there is an ongoing investigation on such fifth anniversary, the Remuneration Committee may extend this period.

## 11. Vesting and exercise

Awards that are subject to a performance condition will normally vest as soon as practicable after the end of any performance period (or on such later date as the Remuneration Committee determines) and then only to the extent that any performance condition has been satisfied. Awards that are not subject to a performance condition will usually vest on the third anniversary of the grant date.

If a holding period does not apply to an Award, it will be released (or, in the case of a Nil-Cost Option become exercisable) immediately on vesting. However, if Awards are subject to an additional holding period, vested shares will not usually be released to the participant until the end of the holding period.

Nil-Cost Options will then normally be exercisable from release until the tenth anniversary of the grant date.

The release of a Conditional Award or the exercise of a Nil-Cost Option is subject to obtaining any necessary approvals or consents from the United Kingdom Listing Authority, the Company's share dealing policy and any other applicable laws or regulations.

At any time before the point at which an Award (which is not a Cash Award) has been released or a Nil-Cost Option has been exercised, the Remuneration Committee may decide to pay a participant a cash amount equal to the value of the Shares he would otherwise have received.

Any Shares or cash that are to be issued, transferred or paid (as appropriate) to a participant in respect of an Award will be issued, transferred or paid (as appropriate) as soon as practicable thereafter.

## APPENDIX TO THE NOTICE OF ANNUAL GENERAL MEETING

continued

### 12. Cessation of employment

If a participant dies, his Award will, unless the Remuneration Committee determines otherwise, vest (if unvested) and be released as soon as reasonably practicable after the participant's death. An unvested Award will vest to the extent that the Remuneration Committee determines, taking into account the satisfaction of any performance condition and the period of time that has elapsed since the Award was granted until the date of death as a proportion of the vesting period. A participant's personal representatives will normally have 12 months from the participant's death to exercise any Nil-Cost Options.

#### Cessation prior to the vesting date

If a participant ceases to hold office or employment with the Group before the vesting date by reason of ill-health, injury, disability, or the sale of the business or entity that employs him out of the Group or for any other reason at the Remuneration Committee's discretion (except where a participant is summarily dismissed), his unvested Award will usually continue, unless the Remuneration Committee determines that the Award will be released as soon as reasonably practicable following the date of cessation.

The Remuneration Committee will decide the extent to which an unvested Award vests in these circumstances, taking into account the extent to which any performance condition is satisfied and, unless the Remuneration Committee in its discretion determines otherwise, the period of time that has elapsed since the Award was granted until the date on which the participant ceases to be an officer or employment as a proportion of the vesting period.

If a participant ceases to hold office or employment with the Group in any other circumstances, an Award will lapse on the date on which the participant ceases to hold that office or employment.

#### Cessation during any holding period

If a participant ceases to hold office or employment with the Group during the holding period, his vested Award will usually continue (unless he is summarily dismissed, in which case his Award will lapse), or unless the Remuneration Committee determines that it should be released early.

#### Exercise of Nil-Cost Options on cessation

Where Nil-Cost Options vest and are released in these circumstances (or if have already been released, but not been exercised prior to cessation) they will normally be exercisable for a period of six months thereafter.

### 13. Corporate events

In the event of a change of control of the Company, Awards will vest taking into account the extent that any performance condition has been satisfied, and unless the Remuneration Committee determines otherwise, the period of time which has elapsed between the grant date and the relevant event as a proportion of the vesting period. Nil-Cost Options will then be exercisable for a period of one month.

Alternatively, the Remuneration Committee may permit participants to exchange Awards for equivalent awards which relate to shares in a different company. If the change of control is an internal reorganisation of the Group or if the Remuneration Committee so decides, participants will be required to exchange their Awards (rather than Awards vesting).

If other corporate events occur such as a winding-up of the Company, demerger, delisting, special dividend or other event which, in the opinion of the Remuneration Committee, may affect the current or future value of Shares, the Remuneration Committee may determine that Awards will vest taking into account the satisfaction of any relevant performance condition and, unless the Remuneration Committee determines otherwise, the period from the grant date to the date of the relevant event as a proportion of the vesting period. The Remuneration Committee will determine in these circumstances the length of time during which Awards structured as Nil-Cost Options can then be exercised.

#### **14. Adjustments**

In the event of a variation of the Company's share capital or a demerger, delisting, special dividend, rights issue or other event, which may, in the Remuneration Committee's opinion, affect the current or future value of Shares, the number of Shares subject to an Award and/or any performance condition attached to Awards, may be adjusted.

#### **15. Amendment and termination**

The Remuneration Committee may amend the LTIP or the terms of any Award at any time, provided that prior approval of the Company's shareholders in a general meeting will be required for amendments to the advantage of eligible employees or participants relating to eligibility, limits, the basis for determining a participant's entitlement to, and the terms of, the Shares or cash comprised in an Award and the impact of any variation of capital.

However, any minor amendment to benefit the administration of the LTIP, to take into account legislative changes, or to obtain or maintain favourable tax treatment, exchange control or regulatory treatment may be made by the Remuneration Committee without shareholder approval.

No amendment may be made to the material disadvantage of participants in the LTIP unless consent is sought from the affected participants and given by a majority of them.

The LTIP will usually terminate on the tenth anniversary of its approval by shareholders, but the rights of existing participants will not be affected by any termination.

#### **16. Legal entitlement**

Participation in the LTIP does not form part of the terms of a participant's contract of employment and participants have no rights in respect of LTIP benefits.

#### **17. Governing law**

The LTIP will be governed in accordance with the laws of Scotland and the parties submit to the exclusive jurisdiction of the Courts of Scotland.

#### **18. Documents on display**

The rules of the LTIP will be available for inspection from 27 March 2015 until 30 April 2015 at Peel Hunt, Moore House, 120 London Wall, London EC2Y 5ET and at the place of the AGM for at least 15 minutes before and also during the meeting.







**The STV Appeal 2015 is here!**

Visit [www.stv.tv/appeal](http://www.stv.tv/appeal) to see how you can help.

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