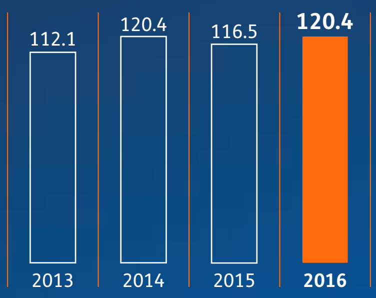
COMMERCIALLY FOCUSED CREATIVELY LED

Annual Report and Accounts 2016

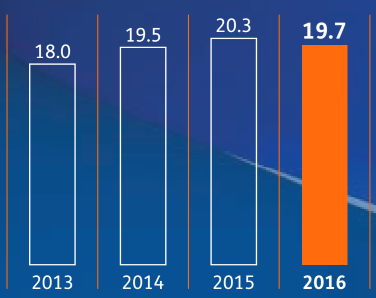
STV IS SCOTLAND'S LEADING DIGITAL MEDIA BRAND, PROVIDING CONSUMERS WITH QUALITY CONTENT ON AIR, ONLINE AND ON DEMAND

2016 financial highlights



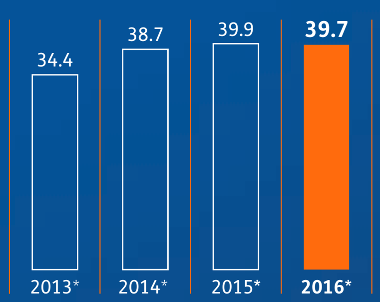
Turnover
(£ millions)

+3%



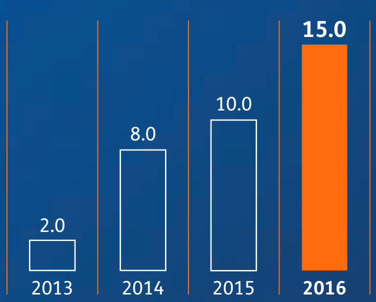
Operating profit
(£ millions)*

–3%



EPS
(pence)

–1%



Dividends per share
(pence)

+50%

* Pre-exceptionals and IAS 19

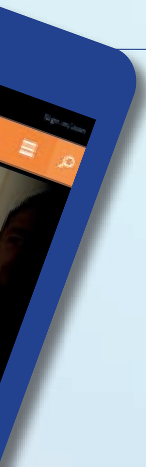
The STV Family

A SHOWCASE OF CHOICE AND CONTENT

The STV Family of consumer services demonstrates our commitment to ensure STV's content can be accessed free of charge anywhere, anytime – on air, on demand and online

ON AIR

STV audience share continues to track above ITV network



ON DEMAND

STV Player offers high quality consumer experience providing catch up and watch live

STV Player

ONLINE

Building audiences by integrating STV content with social media channels

STV | stv.tv

Chairman’s statement

Baroness Margaret Ford
Chairman

2016 has been another successful year for STV as we have continued to build a profitable, consumer focused business; creating and delivering great content to audiences and consumers and increasing returns to shareholders.

Stability and resilience to de-risk the business

A year characterised by unpredicted events and uncertainty in the macro-economic outlook has been contrasted with stability and continuity across the business. The resilience of our business model has been further enhanced as key strategic agreements have been implemented. These have de-risked the business and created increased financial certainty, securing our position to enable continued pursuit of our growth strategy. The normalised cost base and the trading agreements underpinning the core business are providing the resilience to respond positively to changes in the macro-economic environment.

Our growth strategy has two drivers: firstly, from the base of a strong core business; the diversification of our earnings base through the growth of a portfolio of highly profitable digital consumer services. Secondly, to continue to build a multi-genre content production business of scale.

Following a comprehensive market review process, in late 2016 we announced that we will enter into a renewed long-term (8 year term) arrangement with ITV plc to cover our future agency representation of airtime and sponsorship sales in the national market. This will deliver transparency, clarity and a future proofed trading arrangement designed to support our multi-product commercial offering.

Another significant agreement settled in late 2016 is the pension deficit funding plan. This triennial valuation settlement, covering the Company’s two defined benefits pension schemes, has been agreed within the Company’s expected cash commitments and provides certainty and long term visibility on cashflow.

Continued delivery of sustainable growth

The business has continued to be cash generative during 2016. Combined with a culture of strict cost control and fiscal discipline, a low level of net debt has been maintained. With a significantly de-risked core business, we are in the position of having financial flexibility to pursue growth ambitions and deliver value to shareholders.

The operational performance of the business is highly transparent to all our stakeholders through the scorecard of our growth KPIs. During 2016, we announced new growth targets to the end of 2018. These are stretching and ambitious and build on the growth and achievements delivered to date.

Consumer business

The profitability of the core channels business has been maintained, despite some weakening of the airtime revenue market during 2016.

The consumer business has continued to deliver an enhanced portfolio of consumer services, ‘the STV Family’. This product set offers consumers multiple, complimentary, free to consume, STV branded services, on air; online; and on demand.

In early 2016, a new digital news platform was launched. The iterative process of product enhancement and improvement to ensure our services exceed the rapidly evolving and increasing expectations of consumers will continue in 2017.

The STV Player has had another successful year achieving a record number of streams delivered in the final quarter of the year.

A successful digital growth strategy, delivering strong margin performance is supporting our strategic aim to rebalance the business. 2016 was the seventh year of consecutive growth in digital activities, now an established core activity. We continue to make targeted investment in digital growth initiatives, particularly to support the data and insights strategy.

The unrivalled reach we hold across a range of platforms will be extended in Q2 of 2017 with the launch of a new and innovative network, STV2. This development will consolidate our strong market position and enhance our unique ability to deliver mass audiences across platforms.

The launch of a new channel is an important landmark for the Company. This will create new opportunities to grow our share of the Scottish advertising market whilst extending our appeal to a wider range of consumers. This new network will build on the success of our existing City TV services and will be delivered through a unique partnership with academic partners. This is successfully providing skills and development opportunities to strengthen our future talent pipeline.

STV Productions

A strong rise in deliveries and new commissions continuing to be secured resulted in a return to revenue growth for STV Productions in 2016. Reflecting the trading performance and growth projections of the business, a £2.8m write down of the remaining goodwill balance has been made.

It was a welcome development during 2016 to begin to realise opportunities from the development partnership venture established with GroupM Entertainment. We will continue to seek to maximise opportunities from this relationship in the year ahead.

Through our continued investment in development, the talented and highly creative team are well positioned to build on this progress during 2017.

STV External Lottery Manager (STV ELM)

A significant development of 2016 was the launch of The Scottish Children's Lottery. This has been supported by a new operating division of the Group, STV External Lottery Manager (STV ELM). Further details are set out in the Report.

Shareholder returns

Since the introduction of a progressive dividend policy and the return to dividends in 2013, we have delivered on our commitment to increase returns to shareholders. Enabled by the solid financial performance, strong cash generation and the financial stability and certainty delivered through the new pension deficit funding plan, I am pleased to recommend a final ordinary dividend of 11 pence per share, ahead of previous guidance.

This will result in a total dividend of 15 pence per share (2015: 10 pence per share), an increase of 50% year on year. We are committed to maximising returns to shareholders and our dividend policy will aim to pay out between 60% to 80% of cash generation after pension deficit funding.

Board changes

I was delighted to confirm the appointment of a new board member in late 2016. Simon Miller joined the board in December and holds considerable experience across financial, commercial and manufacturing businesses as a Company Director and chair. In June, Genevieve Shore resigned from the board after four years' service and I would like to thank her for her valuable contribution over this term.

A significant board change will take place in 2017 when Senior Independent Director, David Shearer, will step down following the AGM in April. Over the ten year period that David has served on the board, he has made an outstanding contribution as Senior Independent Director and Chairman of the Audit Committee. His wise counsel has been invaluable and his contribution to the turnaround of the Company immense. We wish him continued success in the future.

Delivering social investment

The strength of the connections held with our consumers is evident through the extent to which they have embraced and supported the STV Children's Appeal. As a leading Scottish based company, we believe we have a responsibility to put something back into the communities we serve. In 2016, the Appeal raised over £2.5m, taking the total raised since launch in 2011 to nearly £14m.

With our partner, The Hunter Foundation, we have invested all monies raised directly into projects across Scotland, creating opportunities and improving prospects for children across the country.

Growth momentum and new opportunities

Looking ahead, the Company has a clear strategy for growth and delivery of value to our shareholders. 2017 will be a significant year for STV. We will mark our sixtieth anniversary and celebrate the iconic place we have at the heart of Scottish society whilst continuing to drive forward with ambition. Our ability to innovate and develop new consumer connections will be demonstrated through the creation of a new network: STV2.

On behalf of the board, I sincerely thank our shareholders for their continued support. As a creatively led business, the contribution of our Leadership Team and staff across the business is the key driver of our success. It is their drive, energy and focus, under the stewardship and direction of Rob Woodward, that has delivered another solid performance and this contribution is recognised and highly valued.

Your Company is in a strong position to achieve growth and realise opportunities whilst responding to challenges in the market during 2017.

Baroness Margaret Ford
Chairman

Chief Executive's review – Group

COMMERCIALLY FOCUSED CREATIVELY LED

Throughout the year, STV's position as Scotland's leading digital media business continued to strengthen as we delivered against our strategy to drive sustainable organic growth.

This growth strategy is underpinned by a continuing and relentless focus on the KPIs. At our half year results in 2016, a new set of stretching targets were unveiled setting out our ambitions to 2018.

Following extensive negotiations, we confirmed terms with ITV plc for a new airtime sales agreement. The new agreement provides increased efficiency, transparency and stability for the management of STV's airtime and sponsorship sales.

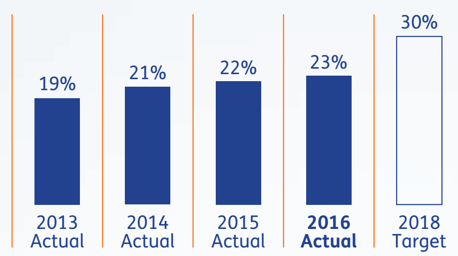
Further to this, we reiterated our KPI target to achieve 30% of earnings from non-broadcast activity. In 2016, we achieved a 23% non-broadcast earnings share, the highest share since we introduced this ambition and a solid base to build on as we progress towards our aim of 30% by 2018.

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, from digital, productions, music publishing and telephony income, divided by total operating profit and expressed as a percentage.



> "Data, a key component of delivering the STV Family of products to multiple users, increased to 2.1 million insights… an increase from 1.6 million in 2015."

Rob Woodward Chief Executive Officer

STV in numbers

STV continues to engage with 94% of Scots each month through the STV Family

STV reaches
3.5m
viewers each month on channel 3

City TV reaches
759,000
viewers per month

20.6m
long form streams in 2016

STV Player available on
14
platforms

2.1m
consumer insights achieved

STV Children's Appeal raises over
£2.5m
in 2016

2016 a year of achievements

STV continues to strengthen its position as Scotland's leading digital media business with another successful year delivering sustainable organic growth

January

1 Two new entertainment shows, *Live at Five* and *The Late Show*, launch on STV Glasgow & STV Edinburgh

February

Full Year Results unveil fifth consecutive year of growth in pre-exceptional pre-tax operating profit

A second series of *Safeword* commissioned for ITV2

STV Player launches in Freeview Play

March

2 RMS Queen Mary's maiden voyage commissioned for BBC Scotland, BBC Four & Smithsonian Channel

Launch of digital news services – 'the home of Scottish news'

April

STV Glasgow & STV Edinburgh move up the EPG to channel 8

May

3 Reality TV series *Tour de Celeb* is commissioned for Channel 5

4 2016 Homeless World Cup announces STV as its home broadcaster

June

5 STV brings viewers extensive coverage of Euro 2016

1

2

5

4

3

Nearly
£14 million
raised by the STV Children's Appeal since launch

July

City TV unveils extensive coverage of the Edinburgh Festival

6 A brand new series of *Paul & Nick's Big American Food Trip* returns to STV

7 *Ultimate Celebrity Power Couples '16* is commissioned by Channel 5

August

New KPI growth targets to 2018 confirmed at Half Year Results

STV switches off its channels to encourage Scots to get active for 'I am Team GB'

STV Productions and GroupM Entertainment commissioned by UKTV's W to make *The Dressing Room*

September

8 Lorraine Kelly announces £2,568,369 raised by STV Children's Appeal 2016

STV News Tonight unveiled

October

9 *Scotland Tonight* celebrates five years on air

The Scottish Children's Lottery is launched

November

STV broadcasts England v Scotland qualifier match live from Wembley

December

Airtime Sales Agreement is confirmed with ITV plc

STV Group plc confirms a deficit funding plan has been agreed with the trustees of the Company's defined benefits pension schemes

Chief Executive's review – Consumer

EXTENDING REACH AND ENGAGEMENT

The consumer business has continued to perform well in 2016 with the margin exceeding its KPI target of 18% and delivering 18.5%, an 11 year high.

Data, a key component of delivering the STV Family of products to multiple users, increased to 2.1 million insights against a target of 2.4 million, an increase from 1.6 million in 2015.

STV's data strategy is predominantly driven by the STV Player as we gain a greater understanding of our consumers and their preferences. This allows us to serve our audience with relevant content and creates targeted opportunities for advertisers.

City TV

It was confirmed in March that STV Glasgow and STV Edinburgh would move to a more prominent position at channel 8 on the Freeview EPG. The move followed the transition of BBC Three to a fully online service.

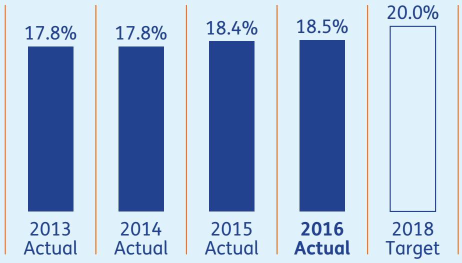
STV Glasgow and STV Edinburgh continued to establish an audience with an average reach of 759,000 viewers per month. This fell short of the KPI of a target audience of one million viewers per month, however, the channels achieved their highest average audience on Hogmanay with an audience over 100,000 viewers and by December, the volume of streams on the STV Player for City TV content had increased 59% year on year.

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.

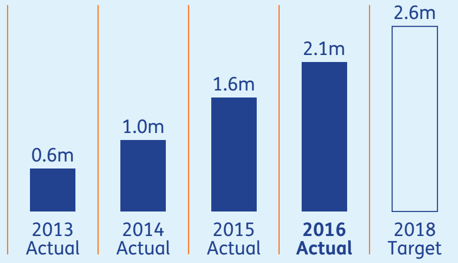


Consumer insights

(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.



The channels did not meet their 2016 consumer engagement target to engage viewers for 10 minutes per day but the schedule continued to evolve with new programmes added throughout the year.

A new daytime magazine show launched at the start of 2016. *Live at Five* is broadcast from the studios at Pacific Quay in Glasgow each weeknight evening with a mix of lively and engaging local features from the East and West of Scotland.

As part of an ongoing commitment to broadcast local sport for audiences, STV Glasgow and STV Edinburgh broadcast a series of boxing matches throughout the year. Further to this, in May the city channels were announced as the home broadcaster for the 2016 Homeless World Cup. STV Glasgow and STV Edinburgh showed live matches daily, with viewers also getting the chance to watch the highlights in two programmes on STV.

Throughout summer, the city channels provided live and extensive coverage from the Edinburgh Festival. The festival coverage reached 412,000 on the city channels and STV with live guests and features each day from the heart of the capital.

The city channels continued the commitment to deliver foreign language programming with *1920. War and Love*, a 13-part subtitled Polish drama, broadcast following the success of *Czas Honoru*.

With the addition of three new licences for Aberdeen, Ayr and Dundee, the services will rebrand and relaunch as STV2 in spring 2017. STV2 will be available on Freeview, Sky and Virgin in the broadcast areas and be streamed online via the STV Player.

On demand

The STV Player launched in Freeview Play in February and Freesat in October as we continue to enhance our multi-platform presence and make our content available free of charge wherever viewers choose to watch it.

The STV Player is now available on 14 platforms, including iPhones and iPads, Android tablets and smartphones, Windows 8, Windows Phone, Samsung Smart TVs, YouView set-top boxes, Xbox 360 consoles, Amazon Fire TV, Freeview Play, Kindle Fire tablets and via player.stv.tv.

Total long form streams across the year on the STV Player were 20.6 million, a 40% increase year on year, but short of the target of 21 million. The number of live streams were up 68% and catch-ups increased 33% in the same period. The Player reached 2 million downloads and

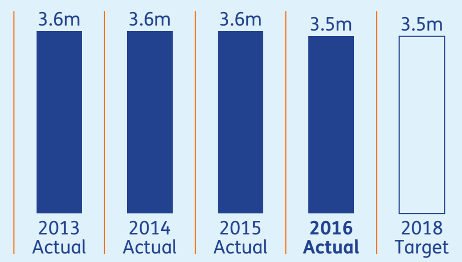
Consumer reach

(monthly average millions)

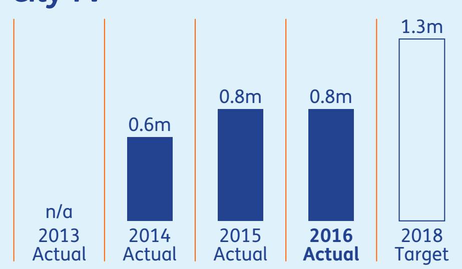
Why it's important
These measures indicate the breadth of the consumer base of each service in the STV Family.

How we measure it
It is the monthly average audience in millions from sources including BARB and Adobe Analytics.

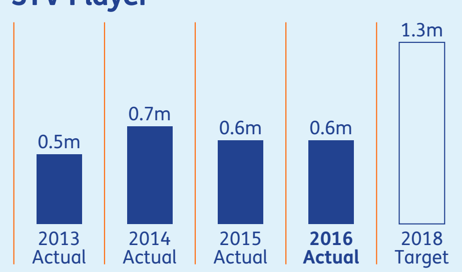
STV audience



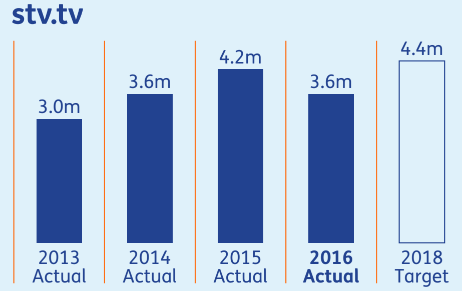
City TV



STV Player



stv.tv



Chief Executive's review – Consumer

The STV Player is now available on 14 platforms… total long form streams across the year on the STV Player were 20.6 million, a 40% increase year on year

exceeded its consumer engagement target with viewers watching for 46 minutes per day against a target of 41 minutes, showing continued strong growth.

The digital margin exceeded target at 52%, up from 48% in 2015, with revenues of £7.9 million against a target of £10 million.

On air

STV continues to provide viewers with original content with a range of shows for Scottish audiences and for the seventh consecutive year achieved the KPI to outperform the network.

STV continues to reach 3.5 million viewers each month on channel three with viewers engaging for 39 minutes each day, just short of the 2016 target of 41 minutes per day. In 2016, STV aired 47 of the top 50 best watched programmes on commercial television and was the most watched commercial channel in Scotland.

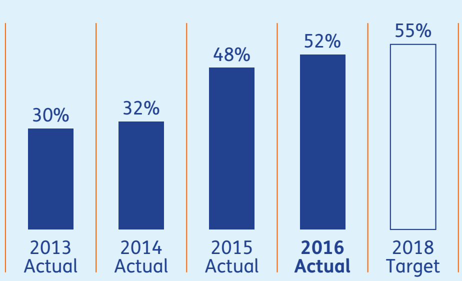
Jackie Brambles returned to STV with a new series of *Stopping Scotland's Scammers*. Sponsored by The Royal Bank of Scotland, the second series offered practical help and advice from experts on how to avoid scams and reached over 1 million viewers across four episodes.

In August, another popular STV cooking show returned. In *Paul & Nick's Big American Food Trip*, the chefs stopped off in eight different culinary locations across the U.S. to meet local producers and learn more about the history of the Ulster-Scots from their descendants.

Digital margin
(%)

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

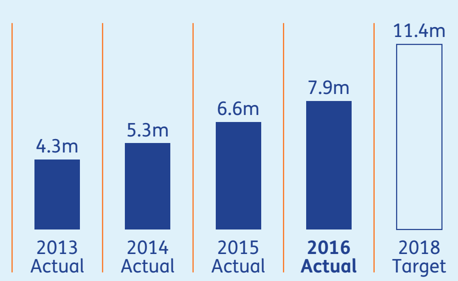
How we measure it
It is calculated as operating profit divided by turnover and expressed as a percentage.



Digital revenues
(£ millions)

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.



The market for STV Consumer services

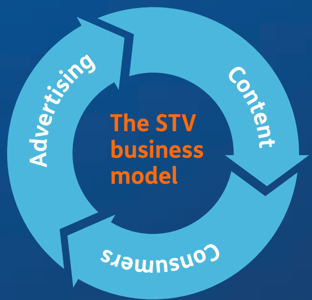
Reaching Scotland

In a country where the average person watches over 4 hours of TV each day, seven in ten own a smart phone and over half (56%) have a tablet, STV is well placed to super serve consumers with a range of content across multiple devices

MAXIMISING REACH AND ENGAGEMENT

- STV viewers spend an average 1 hour 42 minutes watching STV each day
- STV is the most watched commercial channel in Scotland
- The STV Player achieved 20.6 million long form streams in 2016
- 60% of population use at least three STV services each month
- 2.8 million newsletters are sent to STV subscribers each month

Monetising Consumer engagement



STV Consumer

Delivers unique, high quality content to attract mass audiences which are sold to advertisers to generate revenues. This content is delivered across multiple platforms. The business aims to use its unique content to create communities of interest and to engage consumers.

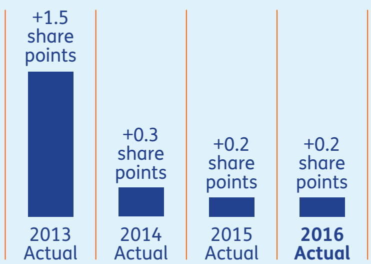
Measurement
The key corporate KPIs are used to monitor and measure the progress of each division in fulfilling its strategy.

Chief Executive's review – Consumer

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.

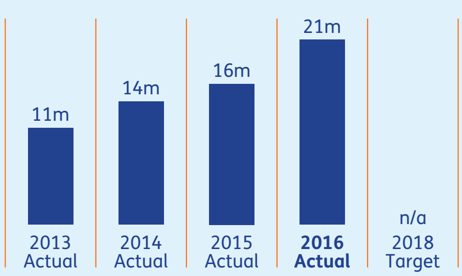
How we measure it
Peak audience (18:00 – 22:30) for all adults is compared to the ITV Network.



Long form video streams
(millions)

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.



STV aired an extensive line-up of live games of the Euro 2016 tournament live from France with further coverage on the STV News app and stv.tv. Euro 2016 reached 3.3 million across the tournament with an average audience of 552,500 viewers.

This is Scotland returned to STV with two brand new documentaries by upcoming, Scottish filmmakers. The new talent initiative, run by the Scottish Documentary Institute (SDI) in association with Creative Scotland offers a unique opportunity to produce a documentary for broadcast in peak time on STV. This year's commissioned filmmakers were Paul Fegan with *Are You Dancing?* and Iain Mitchell with *Black Rat Island*.

Live football proved popular once again with the England v Scotland World Cup qualifier match drawing an audience reach of 1.6 million in November, making it the most watched programme of the year. The match was supported with a series of special preview programmes on STV Glasgow and STV Edinburgh each weeknight in the build-up to the match.

On Hogmanay, STV broadcast a New Year's programme made by independent producer Solus Productions with Lorraine Kelly welcoming Judy Murray, Eileen McCallum, Jenni Falconer and Stevie McCrorie to join her onboard the HM Frigate Unicorn in Dundee.

STV News

STV News at Six outperformed *BBC1 News at Six* in December 2016, reaching 423,000 and 27.4% share, whilst BBC One reached 421,000 with a 27.2% share, making it the first time in 2016 that the STV News' share was higher than BBC One's.

STV's position as 'the home of Scottish news' was reinforced with the launch of an enhanced online news service that combines international, national and local news and up-to-the-minute weather reports with the personality, quality and reliability of our existing services. The launch recognises the changing needs of our consumers and recognises a desire to access the STV News that they can trust on-air, on demand and online. The app is a go-to service for up to the minute news and information and has 28,000 active daily users, an increase of 22% on the previous year.

stv.tv engages with 3.6 million browsers each month with an average three minutes spent on the site, half of the KPI target of six minutes.

In spring, STV broadcast a comprehensive schedule of programmes ahead of the Scottish Parliament elections, including a live debate featuring the five Scottish party leaders and an overnight results programme.

In September, STV announced its intention to launch *STV News Tonight* in spring 2017. The landmark new service for Scotland will offer a comprehensive service of Scottish, UK and international news from a Scottish perspective and delivered with the trademark STV News values. *STV News Tonight* will be the flagship news programme on STV2.

The delivery of a news programme of this format from Scotland will be a UK first and represents the next enhancement to STV's extensive cross platform news and current affairs offer. The programme will be produced and broadcast from Glasgow using STV's resources from across Scotland and ITV's international and UK news resources.

Popular current affairs programme *Scotland Tonight* celebrated five years on air. The programme has established itself as the most watched Scottish current affairs programme.

STV announced its intention to launch *STV News Tonight*… a comprehensive service of Scottish, UK and international news from a Scottish perspective

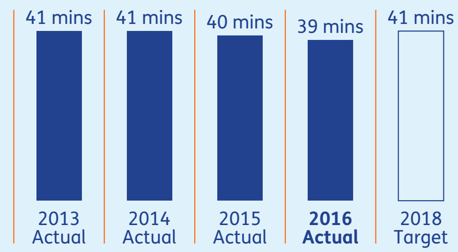
Consumer engagement

(mins per day per user)

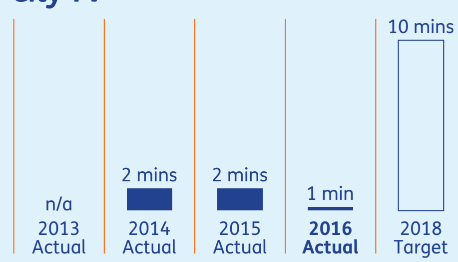
Why it's important
These measures indicate the depth of the consumer base of each of the services in the STV Family.

How we measure it
It is the average minutes per day that consumers spend on each service sourced from BARB and Adobe Analytics.

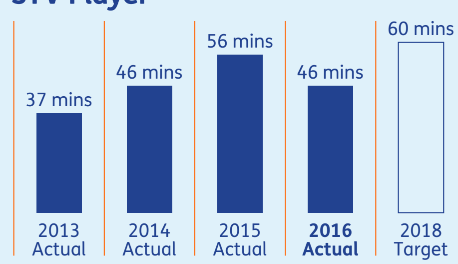
STV audience



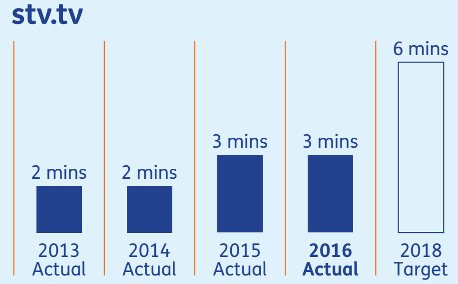
City TV



STV Player



stv.tv



Showcase of content


CATCH
PHRASE
THE
DRESSING
ROOM
GET TAE
FRANCE

Chief Executive's review – Productions

BUILDING A CREATIVE BUSINESS OF SCALE

STV Productions returned to revenue growth during 2016 securing a number of new commissions and recommissions.

The business delivered 53% growth on the previous year with revenue up at £12.7 million, falling short of the KPI target of £23 million reflecting a shortfall in deliveries. A margin of 1% was delivered against a KPI of 7% for the period. During the year, a £2.8m provision for impairment was recognised against the carrying value of goodwill to reflect the trading performance and growth projections for the business.

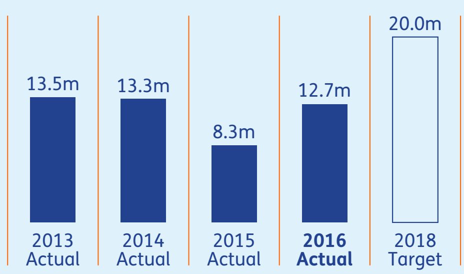
STV Productions' commissions and recommissions were secured across a range of genres, particularly entertainment, documentaries, popular factual and daytime.

Production revenue

(£ millions)

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, secondary sales and ancillary income.



The most recent series of *Catchphrase* to air in a prime time ITV slot attracted average audiences of over 3 million and reached an impressive 13.3 million viewers throughout the series

STV Productions' strategic partnership with international media company GroupM Entertainment continues to flourish with a number of co-productions commissioned

Entertainment

A successful returning entertainment format is *Catchphrase* with a further series confirmed in October with transmission later this year. The most recent series of *Catchphrase* to air in a prime time ITV slot attracted average audiences of over 3 million and reached an impressive 13.3 million viewers throughout the series.

STV Productions' strategic partnership with international media company GroupM Entertainment continues to flourish with a number of co-productions commissioned, including *The Dressing Room* for UKTV's entertainment channel, W. The six part fixed-rig series will debut in 2017. The non-exclusive partnership sees the two companies working to co-invest, co-develop and co-produce ideas in a broad range of genres including entertainment, factual entertainment, daytime, popular factual and drama.

GroupM also co-produced a data-based countdown show exploring the phenomenon of the celebrity power couple. *Ultimate Celebrity Power Couples '16*, a two hour special, aired on Channel 5 in July.

Returning entertainment formats included *Safeword*, also a co-production with GroupM Entertainment. In February, a second series of the gameshow was announced for ITV2 with six 45-minute episodes airing in June. The series was nominated for a National Reality TV Award achieving an average audience of 331,000 across the second series and performing well with its target 16-34 age group.

Documentaries

In documentaries, a second series of *Prison: First & Last 24 Hours* was commissioned in April and transmitted in October on Sky 1. Once again, the series focused on groups of prisoners on two nerve-wracking days: those starting the first day of their jail sentence, and those experiencing their final 24 hours before liberation.

In March, a new documentary was announced to mark the 80th anniversary of the legendary ocean liner the RMS Queen Mary's maiden voyage, in a co-production for BBC Scotland, BBC Four and Smithsonian Channel. With exclusive access to the magnificent ocean liner and an extensive archive of film and photographs, the documentary, which aired in May, explored the action-packed life of the Clyde-built ship. In its August transmission, *The Queen Mary: Greatest Ocean Liner* was the best watched programme on BBC Four that month and the third best watched documentary on the channel across the year.

At the Edinburgh International Television Festival in August, it was confirmed that STV Productions had been commissioned to make a two part documentary for BBC Two, fronted by broadcaster and former BBC political editor, Andrew Marr. *Scotland and the Battle for Britain* aired in September on the second anniversary of the referendum on Scottish independence.

Three further single documentaries were secured in 2016. *Dunblane: Our Story* commemorated the 20th anniversary of the Dunblane tragedy with a landmark documentary for BBC Two and BBC Scotland. *The Paper Thistle: 200 Years of the Scotsman* was delivered for a January 2017 transmission.

For STV, an hour-long programme featuring Scot Alan Cumming was commissioned. Supported by Visit Scotland, the programme follows the actor on a tour of the Outer Hebrides and aired in early 2017.

The market for STV Productions services

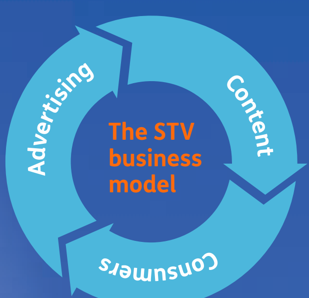
Diversification of genres

STV Productions continues to secure commissions across a number of genres for a variety of channels, including a prison documentary series for Sky 1, entertainment show *Catchphrase* for ITV and a specialist factual programme, *Tree of the Year*, for Channel 4

A WORLD OF POSSIBILITIES

- STV Productions continues its strategic partnership with GroupM Entertainment to co-invest, co-develop and co-produce ideas across a broad range of genres
- The BBC is STV Productions' biggest client with the 14th series of *Antiques Road Trip* recently transmitted on BBC One
- A further series of *Catchphrase* has been commissioned for ITV with the most recent series reaching 13.3 million viewers throughout the series

Monetising Productions output



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.

The fourteenth series of ART aired in early 2017 achieving the highest ratings of any series to date

Popular factual and features

In factual, successful four-part series *Tour de Celeb* was commissioned by Channel 5. This followed eight celebrities as they prepared for the toughest physical and mental challenge on TV and in the amateur cycling world, L'Etape du Tour in France.

Also in the specialist factual genre, *Tree of the Year* was broadcast on Channel 4 in December presented by Ardal O'Hanlon. The one-hour programme, in conjunction with the Woodland Trust, announced the winners of 2016's Tree of the Year competition, revealing the four national winners chosen by the public in an online poll and, in a first for the competition, the overall winner of UK Tree of the Year awarded by an expert panel.

In daytime, *Antiques Road Trip* (ART) and *Celebrity Antiques Road Trip* (CART) continue to prove popular on BBC One and BBC Two respectively. The fourteenth series of ART aired in early 2017 achieving the highest ratings of any series to date. The sixth series of CART aired in late 2016, featuring high profile celebrities including Jennifer Saunders and Zoe Ball.

STV Productions continues to work with international partners, including Red Arrow International, Passion Distribution, DCD Rights, Sky Vision and DRG, to secure programme and format sales around the world.

Production margin

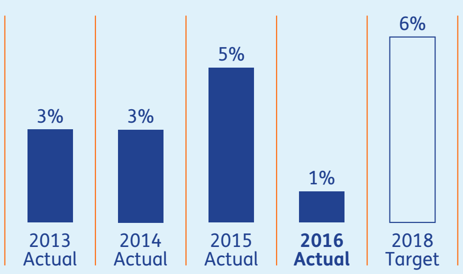
(%)

Why it's important

Margin improvement across the period provides evidence of profitable growth.

How we measure it

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



Chief Executive's review – STV External Lottery Manager

The Scottish Children's Lottery... will invest in projects aimed at promoting and supporting the development and potential of children and young people in Scotland

A new Group company was established in 2016 – STV External Lottery Manager (ELM) Limited. STV ELM will deliver the Scottish Children's Lottery – a value enhancing socially driven investment created to raise funds to support children in Scotland.

Scottish Children's Lottery

The Scottish Children's Lottery is a charitable society lottery. Launched in October 2016, it will invest in projects aimed at promoting and supporting the development and potential of children and young people in Scotland.

Charitable society lotteries are a widely used and effective way of raising significant funds for good causes. Through a weekly online lottery, proceeds from the Scottish Children's Lottery will be invested in a wide range of local projects. Each week, the winning numbers are drawn on air on STV and city channels STV Glasgow and STV Edinburgh, with a £25,000 jackpot and raffle prizes available.

Structure

Inspired by the success of the STV Children's Appeal, STV enabled the set up of four charitable societies to support increased impact and scale of fundraising. These four societies are:

- Chance to Flourish which will support early years' intervention;
- Chance to Study which will support projects in education and health;
- Chance to Connect which will promote employment, skills and employability;
- Chance to Succeed which will promote community development and citizenship.

The Scottish Children's Lottery is the umbrella brand name under which the four charitable societies operate. Each charitable society is overseen by an independent board of trustees who are responsible for operating the charitable societies in accordance with the terms of the licences awarded and regulated by the UK Gambling Commission. The STV Children's Appeal will act as a distribution partner for the Scottish Children's Lottery, supporting the identification of projects and charities that would benefit from the award of lottery funding.

Donating to good causes

A guaranteed 30p of every £1 ticket sold is donated to good causes with the remaining proceeds allocated to lottery prizes, marketing and operations. The Scottish Children's Lottery engages the services of STV ELM to deliver the lottery product to consumers.

It is anticipated that the Scottish Children's Lottery will become self funding and, having financially supported the creation of the four charitable societies, STV will recoup its initial £5.4m cash investment from the future cash generation of the lottery. This recoupment of the investment is expected to begin in 2018.

This investment will enable the Group to generate more and improved consumer data and insights and develop its skills, capabilities and resources in data analysis and management.

Following a comprehensive marketing campaign, the Scottish Children's Lottery has been launched into a competitive market, with initial feedback* confirming a position response to the unique opportunity provided by the Scottish Children's Lottery to support children in Scotland.

* ScotPulse surveyed 1177 adults with results weighted to reflect the Scottish adult population.


CHILDREN'S LOTTERY
JULIE MARSHALL
TEN THOUSAND POUNDS
£ 10,000.00
GRINNING FEELING


31
CHILDREN'S LOTTERY


CHILDREN'S LOTTERY
BRENDAN J HONEYBUN
TWENTY FIVE THOUSAND POUNDS
£ 25,000.00
GRINNING


ENJOY THAT
GRINNING
FEELING


CHILDREN'S LOTTERY
MICHAEL McCOLM
TEN THOUSAND POUNDS
£ 10,000.00
GRINNING FEELING

Corporate responsibility

Rob Woodward
Chief Executive Officer

The creativity and commercial focus of our people is the driving force behind the success of the Company. Our people strategy is based upon our Company values, the STV Way.

The STV Way defines the behaviour and actions that everyone within the business is expected to embrace as they progress their goals and objectives and develop their careers with the Company.

Based upon the STV Way – to be bold, to stand together; and to strive to surprise – an extensive programme of activities is delivered to increase engagement whilst supporting our people in fulfilling their potential and delivering effectively in their roles. Activities delivered during 2016 include learning and development and knowledge sharing; employee engagement and opinion surveys; business improvement discussion forums; activities to support staff in achieving 'Healthy Working Lives'; and compensation and benefits.

STV Learning

A comprehensive programme of learning and career development activities has been delivered for staff during 2016 through STV Learning.

This has provided opportunities for staff in all areas of the Company ranging from a leadership development programme to informal drop in sessions designed to gain an insight into different areas of the business.

The STV Way Leadership Development Programme commenced in late 2014. To date 35 senior managers have embarked on this modular programme delivered in conjunction with an executive coach and the University of Edinburgh Business School. The programme will continue in 2017 and is enhancing the capability and knowledge base of senior managers and strengthening the succession and talent pipeline of the Company.

To further enhance management capability across the Company, a new programme, *Leading: The STV Way*, has been introduced. Aimed at the wider management population, 24 staff have commenced this programme, beginning their learning journey using psychometric profiling to create a personal development plan which is progressed through the programme.

A successful programme of 'Spotlight on' sessions, featuring five different areas of the business, were delivered in 2016. These sessions enable staff to gain a deeper understanding of the priorities of other business areas encouraging collaboration and improved inter-Company communication and understanding.

A programme of internal work experience placements, designed to provide staff with an immersion experience of working in a different area of the business, has continued in 2016 with one fifth of permanent staff undertaking a 'job drop'.

The 'Tomorrow's World' programme has continued to provide focus on media trends shaping and changing the industry and identifying opportunities to embrace innovation to improve our consumer services. This programme included a 'Hack Day' with the product development function which provided a forum for rapid development of solutions to address five enhancements to the Company's consumer services and wider business challenges.

Developing the Young Workforce and investing in skills

The Company continues to develop close relationships across secondary, further and higher education to support the development of future talent to the industry and to support the Company's future resourcing requirements.

A commitment to provide career insight opportunities for school pupils has continued through the delivery of a broad programme of sessions involving secondary schools aimed at providing an insight to the world of work. Through the Company's commitment to Developing the Young Workforce in Scotland, a formal partnership has been established with a secondary school in Glasgow as part of an initiative to partner every secondary school in the city with an organisation. This has enabled staff to volunteer to make a contribution to develop links between STV and school pupils to provide them with a greater appreciation of career opportunities within the creative industries and more generally, to support the development of employability skills.

Relationships are being developed with a network of colleges and universities across Scotland through an innovative strategic partnership formed to deliver the Company's new channel, STV2. To date this partnership has provided over 400 week long work placements with STV Glasgow and STV Edinburgh. Through these partnerships, students are being provided with opportunities to develop their skills in a live broadcast and production environment and engage with consumers, particularly through social media.

The Company continues to be a significant employer of freelance talent in the television production sector in Scotland. Each month, an average of 70 freelance employment opportunities have been created across STV Productions, STV Creative and STV news and current affairs output during 2016. This investment is contributing to creating more stable employment opportunities for freelance staff working in television production in Scotland, supporting a larger talent pool and making a positive impact to the creative economy of Scotland.

A number of programmes supporting alternative entry routes to the industry have been provided, including apprenticeships in Digital Journalism and Engineering.

Rewarding success

Remuneration is benchmarked and determined 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 within STV and across the wider industry sector.

Base salary levels increased by an average of 1.5% in 2016. This was applied through an 'across the board' award following three years of differentiated salary awards depending on each employee's position in their salary grade relative to the market rate. This approach had been applied to address the proportion of staff positioned on salary bands below the market rate for their role, a situation exacerbated by a previous phase of salary restraint during the economic downturn. This situation has now been fully addressed and the Company has a standard distribution of salary levels across each grade.

The remuneration structure in place continues to enable the Company to achieve its goals of delivering market competitiveness, supporting retention and enabling employees to share in successful business performance. The Company is accredited as a Living Wage employer and has signed up to the Scottish Business Pledge, having met the criteria for all nine components of this standard.

As the Company's growth strategy has progressed during 2016, external recruitment has continued to build capacity in key growth areas of activity. Overall there has been an increase of 4% in permanent staff, testing the market competitiveness of the Company's salary and benefits structure which has continued to attract staff of a consistently high calibre.

Corporate responsibility

Employee engagement

STV Pulse, the Company's employee engagement tool, has been used to conduct an extensive engagement survey during 2016. The participation level was 86%, in line with the Company's target level and above benchmarks for the sector.

This 'pulse' style employee opinion survey is designed to provide staff with regular opportunities to express their views and opinions whilst providing the Company with a tracking and measurement tool. 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.

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. The senior 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 2016.

Diversity and inclusion

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 2016.

Equal opportunities

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.

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 2016, 46% of staff were female.

Modern Slavery Act

The Company is confident that within its operations, and more widely across the relationships held with suppliers with whom we engage and partner to deliver our services, we comply with the requirements of the Modern Slavery Act in all aspects of human rights.

Health and Safety

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

First Aid training refreshers are carried out on a rolling basis and we have a full complement of 48 first aiders located throughout STV sites. There are defibrillators on site at Pacific Quay and Craigshaw and 12 of our staff are trained in their use.

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.

We have continued to place our News and Creative teams on safety training with a Chartered Health and Safety Consultant who specialises in media safety training. A total of 17 staff this year have completed the safety training. In addition, two members of our News team attended Hostile Environment Training, focusing on improving medical knowledge and judgement when under pressure. The course was developed in response to journalists' experiences and requirements in the field.

	2016	2015	2014
Total vehicle accidents	**14**	13	11
Number attributable to driver error	**7**	8	6
Percentage attributable to driver error	**50%**	62%	54%

Health and Safety performance in 2016

STV reports 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.

	2016	2015	2014
Seven-day reportable accidents	**0**	0	1
Total of all accidents	**11**	11	7

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.

Throughout 2016 we have again been able to recycle 100% of our waste (with the introduction of RDF via our waste management contractor), resulting in no waste being diverted to landfill.

STV's Green Travel Plan at the Glasgow headquarters encourages 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 and there are currently 43 members of staff taking part in this initiative. During 2016, STV continued recycling old mobile phones via ICT Reverse, who uplift all redundant mobiles and recycle them. During 2016, 27 handsets were recycled by STV and the cheque received from ICT Reverse was subsequently donated to the STV Children's Appeal.

Additional info:

- The electric car charging bays that were installed are proving very successful and are utilised every day by approximately 6 staff and we continue to promote use of electric vehicles throughout the business
- Since enlisting the assistance and guidance from ESOS (Energy Savings Opportunity Scheme) during 2015 STV has taken on many of their recommendations to lower our CO_2 emissions
- We have reviewed STV pool vehicles and leased vehicles and new vehicles will be of a lower CO_2 rating

Corporate responsibility

Reporting greenhouse gas emissions

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

	FY2016		FY2015	
Greenhouse gas emission source	**(tCO_2e)**	**(tCO_2e/£m revenue)**	(tCO_2e)	(tCO_2e/£m revenue)
Scope 1	**501.46**	**4.16**	454.43	3.90
Scope 2	**2,039.95**	**16.94**	2,105.27	18.07
Statutory total (Scope 1 & 2)	**2,541.41**	**21.10**	2,559.70	21.97

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:
- Increased travel for Productions from 2015 – *Tour De Celeb* (international travel), *Dressing Room*, *Antiques Road Trip* and *Celebrity Antiques Road Trip*.

SCOPE 2 Energy
There has been an overall decrease in energy usage throughout 2016, although certain sites have seen an increase, for example:
- Electricity usage has increased in Edinburgh and Aberdeen with increased staff and productions in operation (The Late Show, STV Edinburgh)

Electricity usage has decreased in Glasgow and Balmore with the help of more lighting replaced with LED lights (rather than halogen) resulting in lower energy consumption.

The Building Management System ('BMS') programming has been refined to minimise the use of electricity also.

Waste
Biffa recycle 100% of any of our waste via RDF (refuse derived fuel), 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:

i) from activities for which we are responsible, including the combustion of fuel and the operation of our facilities; and

ii) 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 its 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_2e and the intensity ration we have chosen is CO_2e per million pounds of revenue.

Rob Woodward
Chief Executive Officer

STV CHILDREN'S APPEAL 2016

The STV Children's Appeal was launched in 2011 by STV and The Hunter Foundation with a commitment to making a difference to the lives of Scotland's children and young people. In 2013, The Wood Foundation pledged its support for projects in the North East of Scotland.

In the six years since launch, the STV Children's Appeal has raised over £13.7 million and distributed 722 big and small grants to charitable projects across all 32 local authority areas in Scotland. To date, the Appeal has provided much needed support to over 62,000 children, including practical help like food and warm clothes; creating opportunities for training and employability; and enabling social and emotional support.

The STV Children's Appeal is proud to guarantee that all money raised is invested in Scotland to help children and young people across all areas of the country. All overheads are met by STV and The Hunter Foundation, meaning 100% of donations go directly to helping those in need. For 2016, the Scottish Government once again committed to match fund the first £1m raised.

Partners

In 2016, the Appeal continued to engage with communities across Scotland to encourage individuals, schools, businesses and community groups to get involved with the charity on a local level. Community based fundraising to benefit the Appeal took place throughout the year – a testament to the public support generated for the charity – with events ranging from a sponsored super hero walk and bowls trick shot challenge to a sow-a-thon and a silent disco raising money for Scotland's children.

Since launch the Appeal has formed fruitful partnerships with high profile corporate partners including Royal Bank of Scotland, Lidl, Optical Express and Tunnocks. This year the Appeal saw a number of new corporate supporters getting behind its cause, including Quality Meat Scotland, BaxterStorey Scotland, Wholesale Domestic Bathrooms and House of Bruar.

Employee engagement

As always, STV's staff are great ambassadors for the Appeal, donating their time and energy to a range of fundraising activities including a tough 400 mile cycling challenge in September.

Throughout the year, employees are invited to visit projects who benefit from Appeal funding; a valuable opportunity to see first-hand the difference their fundraising efforts makes in the community. In 2016, staff raised £104,042 for the Appeal, which was matched by the Company to make a £208,084 donation.

The STV Children's Appeal was fundraising partner for a number of mass participation events throughout the year, with people across Scotland, as well as corporate partners and celebrity supporters, walking, running and cycling for the Appeal. Kiltwalk, Great Edinburgh Run, Great Women's 10k and the Pedal for Scotland cycling challenge all saw participants raising funds for Scotland's children.

Programming

In September, STV aired a series of programmes to highlight the work carried out by the STV Children's Appeal and local fundraisers across the country to raise money and awareness about child poverty in Scotland. The line-up of programmes culminated in the annual live show hosted by Lorraine Kelly, who announced the total sum raised in 2016.

STV Children's Appeal 2016

£2.5m RAISED


kiltwalk
START
I've taken
big steps


kiltwalk
FINISH
children's appeal
Accident Helpline Scotland


children's appeal
£2,568,369


children's appeal

Performance review

Revenue

Total revenue increased by 3% to £120.4m (2015: £116.5m) with strong growth in STV Productions and digital revenues partly offset by a weaker national airtime market and lower telephony and STV Creative revenues. There was also the first revenues for our new operating division, STV ELM, which provides services to support the operation of the new Scottish Children's Lottery.

Consumer division revenues were down 2% at £105.9m (2015: £108.2m) reflecting a weak second half national airtime performance which ended the year down 4% in total, in line with the broader television market. Regional airtime rose 14% excluding the impact of STV ELM, while digital revenues grew by 20% to £7.9m (2015: £6.6m). Production division deliveries increased on the prior year and revenues grew by 53% to £12.7m (2015: £8.3m).

The new division, STV ELM, provides operational services such as ticket sales and marketing, to the recently launched Scottish Children's Lottery (SCL). It invoices costs to the SCL and the division operates on a breakeven basis.

Operating profit

Operating profit, before exceptional items, reduced by 3% to £19.7m (2015: £20.3m) and after exceptional items increased by 47% to £16.9m (2015: £11.5m). Consumer division operating profit amounted to £19.6m (2015: £19.9m) as the impact of lower national airtime flowed to profit although this was almost fully offset by a combination of reduced programme costs, increased regional revenues and digital profit growth. This result includes the start up losses for City TV of £0.8m (2015: £1.0m) which will continue to fall as the channel expands geographically and is rebranded STV2. This service is expected to break even by the end of 2017. The operating margin of the Consumer division was up marginally at 18.5% (2015: 18.4%) with the digital margin continuing to expand to 52% (2015: 48%) reflecting high margin STV Player growth.

Productions operating profit, before exceptional items, reduced to £0.1m (2015: £0.4m) despite the increased revenues. Including exceptional items, operating losses reduced from £4.7m in 2015 to £2.7m. This reflected continued increases in investment in the creative resource in this area which should deliver significant revenue and profit growth over the next 2 to 3 years.

As noted above, STV ELM operates on a breakeven basis and any profit generated from the sale of STV regional airtime to the SCL is being donated to the STV Children's Appeal, after recouping incremental costs incurred from operating STV ELM and the costs of the STV Children's Appeal.

Exceptional items

The remaining balance of goodwill related to STV Productions (£2.8m) has been written down following a further year of profit underperformance against internal projections. In 2015 there were 4 exceptional items resulting in a net after tax charge of £8.8m.

Finance costs

Net finance costs were flat at £1.2m (2015: £1.2m) and the IAS 19 non cash finance charge fell to £nil (2015: £0.5m).

Statutory result

The statutory result for the year after tax, exceptional items and IAS 19 interest was a profit of £12.6m (2015: £11.4m). The Group's effective tax rate decreased to 17.0% (2015: 20.0%) due to the utilisation of prior year losses and corporation tax payments are expected to resume in 2017.

Earnings Per Share (EPS)

EPS before exceptional items and IAS 19 interest decreased by 1% to 39.7p (2015: 39.9p) reflecting the fall in operating profit and profit before tax. On a statutory basis, EPS amounted to 32.5p (2015: 29.8p). A reconciliation is included in Note 13 in the Notes to the Financial Statements.

Cashflow and net debt

Net debt increased by £0.7m to £26.4m (2015: £25.7m) with the key net debt : EBITDA ratio target of at or below 1.0x on a covenant basis again being met at the year end. The cash outflow includes £5.4m of investment in STV ELM which will be recouped in future years. Other major cash outflows were £0.8m on working capital, due to the timing of Productions deliveries, a £3.2m investment in capital expenditure, £7.8m of pension deficit cash payments and a 26% increase in cash dividend payments during 2016 to £4.3m. The increased final dividend announced for 2016 will impact cashflow in 2017.

The Group's preferred measure of operating profit converted to free cashflow, defined as operating profit plus depreciation, amortisation and share based payments, less working capital movements, excluding STV ELM investment and capital expenditure, improved to 89% (2015: 86%). This is slightly below the ongoing 90% target due to higher capital expenditure and changes in working capital.

Pensions

In December 2016 the Group announced a new 11 year deficit funding plan which is detailed in Note 30 in the Notes to the Financial Statements. This will fully fund the pre-tax £129.9m triennial trustees' valuation deficit calculated as at 30 November 2016.

As part of the valuation process a formal health study was undertaken by a third party on approx 40% of the pensioner members of the Group's two defined benefit pension schemes. The outcomes from this study have been reflected in an updating of the Group's IAS 19 mortality assumptions and has resulted in an average increase in male pensioner longevity, the category which accounts for the largest element of the schemes' liabilities, of approx 3.6 years and a deficit increase of £55.9m.

The investment management of the schemes' assets was also transferred to fiduciary manager PSolve during 2016. This has resulted in a significant reduction in the schemes' risk profile with the 20 year Value at Risk measure halved to approx £60m.

The IAS 19 deficit has increased to £88.8m (2015: £7.8m) pre-tax, £72.6m (2015: £6.3m) post-tax due partly to the mortality assumption change noted above and also to decreased corporate bond yields. Reference Note 30, page 106.

Balance sheet

The principal movements on the Group's balance sheet were the reduction in goodwill, increase in the IAS pension deficit, the receivable balance from the Scottish Children's Lottery and related movements in deferred tax, all of which are discussed above.

Viability statement

The Group has a strategic plan for the next three financial years which the Directors review at least annually. The three year plan reflects the Group's strategy as set out on pages 6 to 38. The plan also includes a number of important assumptions about the necessary capital investments to implement the strategy and models the expected cash flows including dividends as well as other key financial and performance indicators over the period.

The Directors have used this planning period as the basis to assess the ongoing viability of the Group over the next three years, although the Group's business model is open-ended and there is no known threat to its viability beyond that period.

In making the viability statement the Directors have also considered the resilience of the Group to a number of severe but plausible scenarios. These scenarios took into account the aspects of the principal risks disclosed on pages 34 and 35.

This sensitivity analysis on the scenarios considered the potential impacts of these matters on the Group's businesses, future performance, solvency and liquidity over the planning period and the effectiveness of any mitigating actions that the Directors could take.

Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year planning period.

Principal risks and uncertainties

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

STV's risk register sets out the key risks that have been identified throughout the business, allocating an owner to each, together with the risk impact and risk likelihood. These are scored 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.

The Directors confirm they have carried out a robust assessment of the principal risks facing the Company and during 2016 two additional risks emerged, namely the impact of a possible second independence referendum and the reputational risk of the lottery operation. There were no significant changes to the other principal risks.

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

Regulatory environment

Our television business is operated under licences which are regulated by Ofcom and the key Channel 3 licences have a term that runs to the end of 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 and sponsorship to advertisers – are factors that affect performance. This relationship is managed closely, with regular updates on programme and schedule developments being provided and through STV's Commercial Director who manages the sales relationship with ITV. The terms of the Airtime Sales Agreement with ITV were amended in December 2016 to provide improved efficiency, simplicity and transparency.

Pension scheme shortfalls

The STV pension schemes' investment strategy is calculated to reduce any market movement impacts. However, it is possible that the Group may be required to increase its contributions to cover an increase in the cost of funding future pension benefits or to cover funding shortfalls which could have an adverse impact on results and cash flow. This position is kept under regular review by the Board. In December 2016 agreement was reached with the trustees of the Company's defined benefit pension schemes on the 1 January 2015 triennial actuarial funding valuations and an 11 year deficit recovery plan. During 2016 the trustees selected PSolve as investment manager for the schemes' assets and this is intended to increase returns and meet the schemes' long term funding objectives.

Possible second independence referendum

STV Group plc is both headquartered and incorporated in Scotland. Following the result of the EU referendum, it is uncertain whether there will be a further referendum on Scottish independence and, if there is to be one, the timing and the outcome are also unknown. The Board has discussed fully the potential impact of independence and continues to monitor the ongoing debate, concluding that there are no significant issues specific to STV were

Scotland to become an independent country. However, a vote by Scotland to leave the UK would likely lead to increased volatility in advertising markets and also in financial markets, fundamental changes to which could impact on the Group's debt funding arrangements and overall leverage over time. The Group has put in place a number of measures which provide STV with some level of mitigation in these circumstances, such as the Network Affiliate Agreement with ITV in relation to volatile advertising markets and the Group's bank facilities maturing in the medium term (2019) together with half of the core net debt (£15m) being subject to interest rate hedges to July 2018 to reduce exposure to financial market movements. In addition, the Scottish Government has agreed that our Public Service Broadcast licences will be respected through their full duration.

While the risks are difficult to predict and quantify as there are so many variables, the Board has agreed it is comfortable with the Group's exposure to the current level of risk.

Reputational and financial risk of lottery operation

The Scottish Children's Lottery, a new charitable lottery to raise money for children in Scotland, was launched in October 2016. The Lottery engages the services of an External Lottery Manager, STV ELM Limited, which is a subsidiary of STV Group plc, to deliver the lottery product to consumers.

The Lottery was awarded licences by the UK Gambling Commission and while operated independently of STV, in accordance with the requirements of these licences, it is provided financial support by STV. Accordingly, although responsibility for operating the Lottery and ensuring that the terms of the licence are adhered to lies with STV ELM Limited, there is a reputational risk to STV, as the holding company, from any issues related to the operation of the Lottery.

Internal controls have been put in place to ensure that the terms of the operating licence are adhered to as the Gambling Commission has powers to impose sanctions on licensees in the event of any serious or repeated breaches, including financial penalties or revocation of licence.

In the event that the Lottery was unsuccessful then the recoverability of the Scottish Children's Lottery debtor would be at risk.

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 which is also the Group's intra-UK net currency flow. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

STV uses derivative financial instruments to hedge certain risk exposures.

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

a) Currency risk

STV operates almost wholly within the UK and is exposed to minimal currency risk. The Group's borrowings are denominated in Sterling which is also the Group's intra-UK net currency flow. 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

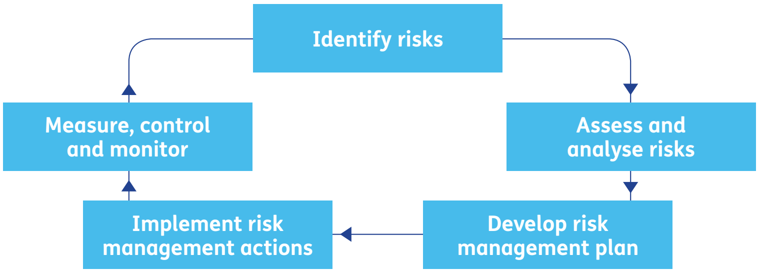
Prudent liquidity management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the nature of the underlying business, the aim is to maintain flexibility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

Risk management

Risk management and internal control



The Board considers risk management to be a key business discipline designed to balance risk and reward and to protect the Group against uncertainties that could threaten the achievement of business objectives. It 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.

During the year a thorough review of STV's risk register was carried out, facilitated by the internal auditors. The process involved one on one structured interviews with senior management and a half day workshop with the Leadership Team.

This was designed to challenge and update the current STV risk profile through:

(i) identifying any new or emerging risks to STV's objectives reflecting the current environment and strategic priorities
(ii) assessing and prioritising the impact and likelihood of the most significant risks
(iii) considering the presence and operating effectiveness of key controls.

This has ensured that the risk register continues to be a current and relevant document allowing:

- the key risks facing STV to be easily identified and summarised
- actions taken to improve controls to be tracked
- changes to the risk portfolio to be monitored.

A formal risk management policy, approved by the Board, was put in place, which defines the objectives of and commitment to risk management. The policy sets out the Group's risk appetite together with how identified risks are managed and monitored as well as detailing how risk management is embedded within the Group.

During 2016, the following reviews were carried out by the internal auditors: (i) core financial control framework; (ii) intellectual property; (iii) IT security and cyber risks; and (iv) governance and management arrangements of the lottery project.

The system is designed to manage rather than eliminate risk and internal control can only provide reasonable and not absolute assurance against material misstatement or loss. All points raised by the internal auditors were addressed and executive management believes that the control environment has been strengthened further by the actions taken. During the year a follow up review of all recommendations made by the internal auditors over the past 18 months was carried out. This involved liaising with those employees across the business who had been allocated the responsibility of executing the recommendations raised to ensure that these had been acted upon. No significant control failings were identified.

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 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 IFRS
- 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.

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. These have been put in place in order that the Board can satisfy itself that management has understood the risks and has implemented and monitored appropriate policies and controls, enabling the Board to be provided with timely information so that it can discharge its own responsibilities.

Risk management

Risk appetite

STV's risk appetite can best be demonstrated through the following table:

	← Unacceptable to take risks					Higher willingness to take risks →				
Risk category	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Reputation	<		>							
Compliance & regulatory	<	>								
Financial			<	>						
Technology	<		>							
Opportunities						<				>
TV Market			<		>					
Operational			<				>			
Pensions	<		>							
People & culture	<		>							

Reputation
STV places great importance on upholding its high reputation and therefore has a low appetite for risk in conducting any activities that puts its reputation in jeopardy, could lead to undue adverse publicity or could lead to loss of confidence by the Scottish and UK political establishments or by its shareholders and stakeholders.

Compliance and regulatory
It is critical that STV conducts itself in a compliant manner at all times, particularly in relation to its broadcasting licences and it has no appetite for any breaches of statute or regulation.

Financial
STV aims to maintain its long term financial viability and overall financial strength although recognises that sometimes taking a small amount of risk is necessary. However, STV is comfortable in accepting this risk provided always that the potential benefits and risks are fully understood before developments are authorised and sensible measures to mitigate risk are established.

The above statements take priority over the statements made below

Technology
STV is reliant upon various forms of technology for the transmission of its programmes and the successful operation of its business and has a low appetite for risk in these areas.

Opportunities
New opportunities, projects, collaborations, joint ventures, mergers and acquisitions are periodically considered by STV as means of growing its business and these inevitably involve some element of risk. STV has a strong appetite for the development of such opportunities provided always that the potential benefits and risks are fully understood and that appropriate mitigation measures are in place.

TV market
Various aspects of the TV market are, to an extent, outwith the control of STV, such as advertising revenue; Video on Demand (VoD); and pay TV but are vital to STV's success. Accordingly, STV has a modest appetite for risk in activities within this area.

Operational
STV faces various operational risks (inadequate or failed procedures, systems or policies) in the running of its business and accepts a medium level of risk around such areas provided that potential benefits and risks are fully understood and sensible measures are put in place to mitigate these.

Pensions
There are shortfalls in STV's two defined benefit pension schemes and while the investment strategy is calculated to reduce any material market movement impacts, various measures are being taken to reduce the deficit. STV has a low risk appetite in respect of its pension deficits.

People and culture
STV's Directors and staff are the driving force behind its progress and achievements to date and accordingly it aims to employ the right people for the right job while developing the full potential of all staff. In this regard it considers equality, diversity, dignity and respect to be of paramount importance together with employee development and the health and safety of employees. It has a low appetite for any deviation from its standards in these areas.

Rob Woodward
Chief Executive Officer

Introduction to governance

Leadership and diversity

At STV, we seek to maintain the highest standards of corporate governance and create a working culture where honesty, openness and fairness are valued. An important distinction between the management, led by Rob Woodward, Chief Executive Officer, and the Board is that the management is responsible for running the business while the Board, acting under my leadership, provides constructive challenge to management which is necessary to create accountability and drive performance. This results in an environment that creates and preserves value for shareholders.

While all Board appointments are based on meritocracy with the prime consideration being to maintain and enhance the Board's overall effectiveness, we recognise that diversity in all its aspects, including gender diversity, is an important factor to take into consideration. The Board is committed to improving diversity in its membership in the broadest sense. Information on the Group's approach to diversity and inclusion is set out in the Strategic Report on pages 6 to 38 and further information on the number of women within the organisation can be found on page 52.

Effectiveness

The Board is collectively responsible for the long-term success of the Group with the over-arching aim of safeguarding shareholders interests and the STV culture requires that Directors and employees act with integrity and conduct themselves to the highest ethical standard to promote and maintain trust.

Performance evaluation of the Board, its Committees and individual Directors takes place on an annual basis and the 2016 evaluation was internally facilitated. I spoke with all Board members individually, having first ascertained their views on a broad range of areas including composition, strategy, experience, effectiveness, shareholders and communication between Board members. Further details on the process can be found on pages 52 and 53 but the overall conclusion was that the Board and its Committees were working in an effective and constructive manner.

The Board is mindful of the tenure of the Non-Executive Directors and the benefits of refreshing the experience, skills and diversity present on the Board. In light of this, during the year the Nomination Committee undertook an evaluation of Non-Executive Director succession and commenced a recruitment process, culminating in the appointment of Simon Miller in December 2016. Further details can be found in the Nomination Committee report on page 47.

Accountability

Risk is inherent in the Company's business and activities and the Board has responsibility for establishing a framework of prudent and effective controls to enable risk to be assessed and managed. The review of risk and risk management is embedded throughout the Company and further information can be found in the Risk Management section of the Strategic Report on pages 36 to 38.

Remuneration

The Remuneration Committee ensures that our remuneration framework is appropriately structured, in a fair and responsible manner and our current remuneration policy was approved by shareholders at the 2015 AGM and will remain in place until a further policy vote is required in 2018. The annual report on remuneration, which will be subject to an advisory vote, can be found on pages 60 to 67.

Relationship with shareholders

The AGM provides an opportunity for shareholders to meet the Board and to ask questions. Our 2017 AGM will be held on 25 April 2017 at Pacific Quay and we look forward to meeting the shareholders who are able to attend.

Compliance with the UK Corporate Governance Code

The Board considers that, in respect to the financial year ended 31 December 2016, the Company has complied fully with the UK Corporate Governance Code 2014 (the Code) and this section, together with the report by the Directors on Remuneration, set out on pages 55 to 67, 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.

Finally, I would like to thank my fellow Directors for their continued support. Together we can continue to maintain a strong and effective governance structure to enable the business to deliver its strategy, generate shareholder value and safeguard our shareholders' long-term interests.

Baroness Margaret Ford
Chairman

Board of Directors

Margaret Ford
Chairman

Appointed: June 2013
Committees: Nomination (Chair)
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 Segro plc and was previously a non-executive director of Taylor Wimpey plc and the former chairman of both Grainger plc and Barchester Healthcare Limited. Margaret is Chairman of the Tennis Foundation and National President of the British Epilepsy Association. 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 Children's Appeal and in March 2015, was elected a Fellow of the Royal Society of Edinburgh.

Rob Woodward
Chief Executive Officer

Appointed: 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 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 Children's Appeal and also a trustee of the Royal Television Society. He is Chair, City, University of London and is a non-executive director of Blancco Technology plc. In 2014 Rob was appointed Chairman of the Developing the Young Workforce National Group, which is leading work to support improving employment opportunities for Scotland's young workforce.

George Watt
Chief Financial Officer

Appointed: February 2001
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 Limited and SpaceandPeople plc. George is also an executive committee member of the Scottish Council for Development and Industry and a trustee of the STV Children's Appeal.

David Shearer
Senior Independent Director

Appointed: February 2007
Committees: Audit (Chair); Nomination
David is an experienced non-executive director, corporate financier and turnaround specialist and was previously senior partner for Scotland & Northern Ireland and a UK Executive Board member of Deloitte LLP. He is Chairman of Liberty Living Group, Aberdeen New Dawn Investment Trust plc and the Scottish Edge Fund and a director of Mithras Investment Trust plc and Speedy Hire plc. He was previously the Co-Chairman of Martin Currie (Holdings) Limited, 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 and Superglass Holdings plc.

left to right by row, from top left
Margaret Ford
Rob Woodward
George Watt
Simon Miller
Anne Marie Cannon
David Shearer
Michael Jackson
Christian Woolfenden
Ian Steele




Michael Jackson
Non-Executive Director
Appointed: May 2009
Committees: Remuneration
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 BBC One and Director of Television, and as Controller of BBC Two. He was previously a non-executive director of EMI Group plc. Michael is a non-executive director of Two Cities Television, an independent drama supplier and of Peters, Fraser and Dunlop, the literary agency. He is also producing "Civilisations" for the BBC and PBS.

Christian Woolfenden
Non-Executive Director
Appointed: June 2014
Committees: Audit
Christian has extensive operational, consumer marketing and digital experience. Previously, he was Chief Marketing Officer for Lyst.com, the online fashion retailer and Managing Director for Paddy Power, the betting and gaming operator. Prior to that he 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. Christian is a non-executive director of Rentify Ltd.

Anne Marie Cannon
Non-Executive Director
Appointed: November 2014
Committees: Audit; Remuneration
Anne Marie has over 30 years experience in the energy industry and investment banking. Anne Marie was a senior advisor at Morgan Stanley for over 14 years 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 is currently a non-executive director of Premier Oil plc and Aker ASA and is Deputy Chair of Aker BP ASA.

Ian Steele
Non-Executive Director
Appointed: November 2015
Committees: Audit; Remuneration; Nomination
Ian qualified as a CA in 1980 with Arthur Young McClelland Moores. His subsequent career involved time with The British Linen Bank, Touche Ross, Rutherford Manson Dowds and Deloitte. Ian recently retired as Senior Partner for Deloitte in Scotland and Northern Ireland. Prior to retiring, he had been on the UK Board of Deloitte LLP for over eight years. Ian was a Corporate Finance Advisory Partner with Deloitte and was Head of Global Advisory for some three years and has recently joined the Council of The Institute of Chartered Accountants of Scotland. Ian is a non-executive director of Killinchy Aerospace Holdings Limited, the principal trading subsidiary of which is Martin-Baker Aircraft Company Limited and of Iomart Group plc.

Simon Miller
Non-Executive Director
Appointed: December 2016
Simon is an experienced company director and chair with exposure to a wide range of financial, commercial and manufacturing businesses in both executive and non executive roles. He is currently chairman of Brewin Dolphin Holdings PLC; chairman of Blackrock North American Income plc; chairman of JP Morgan Global Convertibles Income Fund Ltd and non-executive director of Scottish Friendly Assurance Limited. Simon read Law at Cambridge.





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. During the financial year ending 31 December 2016, the Company was subject to the provisions of the UK Corporate Governance Code (2014), which it considers it fully complied with.

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.

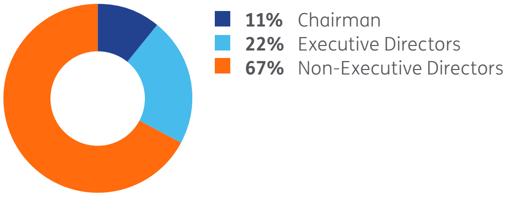
Board of Directors

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

Chairman	Baroness Margaret Ford
Chief Executive Officer	Rob Woodward
Chief Financial Officer	George Watt
Non-Executive Directors	David Shearer (Senior Independent Director) Michael Jackson Genevieve Shore (resigned 2 June 2016) Christian Woolfenden Anne Marie Cannon Ian Steele Simon Miller (appointed 2 December 2016)

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



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.

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

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 2016 is set out below:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held:	**8**	**3**	**5**	**4**
Attendance: Margaret Ford	8	3*	4*	4
David Shearer	8	3	1*	3
Rob Woodward	8	3*	1*	1*
George Watt	8	3*	1*	
Michael Jackson	7		3	
Genevieve Shore (resigned 2 June 2016)	2		2	1
Christian Woolfenden	6	2	1*	
Anne Marie Cannon	8	3	5***	
Ian Steele	8	3	5	2**
Simon Miller (appointed 2 December 2016)	1			

* Attended at the invitation of the respective Chairman
** Appointed to the Committees on 21 June 2016
*** Appointed Chairman on 21 June 2016

The Board meets regularly, at least eight 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, 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, with the exception of Mr Woolfenden, who had a prior commitment, attended the 2016 annual Strategy Day in October at which the future of the business was considered in a wider context. Presentations from external contributors, including some of the Company's advisors, provided different perspectives on Scotland, the industry and on STV itself and Directors agreed that thinking strategically about the big issues shaping the Company's future made for a stimulating day.

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 2016 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 and the full and half-year financial results
- approval and declaration of dividends
- approval of the 2017 Budget
- approval of revised KPI targets
- approval of KPMG as tax advisors
- approval of viability statement

Strategy

- presentations on initiatives to grow revenue
- presentations on proposed new projects
- approval of the Company's strategy
- discussion on various regulatory issues
- approval of the three year plan
- approval of the appointment of Panmure Gordon as joint brokers
- approval of the amendment to the Airtime Sales Agreement with ITV

Corporate development

- agreement of STV's corporate objectives and values for 2016
- approval for establishing the Scottish Children's Lottery

Governance and risk

- consideration of 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 2017
- approval of the 2017 AGM Resolutions
- approval of the appointment of Simon Miller
- performance evaluation
- approval of the triennial pension scheme funding and recovery plans
- approval of revised Terms of Reference for the Remuneration Committee
- consideration of the implications of Brexit and Scottish Independence
- consideration of the Group's risk appetite and risk management

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

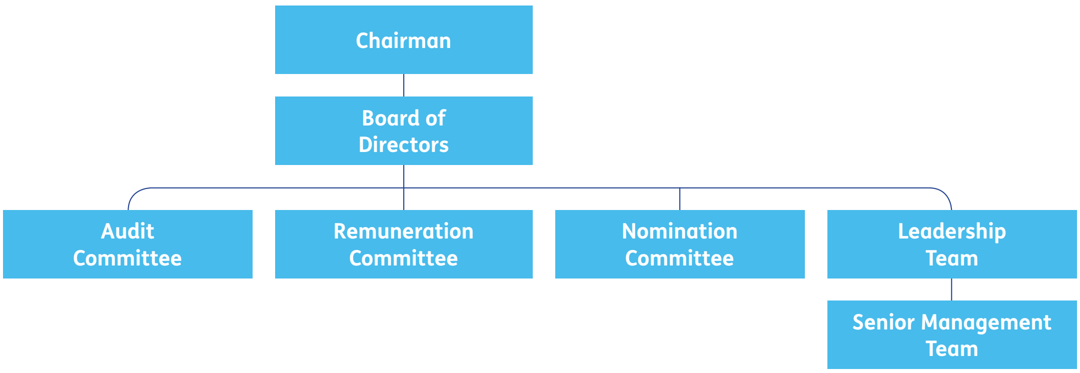
Corporate Social Responsibility

- involvement in the STV Children's Appeal 2016.

Corporate governance report

Board committees

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



Leadership
Board of Directors

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

Audit Committee

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

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Audit Committee Report

Remuneration Committee

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

Page 55
Remuneration Committee Report

Nomination Committee

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

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Nomination Committee Report

An evaluation of the work and effectiveness of each of these Committees during the year was conducted, the results of which concluded that each 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:

Genevieve Shore (Chairman, resigned 2 June 2016)
Anne Marie Cannon (appointed Chairman 21 June 2016)
Michael Jackson
Ian Steele

The activities of the Remuneration Committee are described within the report by the Directors on remuneration which can be found on pages 55 to 67. The written terms of reference of the Remuneration Committee were revised and updated during the year to take into account various considerations when determining the Company's remuneration policy, such as ensuring:

- executives are provided with appropriate incentives to encourage enhanced performance which is in line with the risk appetite of the Company and its long term strategic goals;
- individuals are rewarded in a fair and responsible manner for their individual contributions to the success of the Company without being paid more than is necessary and having regard to the views of shareholders and other stakeholders;
- a significant proportion of Executive Director remuneration is structured so as to link rewards to corporate and individual performance and is designed to promote the long-term success of the Company.

The Committee is obliged to ensure that contractual terms on termination and any payments made are fair, that failure is not rewarded and that the duty to mitigate loss is fully recognised. It will review and note annually the remuneration trends across the Group taking these into account when setting remuneration for the Executive Directors especially with regard to salary increases.

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

Report from the Nomination Committee
The members of the Committee during the year were:

Baroness Margaret Ford (Chairman)
David Shearer
Genevieve Shore (resigned 2 June 2016)
Ian Steele (appointed 21 June 2016)

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

The Nomination Committee discussed succession in detail and, with the assistance of the Chief Executive, recommended that an additional Non-Executive Director be sought to ensure progressive refreshing of the Board. The Board endorsed this recommendation and the services of Ridgeway Partners, which has no other connection with STV, were engaged to assist with sourcing suitable candidates.

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 profile of the role 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 eleven candidates from which a shortlist was created and the Committee met with each. After discussion, the appointment of Simon Miller as a Non-Executive Director was recommended to the Board. This was unanimously agreed and Simon joined the Board on 2 December 2016.

Corporate governance report

Report from the Audit Committee
The members of the Committee during the year were:

David Shearer (Chairman)
Christian Woolfenden
Anne Marie Cannon
Ian Steele

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 and these are available on request and on the Company's website www.stvplc.tv

At the invitation of the Committee, meetings are attended by the Chairman, Chief Executive Officer, Chief Financial Officer and 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. PwC were appointed auditor in 2013 following a tender process. Due to the introduction of new EU Audit rules, PwC were not able to provide both audit and tax services after 1 January 2017 and accordingly a tender for STV's tax services was conducted in September. The result of the tender was that KPMG was selected as the Company's tax advisors and it was agreed that PwC continue in its role as the Company's auditor.

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 auditor or impair its independence. This includes consideration of the safeguards which are in place to mitigate the risks to independence.

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

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

In October, a letter was received from the FRC's Conduct Committee, who, having reviewed STV's 2015 Annual Report and Accounts, were requesting further information on how various reporting requirements had been satisfied. Although the review was conducted by FRC staff who have an understanding of the relevant legal and accounting framework, the review was based on the 2015 report and accounts and did not benefit from detailed knowledge of STV's business or an understanding of the underlying transactions entered into.

The Audit Committee engaged fully with PwC in the preparation of the response and made the Board aware of the matter. Following an exchange of correspondence, the FRC enquiry was satisfactorily brought to a close in early 2017.

STV undertook to provide enhanced disclosure in four areas:

1. estimation of the measurement of inventory
2. pension risk and plan arrangements
3. revenue recognition and the expensing of costs
4. impairment considerations.

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 the revised risk register, incorporating relevant, social, ethical and environmental risks.

Significant issues considered by the Audit Committee in relation to the 2016 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 secondary sales is prepared by management based on historic experience and expected future trends, and management's treatment and disclosures in relation to deferred production stock were considered to be appropriate.

Pensions
The assumptions in relation to discount rate, salary increases, RPI and CPI were reviewed and were all within a range that management considered appropriate as well as being consistent with assumptions being used by other companies. A formal health study was undertaken during the year by a third party covering approximately 40% of the pensioner members of the Group's two defined benefit pension schemes. This provided information for the triennial valuation process and enabled an evidence based updating of the mortality assumption. 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. During the year, a £2.8m provision for impairment has been recognised against the carrying value of goodwill to reflect the historic trading performance in Productions.

ELM recoverability
As a new venture which has received significant financial backing from the Group, the assumptions around the future expected progress of the Scottish Children's Lottery ('SCL') were considered. In particular, the key objective of reaching cashflow breakeven in 2017 was reviewed and considered to have a reasonable expectation of being achieved. The disclosure of the debtor balance due from the SCL as non current was also deemed appropriate given the timing of breakeven in 2017 and the likely recoupment of the debtor balance over the following four years from 2018. Management's treatment and disclosures in relation to the SCL debtor were considered to be appropriate.

Corporate governance report

Independence of the external auditor

The Audit Committee is responsible for approving non-audit work and in order to preserve the 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 and as 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.

KPMG was appointed the Company's tax advisor in October 2016 and accordingly all tax work will now be carried out by them.

External audit effectiveness

With regard to the requirement for the Audit Committee to assess the effectiveness of the external audit process, feedback is sought from the Audit Committee, the Chief Financial Officer as well as STV's finance team. This 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. Comments are considered by the Audit Committee and relayed 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 auditors and the primary focus of their internal audit programme is to provide assurance over key revenue streams and operating costs. Deloitte review systems and processes and ensure that the Company is operating effectively, efficiently and economically and in accordance with legislative requirements and professional standards. Its work is designed to provide insights into the internal control environment and efficiencies of key processes, as well as providing feedback on the effectiveness of interfaces between the business and enabling functions.

Deloitte 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 2016 included:

Month	Committee	Activity
January	Nomination	Succession Planning
January	Remuneration	Consideration of award entitlement under the Value Creation Plan
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
February	Remuneration	Approval of Remuneration Policy and Report
March	Nomination	Recommendation of re-election of David Shearer
March	Remuneration	Approval of 2016 incentive arrangements
June	Remuneration	Review of key responsibilities and processes Approval of revised Terms of Reference
June	Nomination	Discussion of potential candidates
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 Consideration of FRC letter
October	Nomination	Approval of appointment of Simon Miller
December	Remuneration	Review of Remuneration Policy Performance Evaluation Approval of Executive Directors': – Salary and bonus for 2017 – Bonus Plan targets – LTIP Targets

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.

Corporate governance report

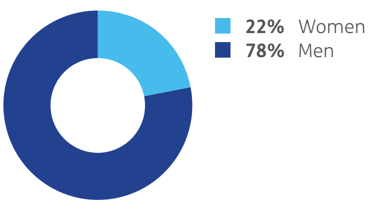
Senior Management Team

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.

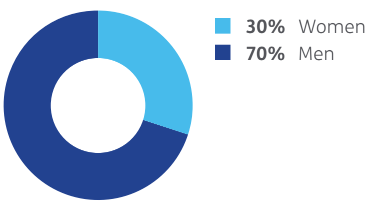
Diversity

STV takes the concept of diversity seriously and further details can be found on page 26. Diversity is about recognising, respecting and valuing the differences each person can bring and the Board recognises that it is crucial to the achievement of the Group's strategic objectives. Diversity of perspective on the Board is vital and having Directors from different backgrounds with the right mix of talent, skills and experience ensures that decisions are challenged in a credible manner and 'group think' is avoided.

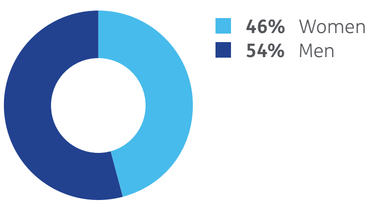
Board



Leadership Team



Staff



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. 46% of staff are female.

Training and development

All Directors are given a comprehensive introduction to the Company's business 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, senior management and advisors 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.

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.

The evaluation is conducted using a detailed questionnaire which canvasses the opinions of the Directors on a wide range of matters including Board composition, Board meetings and processes, Board performance, the performance of individual Directors as well as the Board's communication both with external stakeholders and the Company's senior management.

Directors were asked to complete the questionnaire and return it to the Company Secretary who collated and anonymised the results before providing a comprehensive and detailed report to the Chairman. The report covered all comments and suggestions made together with the rating allocated by each Director. Thereafter, the Chairman held one to one meetings with the Non-Executive Directors and the Senior Independent Director led the evaluation of the Chairman's performance.

On completion of the 2016 performance evaluation, the performance of each Director was found to be effective and following the appointment of Simon Miller, the mix of skills and experience on the Board was felt to be appropriate.

Measured against the principal duties expected of it, and building upon the progress of previous years, the Board continued to operate effectively and to meet in full its obligations to support management, to monitor performance across a wide area, and to maintain its strategic oversight. Accordingly, the process concluded that the Board provides the effective leadership and control required for a listed company. It was recognised that there was open dialogue between all Directors enabling issues to be raised and dealt with as they occurred rather than waiting for the next formal evaluation process and it was agreed that the stability and cohesiveness of the Board had been vital to the Board's continued effectiveness. There were already in place appropriate Board processes, papers and agendas and there was good communication and interaction between the Board and the Leadership Team. In terms of specific points made, the Non-Executive Directors expressed an interest in deepening and broadening their knowledge of the business and of acquainting themselves with the talent pool within it.

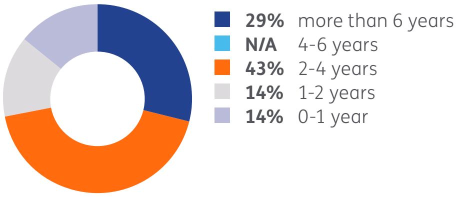
The evaluation process further concluded that the Board was made up of strong and independent minded Non-Executive Directors each of whom made a significant contribution to the overall success of the Company and who demonstrated full commitment in their respective roles. All were able to allocate sufficient time to the Company enabling them to discharge their responsibilities effectively. The Chairman reported the results of the evaluations at the Board meeting held on 1 March 2017. The Nominations Committee confirmed to the Board that the contributions made by the Directors offering themselves for re-election at the AGM in April 2017 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 40 and 41. The Chairman has confirmed that the Directors retiring and seeking re-election have been subject to performance evaluation, apart from Simon Miller who joined the Board on 2 December 2016, 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



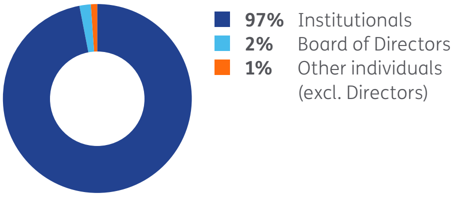
Corporate governance report

Relations with shareholders

STV believes that open and regular dialogue with investors is the basis for a trusted relationship. Its corporate website (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 continual engagement with its shareholders 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 at which the Chief Executive provides a detailed presentation on the activities and performance of the Group over the preceding year. All Directors attend the AGM so shareholders have the opportunity to meet with them to discuss particular areas of focus and ask any questions.

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 for each Board meeting.

Detailed reviews of the Company's performance and financial position are included in the Chairman's statement, the Chief Executive's review and the Performance Review, which the Board uses to present a balanced and comprehensive assessment of the Company's position and prospects. Such communication is designed to establish a mutual understanding of objectives.

Private shareholders

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

Remuneration report

Anne Marie Cannon
Chairman of the Remuneration Committee

Annual Statement

Having been appointed to the role of Chair of the Remuneration Committee in June 2016, I am pleased to introduce the Directors' Remuneration Report for the year ended 31 December 2016.

We remain committed to an open and ongoing dialogue with our shareholders on the issue of executive remuneration and I look forward to engaging with you later in 2017 when the Committee will review our Remuneration Policy in advance of seeking shareholder approval at the 2018 AGM, in line with the normal three year approval cycle.

In this forthcoming review, the Committee will be focused on ensuring that our current framework remains appropriately aligned to the strategy and needs of the business. The Committee is also aware that investor expectations and market practice on some aspects of the structure of executive pay continue to evolve rapidly and we intend to fully reflect on such developments during our review.

Decisions made for 2017

For 2017, the Committee has agreed salary increases of 1.5% for the Chief Executive Officer and Chief Financial Officer, in line with the general increase in the business for 2017.

During 2017, we will continue to operate under the new simplified incentive framework approved by shareholders in 2015. This includes an annual bonus of 125% of salary (based 50% on operating profit, 25% on cash flow and 25% on personal targets). Bonus targets are fully disclosed on a retrospective basis.

This framework also includes an LTIP award of 100% of salary. The performance targets for the 2017 LTIP award will remain unchanged as they continue to represent an appropriate level of stretch for the business in the current environment. The EPS growth targets (50% of the award) will remain at 7% to 12% p.a. The TSR component (20%) is measured against the FTSE Small Cap with vesting between median and upper quartile. The non-broadcast earnings component (30%) will be based on earnings delivered in FY19 and based upon a target range of £4m to £9m.

Summary of the framework

Following the changes implemented in 2015, we now have a simple and transparent remuneration framework aligned with our strategy and the interests of our shareholders, as summarised on the next page.

Remuneration report

Salary/Benefits/Pension	Annual bonus	LTIP
– Market competitive fixed pay – Salary increases of 1.5% for 2017 – Fixed benefits allowance (£16k) and cash pension allowance (20% of salary)	– Maximum: 125% of salary – 20% of any bonus deferred for three years – Linked to challenging performance targets (currently operating profit, cashflow and personal objectives)	– Maximum: 100% of salary – Shares vest after three years based on the delivery of stretching performance target ranges – 50% EPS growth – 30% Non-broadcast operating profit – 20% relative TSR vs FTSE Small Cap
	Recovery provisions – apply to all elements bonus and LTIP awards	
	Shareholding guidelines – Executive Directors to build holding of 100% of salary	

2016 outcomes

During 2016 significant strategic objectives were achieved; further de-risking the business whilst creating a platform to support future growth activities.

The financial stability and resilience of the business was further strengthened through the agreement of a pension deficit recovery plan that provides financial flexibility to continue the strategy of organic growth augmented by targeted investments in key growth activities. The process to review our airtime and sponsorship trading agreements was concluded in late 2016 following an 18-month market review process. An amended Airtime Sales Agreement, agreed with ITV plc, provides a modernised trading arrangement designed to support the multi-product commercial portfolio of advertising products available for our commercial partners. The efficiencies and transparency delivered by this new long term (8-year) agreement provide increased financial stability for the future.

Additionally, in late 2016, a deficit funding plan was agreed with the trustees of the Company's defined benefits pension schemes. An 11-year funding plan was agreed in line with the Board's expected cash commitments.

A new venture – the Scottish Children's Lottery – which will support delivery of the data strategy in future was successfully launched during 2016. This charitable society lottery has been enabled by investment and support from the Group.

Payments have been triggered under the annual bonus for 2016 as a result of performance against operating profit, and personal objectives targets. The threshold performance level for the cashflow target was not met due to macro-economic factors weakening the national airtime revenue market and working capital outflows due to the phasing of Productions deliveries in the second half of the year. The Executive Directors received bonus payments of 36% of salary (29% of bonus potential maximum). The performance targets and payment levels achieved against those targets are disclosed on page 62.

There was no LTIP in place which vested in 2016. The first LTIP award granted under the new framework outlined above will vest in respect of performance to 2017, and will be reported on in next year's report.

The final deferred payment earned previously under the legacy 'bonus banking' arrangements approved by shareholders in April 2013 and replaced by the introduction of the current framework was released at the end of 2016. This deferred share based payment was based on performance over a three-year period from January 2013 to December 2015, with a 'banked' balance due for payment at the end of a four year period (subject to achievement of further performance targets which were met).

The following pages provide an extract of current Remuneration Policy. The Annual Report on Remuneration provides additional detail on the payments and awards made to the Executive Directors in the year and on our intentions for 2017 in line with the current Remuneration Policy. The Annual Report on Remuneration together with this Annual Statement is subject to an advisory shareholder vote at the AGM on 25 April 2017.

At last year's AGM we received over 99% support for both remuneration related resolutions. I look forward to receiving your support at this year's AGM.

Anne Marie Cannon
Chairman of the Remuneration Committee

Directors' Remuneration Policy

An extract of key parts of the Remuneration Policy is reproduced below for information only. The full Remuneration Policy is on our website and set out on pages 46 to 54 of the 2014 Annual Report, subject to the correction made on page 53 of the 2015 Annual Report, both of which are also available in the investor relations section of the Group's website.

Policy table for Executive Directors

Objective and link to strategy	Operation	Maximum opportunity	Performance conditions
Base salary			
The Committee sets salaries as a retainer for the Executive Directors to recognise status and responsibility to deliver the strategy	When determining the salary of the Executive Directors, the Committee takes into consideration a number of factors including: • the scale and complexity of the Company and the scope and responsibilities of the role • the skills, experience and performance of the individual • 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 • pay and conditions throughout the Company Salaries are normally reviewed annually, with any changes effective from 1 January in the financial year	There is no prescribed maximum salary In general, any salary increase for Executive Directors will be in line with other employees in the Group The Committee retains discretion to award larger increases where considered appropriate to reflect the factors described in this table Salaries with effect from 1 January 2017 are set out on page 60	None
Benefits			
To provide competitive levels of employment benefits consistent with role	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 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	Benefit values vary year-on-year, depending on premiums, and the maximum potential value is the cost of the provision of the benefits outlined Participation in all employee share plans is subject to HMRC plan rules and limits	None
Pension			
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 2016	The maximum pension contribution or taxable cash allowance in lieu of pension is 20% of salary	None

Remuneration report

Objective and link to strategy	Operation	Maximum opportunity	Performance conditions and assessment
Annual bonus			
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 60 will apply in 2017) 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: • operating profit • cash flow • personal objectives 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
Long Term Incentive Plan			
Aligns reward to the delivery of long-term financial performance delivered for shareholders	Awards are made under the terms of the STV Long Term Incentive Plan Awards are normally in the form of a right to acquire shares in the Company for a zero or nominal amount Awards vest over a period of at least three years, subject to the satisfaction of performance conditions A post-vesting holding period may apply Recovery and dividend equivalent provisions apply (see explanatory notes)	The maximum award in respect of a financial year is 100% of salary	Vesting is determined by reference to performance assessed over a period of at least three years, based on the under-noted performance measures which the Committee consider to be aligned with the delivery of strategy and long term shareholder value: • earnings per share ('EPS') – 50% • non-broadcast operating profit – 30% • relative total shareholder return – 20% 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 The Committee has the discretion to adjust targets for any exceptional events that may occur during the year. The threshold level of vesting is 25% of the maximum award
Shareholding requirement			
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

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.

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/Director
Executive			
R Woodward	28 February 2007	Rolling contract	12 months/6 months
G Watt	27 February 2001	Rolling contract	12 months/6 months

Director	Date of contract/ letter of appointment	Date(s) of (re) appointment	Unexpired as at March 2017
Non-Executive			
Baroness Ford	1 June 2013	26 April 2016	2 years 1 month
D Shearer	28 February 2007	26 April 2016	2 years 1 month
M Jackson	1 May 2009	30 April 2015	1 year 1 month
G Shore	1 March 2012	30 April 2015	Resigned in March 2016
C Woolfenden	1 June 2014	30 April 2015	1 year 1 month
A M Cannon	1 November 2014	30 April 2015	1 year 1 month
I Steele	1 November 2015	26 April 2016	2 years 1 month
S Miller	2 December 2016	–	2 years 9 months

Remuneration report

Annual Report on Remuneration

This section of the report sets out how the Policy will be implemented in 2017 and how it was implemented during 2016. Some sections of this report, where indicated, have been audited.

Statement of implementation of remuneration policy for 2017

Executive Directors

The salaries for 2017 are set out below:

Executive Director	2016 salary £000	2017 salary £000	% increase
R Woodward	395	400	1.5%
G Watt	223	226	1.5%

Salary levels of employees throughout the Company were increased by an average of 1.5% in 2017.

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

For 2017, the Executive Directors will participate in the annual bonus as described in the table on page 58. 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	Maximum bonus contribution (% of salary)
Operating profit	50%	62.5%
Cash flow	25%	31.25%
Personal objectives	25%	31.25%
Totals		**125%**

In 2017, the Executive Directors will receive awards under the LTIP at the level of 100% of salary that 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 FY16 to FY19	50%	7%	12%
Non-broadcast operating profit	Operating profit for non-broadcast activities in FY19	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.

Non-Executive Directors

Non-Executive remuneration is determined by the Board based upon recommendations from the Chairman and Chief Executive Officer (or in the case of the Chairman, it is determined by the Senior Independent Director and the Chief Executive Officer) and is within the limits set by the Articles of Association.

The fees for the Chairman and Non-Executive Directors effective at 1 January 2017 are set out below. The fee payable to the Chairman was reviewed in 2016 and has been increased by 30%, the first increase since appointment in 2013, to reflect market norms:

Non-Executive Director	£
Chairman fee	125,000
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 2016 financial year. Comparative figures for 2015 are also shown.

Executive Director	Financial year	Salary £000	Taxable benefits £000	Annual bonus 2016 £000	Deferred payment 2013 £000	Long-term incentives £000	Pension £000	Total £000
R Woodward	**2016**	**395**	**16**	**142**	**175**	**n/a**	**79**	**807**
	2015	388	16	237	–	1,552	76	2,269
G Watt	**2016**	**223**	**16**	**80**	**99**	**n/a**	**45**	**463**
	2015	218	16	134	–	799	43	1,210

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. For 2016, 20% of this will be deferred into shares for three years.
Deferred payment – This is final payment under this legacy 'bonus banking' plan and relates to performance in the years 2013-2015 which was deferred in participants Plan Account since 2015 and not previously included in the table above in a previous financial year.
Long term incentives – There was no LTIP award measured by reference to 2016 performance. The 2015 column includes the value of the VCP vested with respect to performance over the period 31 December 2015.
Pension – Both Executive Directors receive a taxable cash allowance in lieu of pension. George Watt is a deferred member of the Scottish & Grampian Television Retirement Benefits Scheme (defined benefit) and as such no additional value was accrued by him under this plan during the year.

External appointments

During 2016, Rob Woodward received £41,000 as a non-executive director of Blancco Technology Group plc (formerly Regenersis plc). George Watt received £20,000 as a non-executive director of SpaceandPeople plc. In accordance with STV's policy, each was entitled to retain their fees.

Remuneration report

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 £000	Additional fees[1] £000	Total fees £000
Baroness Ford	**2016**	**95,000**	**–**	**95,000**
	2015	95,000	–	95,000
D Shearer	**2016**	**45,000**	**7,500**	**52,500**
	2015	45,000	7,500	52,500
M Jackson	**2016**	**32,500**	**5,000**	**37,500**
	2015	32,500	5,000	37,500
G Shore[2]	**2016**	**13,542**	**3,125**	**16,667**
	2015	32,500	7,500	40,000
C Woolfenden	**2016**	**32,500**	**5,000**	**37,500**
	2015	32,500	5,000	37,500
A M Cannon	**2016**	**32,500**	**6,458**	**38,958**
	2015	32,500	1,763	34,263
I Steele	**2016**	**32,500**	**5,000**	**37,500**
	2015	5,417	628	6,045
S Miller[3]	**2016**	**2,708**	**–**	**2,708**

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 a further fee of £2,500 per annum to reflect the additional duties involved in chairing the Audit and Remuneration Committees
2 Genevieve Shore resigned in June 2016
3 Simon Miller was appointed on 2 December 2016

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 2016.

	Annual contribution (% salary)			Performance targets		Actual performance outcome			
Performance condition	Weighting	Threshold	Maximum	Threshold	Maximum	(£m)	(% salary)	R Woodward	G Watt
Operating profit	50%	6.25%	62.5%	£19.3m	£24.7m	£19.7m	11%	£43,290	£24,402
Cash flow	25%	3.125%	31.25%	£11.6m	£13.1m	£9.5m	0%	Target not met	
Personal objectives	25%	3.125%	31.25%	See below			25%	£98,383	£55,713
Total	100%	12.5%	125%	–	–	–	36%	£141,673	£80,115

The personal objectives were set at the start of the year by the Committee. These targets related to key strategic business projects aligned to the strategy, KPIs and creation of shareholder value. The Committee assessed performance against these targets and concluded that a bonus payment equal to 36% of salary to each Executive Director appropriately reflected performance.

The key objectives that were successfully delivered will have the effect of de-risking the business whilst providing financial certainty and flexibility to continue to progress the growth strategy.

In particular, the terms of the amended Advertising Sales Agreement with ITV represent a significant improvement on the legacy contract under which the business had operated bringing simplicity, clarity and transparency and a lower cost of sale.

Additionally, in late 2016, a deficit funding plan was agreed with the trustees of the Company's defined benefits pension schemes. An 11-year funding plan was agreed in line with the Board's expected cash commitments.

A new venture, the Scottish Children's Lottery, was successfully launched in late 2016. It is planned that the investment in this will enable the Group to generate more and improved customer data and insights.

Despite some weakness in the advertising market in the second half of 2016, the resilience of the core consumer business was demonstrated through delivery of an above target margin of 18.5%. This margin represents an 11 year high and was achieved through successful development of the portfolio of consumer services which are achieving increased reach and engagement. During 2016 digital activities, which are now a core area of activity achieved significant revenue growth, up 20% on the previous year. This profitable business delivered an operating margin of 52%, ahead of target levels.

Scheme interests awarded in 2016 financial year (audited)

The table below shows awards made to the Executive Directors during 2016 under the LTIP:

Executive Directors	Award type	Basis of award	Face value of award*	Threshold vesting	Performance period
R Woodward	LTIP	100% of salary	£395k	25% of maximum	1/1/16-31/12/18
G Watt	LTIP	100% of salary	£223k	25% of maximum	1/1/16-31/12/18

* Calculated using the closing share price (367p) on the date prior to the date of award. These awards are subject to the same performance targets as set out on page 60.

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

A new three year Savings Related Share Option Plan ('SAYE') was launched in October 2016 at a price of 334 pence per share. Rob Woodward was fully subscribed under the 2015 SAYE scheme and George Watt was fully subscribed under the 2014 SAYE scheme so neither participated in the 2016 plan.

Remuneration report

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.

During 2016, a requirement for the Non-Executive Directors to build up a shareholding of one times annual fee over a three-year period was introduced.

Directors	No. of beneficially owned shares	No. of deferred Bonus Plan shares	No. of nil cost options	No. of SAYE options subject to conditions	No. of unvested LTIP awards at 31/12/16	Total interests held at 31/12/16	Monetary value of shares at 31/12/16 £000	Shareholding requirement (% salary/ % annual fee)	Current holding (% salary/ fee)	Requirement met?[3]
Executive										
R Woodward	419,322	48,850	336,735	4,900	198,925	804,907	2,710	100%	686%	Yes
G Watt	265,769	27,536	133,470	5,325	112,131	426,775	1,430	100%	641%	Yes
Non-Executive										
Baroness Ford	25,958	–	–	–	–	25,958	93	100%	98%	n/a
D Shearer	100,000	–	–	–	–	100,000	359	100%	797%	Yes
M Jackson	–	–	–	–	–	–	–	100%	–	n/a
C Woolfenden	9,092	–	–	–	–	9,092	33	100%	100%	Yes
A M Cannon	9,042	–	–	–	–	9,042	32	100%	100%	Yes
I Steele	8,000	–	–	–	–	8,000	29	100%	88%	n/a
S Miller	–	–	–	–	–	–	–	100%	–	n/a

Notes
1 Beneficial interests include shares held directly or indirectly by connected persons.
2 Share price at 31/12/16 was 358.5 pence per share.
3 Not applicable as three-year period to acquire is ongoing until 2019.

Dilution

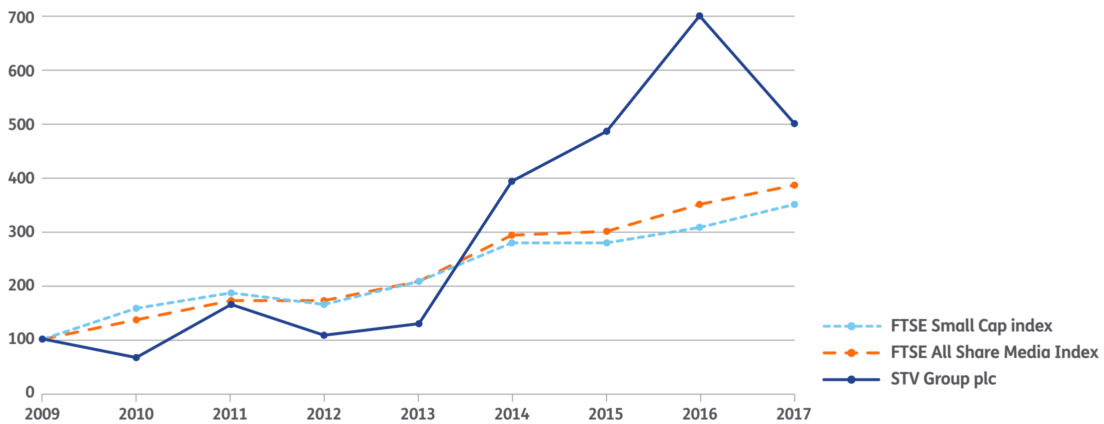
The following table sets out the current level of dilution against the limits in the Bonus Plan and sets out the commitments to issue shares made during the financial year reported:

Maximum	Current dilution	Additional dilution during the year in question
10% dilution in ten years	7.77	0.68
5% dilution in ten years	4.62	0.26

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

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 eight years.

Year	Single figure of total remuneration (£000) R Woodward	Bonus pay-out (as % maximum opportunity)[1]	Long-term incentive vesting rates (as % maximum opportunity)
2016	**807**	**29**	**–**
2015	2,269	49	100%
2014	661	46	–
2013	601	54	–
2012	696	31	100%
2011	958	15	–
2010	614	75	–
2009	418	–	–

Note
1 Maximum potential bonus opportunity has varied in the period between 2009 and 2016 and therefore this is not a like-for-like comparison.

Remuneration report

Percentage change in Chief Executive Officer's remuneration

The table below shows the percentage change in the salary, benefits and annual bonus of the Chief Executive Officer and all employees (on a per capita basis) between 2015 and 2016.

	Salary	Taxable benefits	Bonus
Chief Executive Officer	1.5%	0%	41%
All employees	1.5%	0%	n/a

Relative importance of spend on pay

The table below sets out the relative importance of spend on pay in the 2015 and 2016 financial years. These were the most significant outgoings for the Company in the last financial year.

Significant distributions	2016	2015	% change
Overall spend on pay	£19.6m	£19.6m	–
Dividend or share buyback	£4.3m	£3.5m	+23%

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: Genevieve Shore (Chairman) who resigned in June 2016; Michael Jackson; Anne Marie Cannon, who was appointed Chairman on 21 June 2016 and Ian Steele. The Committee met five 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 Company's website, www.stvplc.tv.

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 Deloitte LLP. Deloitte LLP is a member of the Remuneration Consultants' Group and has 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. Deloitte LLP was also the Company's internal auditor 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. The total fees paid to Deloitte LLP during the year for advice to the Committee were £29,100.

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.

Statement of voting at general meeting

The table below shows the remuneration related votes at the AGM held on 26 April 2016.

	Votes for	%	Votes against	%	Total votes cast	Votes withheld*
2015 Remuneration Report	30,879,904	99.33%	206,896	0.67	32,860,709	1,773,909
2015 Remuneration Policy**	30,941,967	99.54%	144,077	0.46	32,860,709	1,774,665

* A vote withheld is not a vote in law and counts neither for nor against a resolution.
** A vote to approve a revision to the Policy in accordance with Section 439A of the Companies Act in order to effect the correction of a typographical error in the Policy.

Anne Marie Cannon
Chairman of the Remuneration Committee
13 March 2017

Directors' report

The Directors present the Directors' report, together with the audited accounts for the year ended 31 December 2016. The Directors' report comprises pages 68 to 70 and the sections of the annual report incorporated by reference are set out below:

Directors during 2016 financial year – See page **42**
Greenhouse gas emissions – See page **28**
Employee equality and diversity – See page **26**
Principal risks – See pages **34 and 35**
Corporate governance report – See pages **39 to 54**
Employee involvement – See pages **26 and 27**

Dividends

The proposed total dividend for 2016 is 15.0p per share – an increase of 50% on 2015 (10.0p). During 2016 the final 2015 dividend of 7.0p per share was paid together with the interim dividend for 2016 of 4.0p per share. A final dividend of 11.0p per share has been declared which, subject to approval at the AGM in April, will be paid on 19 May 2017, to shareholders on the register at 18 April 2017.

Share capital

On 13 March 2017, there were 39,548,231 ordinary shares of 50p each in issue, each with one vote. There were no shares held in treasury at that date. The rights and obligations to the Company's shares are set out in its Articles of Association. Details of Directors interests in shares can be found on page 64.

As at 13 March 2017, the Group had been notified of the following interests of 3% or more in its shares:

Shareholders	March	%
Crystal Amber Advisers	5,536,676	14.00
Columbia Threadneedle Asset Mgt	4,000,791	10.12
UBS Global Asset Mgt	3,234,316	8.18
Slater Investments	2,662,001	6.73
Cavendish Asset Mgt	1,451,350	3.67
Artemis Investment Mgt	1,407,311	3.56
AXA Investment Mgrs	1,318,681	3.33
BlackRock Investment Mgt	1,292,227	3.27
Majedie Asset Mgt	1,228,765	3.11

Principal activities

The principal activities of the Group are the production and distribution of content across multiple devices and platforms, including television broadcasting, and the sale of advertising airtime and space in these media. The Group continues to focus on its television and digital media businesses and is also involved in supporting charitable activities including the operation of STV ELM to provide services to the Scottish Children's Lottery.

Compliance

Part of the information that fulfils the Companies Act requirements of the Directors' Report can be found in the Performance Review on pages 32 and 33. The Group's subsidiaries are listed in note 18 of the Company financial statements and details of the principal risks and uncertainties facing the Group can be found on pages 34 and 35.

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).

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 2016.

Annual General Meeting

Details of the 2017 AGM, together with the Notice of AGM can be found on pages 114 to 122.

Directors

The Directors of the Company and their profiles are detailed on pages 40 and 41. All of these Directors served throughout the year under review with the exception of Simon Miller who was appointed to the Board on 2 December 2016. Genevieve Shore resigned on 2 June 2016. The Articles of Association of the Company require Directors to submit themselves for re-election every three years. In addition all Directors are subject to election at the first opportunity after their appointment to the Board.

Donations

The Group made no political donations (2015: £nil) during the year.

Voting rights and restrictions on transfer of shares

None of the ordinary shares carry any special rights with regard to control of the Company. There are no restrictions on transfers of shares other than certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing and pursuant to the Company's share dealing code, whereby the Directors and designated employees require approval to deal in the Company's shares.

The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights. Further details of the rights, restrictions and obligations attaching to the share capital of the Company, including voting rights, are contained in the Company's Articles of Association. The Articles may only be amended by special resolution at a general meeting of shareholders. Copies are available by writing to the Company Secretary and are also open to inspection at Companies House.

The STV Group plc Employee Benefit Trust, which is used to acquire and hold shares in the Company for the benefit of employees, waives its right to vote and to dividends on the shares it holds which are unallocated.

Change of control

All of the Company's employee share plans contain provisions relating to a change of control. On a change of control, options and awards granted to employees under the Company's share plans may vest and become exercisable, subject to the satisfaction of any applicable performance conditions at that time. Certain of the Company's credit facilities and banking arrangements contain change of control clauses under which lenders may cancel their commitments and declare all outstanding amounts immediately due and payable.

The Channel 3 broadcasting licences require STV, as the license holder, to notify Ofcom on a change of control. Ofcom would thereafter require to determine that any proposed new license holder was a fit and proper person to hold the licence. There are no other significant agreements that would take effect, alter or terminate upon a change of control following a takeover bid.

The Scottish Children's Lottery, which holds licences awarded by the UK Gambling Commission, engages the services of STV ELM Limited, which is a subsidiary of STV Group plc, to deliver the lottery product to consumers. Although the lottery is operated independently of STV, in accordance with the requirements of these licences, STV provides financial support and if there is a change of control of STV, STV ELM is obliged to notify the UK Gambling Commission who may thereafter review the licences.

Directors' report

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare the financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Company and the profit and loss of the Group and Company 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 ending 31 December 2016, when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and 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.

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.

Directors' Statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed on pages 40 and 41 confirm that, to the best of his or her knowledge and belief:

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

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

By order of the Board

Rob Woodward
Chief Executive Officer
13 March 2017

Financial Statements

Additional Information

STV Group plc consolidated financial statements

Independent auditors' report to the members of STV Group plc

Report on the financial statements

Our opinion

In our opinion:

- STV Group plc's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2016 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies |Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:

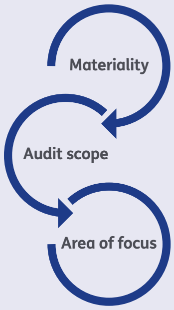
- the Consolidated and Parent Company Balance Sheet as at 31 December 2016;
- the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated and Parent Company Statement of Cash Flows for the year then ended;
- the Consolidated and Parent Company 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 IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006, and applicable law.

Our audit approach

Overview



- Overall Group materiality: £899,190 which represents 5% of profit before tax and exceptional items (as noted on page 74).
- We performed audit work over all three 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 (refer to page 49 (Audit Committee Report), page 82 (Accounting Policies) and page 106 (Notes).
- Deferred programme production costs carrying value (refer to page 49 (Audit Committee Report), page 82 (Accounting Policies) and page 100 (Notes).
- External Lottery Management ('ELM') recoverability (refer to page 49 (Audit Committee Report), page 82 (Accounting Policies) and page 101 (Notes).
- Goodwill (refer to page 49 (Audit Committee Report), page 82 (Accounting Policies) and page 96 (Notes).

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 fraud in revenue recognition and 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
Retirement benefit obligations (refer to page 49 (Audit Committee Report), page 82 (Accounting Policies) and page 106 (Notes). The Group has a net retirement benefit obligation of £88.8m (2015: £7.6m). This balance 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. Given the judgements involved and that slight movements in these assumptions can have a significant impact on the overall obligation this was an area of significant focus in our audit. 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.	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 a range acceptable by specialists. 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, which fell outside of the range we would typically see, 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 caused by the specific industry and location of the business, which the Directors evidenced through a scheme specific mortality study they had commissioned, we agreed that the judgements made by the Directors was reasonable.
Deferred programme production costs carrying value (refer to page 49 (Audit Committee Report), page 82 (Accounting Policies) and page 100 (Notes) Productions inventory of £14.8m (2015: £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. This is an area of focus because the carrying value of the deferred programme production costs, and hence the charge to the income statement are based on judgements made by the Directors of associated future revenue.	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, including digital sales. We considered the actual sales in 2016 against last year's forecast to establish the level of accuracy in management's forecasting, and also reviewed management's calculations of forecast revenues to arrive at a net present value. We also performed sensitivities on the key assumptions about future associated sales to determine how much they would need to change before a further impairment was indicated. We consider any such changes to be unlikely. We found that the assumptions were appropriate and there was sufficient headroom, with the carrying value of inventory not greater than its net realisable value. From the testing performed, we consider that the judgements exercised by the Directors are reasonable and supportable, and that the carrying value of deferred production inventory is not materially misstated.
STV ELM (refer to page 49 (Audit Committee Report), page 82 (Accounting Policies) and page 101 (Notes) Other receivables of £5.4m (2015: Nil) relates to costs recoverable from the running of the Scottish Children's Lottery, through STV ELM. The recoverability of these costs is dependent on the future growth of the lottery and it generating future positive cash flows. The balance has been classified as due greater than 1 year to reflect the Directors' expectations of the lottery breaking even by end of 2017 and costs recovered over a four year period thereafter.	We have gained an understanding of the Group's process for recovering costs from the Scottish Children's Lottery and assessed if the costs claimed are reasonable and relevant. We have reviewed the Directors' forecasts and considered the latest performance against these forecasts. We considered the performance of the lottery against the experience of other lotteries to confirm whether growth assumptions are appropriate. As the lottery was only launched in October 2016, the forecasts remain highly judgemental, however we believe these are reasonable and demonstrate that the balance will be recoverable over time.
Goodwill (refer to page 49 (Audit Committee Report), page 82 (Accounting Policies) and page 96 (Notes) The Group goodwill balance of £Nil (2015: £2.8m) relating to the Productions business is assessed for impairment on an annual basis, or where there is an impairment trigger as required by IAS 36. Goodwill has been tested for impairment by the Directors. 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 focussed on is that the goodwill balance may be overstated and that an impairment charge may be required.	We evaluated the Directors' future cash flow forecasts for the Productions business and their underlying assumptions, including comparing them to the latest budgets and testing the underlying calculations. 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 of long term inflation. We also considered the long term growth rate of 2% beyond the three year cash flows as being in line with our expectations. When assessing the projected future cash flows of the Productions business, it was determined by management that there was insufficient evidence, when comparing to historic trading to support the carrying value of goodwill. An impairment charge of £2.8m has been booked, which based on the audit procedures highlighted above, we agree is reasonable.

STV Group plc consolidated financial statements

Independent auditors' report to the members of STV Group plc

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 on the individual financial statement line items and disclosures and in evaluating 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:

Overall Group materiality	£899,190 (2015: £914,848).
How we determined it	5% of profit before tax and exceptional items.
Rationale for benchmark applied	Profit before tax and exceptional items is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark. STV Group plc is profit orientated.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £44,960 (2015: £45,742) 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 70, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them 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 and Company's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements
Companies Act 2006 reporting
In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group, the Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Corporate Governance Statement set out on pages 42 to 54 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- the information given in the Corporate Governance Statement set out on pages 42 to 54 with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies complies with rules 7.2.2, 7.2.3 and 7.2.7 of the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority.

In addition, in light of the knowledge and understanding of the Group, the Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the information referred to above in the Corporate Governance Statement. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under 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 Group and Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors on page 70, 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 and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	5% of profit before tax and exceptional items.
• the section of the Annual Report on page 37, 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.	We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
• the Directors' confirmation on page 70 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on page 33 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

STV Group plc consolidated financial statements

Independent auditors' report to the members of STV Group plc

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 Company 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.

Corporate governance statement
Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the 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 70, 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 and 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. With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we consider whether those reports include the disclosures required by applicable legal requirements.

Kenneth Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
15 March 2017

Consolidated income statement

Year ended 31 December 2016

	Note	2016 £m	2015 £m
Revenue	7	**120.4**	116.5
Net operating expenses	8	**(103.5)**	(105.0)
Operating profit		**16.9**	11.5
Analysed as:			
Operating profit before exceptional items		**19.7**	20.3
Exceptional items	10	**(2.8)**	(8.8)
Operating profit		**16.9**	11.5
Finance costs – borrowings	11	**(1.2)**	(1.2)
– IAS 19 pension	11	**–**	(0.5)
		(1.2)	(1.7)
Profit before tax		**15.7**	9.8
Tax (charge)/credit	12	**(3.1)**	1.6
Profit for the year		**12.6**	11.4
Earnings per share			
Basic	13	**32.5p**	29.8p
Diluted	13	**31.9p**	29.0p

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income

Year ended 31 December 2016

	Note	2016 £m	2015 £m
Profit for the year		**12.6**	11.4
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	30	**(88.7)**	(0.6)
Deferred tax credit/(charge) thereon	24	**15.1**	(0.2)
Other comprehensive expense		**(73.6)**	(0.8)
Total comprehensive (expense)/income for the year		**(61.0)**	10.6

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company income statement or statement of comprehensive income. The profit for the parent company for the year was £9.7m (2015: £87.9m).

Consolidated and parent company balance sheets

at 31 December 2016

	Note	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company Restated* 2015 £m
Non-current assets					
Goodwill	15	**–**	2.8	**–**	–
Other intangible assets	16	**2.7**	1.7	**–**	–
Property, plant and equipment	17	**7.3**	7.5	**–**	–
Investments	18	**0.8**	0.7	**48.0**	47.9
Deferred tax asset	24	**21.7**	9.6	**7.1**	2.8
Trade and other receivables	20	**5.9**	–	**153.7**	141.0
		38.4	22.3	**208.8**	191.7
Current assets					
Inventories	19	**19.5**	19.2	**–**	–
Trade and other receivables	20	**22.8**	22.1	**76.7**	73.1
Cash and cash equivalents	21	**13.3**	13.7	**–**	–
		55.6	55.0	**76.7**	73.1
Total assets		**94.0**	77.3	**285.5**	264.8
Equity attributable to owners of the parent					
Ordinary shares	26	**19.8**	19.6	**19.8**	19.6
Share premium	26	**101.9**	101.8	**101.9**	101.8
Merger reserve		**173.4**	173.4	**–**	–
Other reserve		**0.4**	0.9	**0.4**	0.9
Accumulated (losses)/profit		**(348.5)**	(284.8)	**78.5**	102.3
Total equity		**(53.0)**	10.9	**200.6**	224.6
Non-current liabilities					
Borrowings	23	**39.7**	39.4	**–**	–
Derivative financial instruments	22	**0.1**	0.1	**–**	–
Retirement benefit obligations	30	**88.8**	7.8	**39.2**	7.6
Provisions	25	**0.3**	0.5	**–**	–
		128.9	47.8	**39.2**	7.6
Current liabilities					
Trade and other payables	22	**17.9**	18.3	**45.7**	32.6
Provisions	25	**0.2**	0.3	**–**	–
		18.1	18.6	**45.7**	32.6
Total liabilities		**147.0**	66.4	**84.9**	40.2
Total equity and liabilities		**94.0**	77.3	**285.5**	264.8

* Refer to note 6 for more information.

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 78 to 110 were approved by the Board on 13 March 2017 and were signed on its behalf by:

Rob Woodward
Chief Executive Officer

George Watt
Chief Financial Officer

Consolidated and parent company statement of changes in equity

Year ended 31 December 2016

	Equity attributable to owners of the parent				
	Share capital and premium £m	Merger reserve £m	Other reserve £m	Accumulated (losses)/profit £m	Total equity £m
Group					
Balance at 1 January 2016	121.4	173.4	0.9	(284.8)	10.9
Profit for the year	–	–	–	12.6	12.6
Other comprehensive expense	–	–	–	(73.6)	(73.6)
Total comprehensive expense for the year	–	–	–	(61.0)	(61.0)
Issue of share capital	0.2	–	–	–	0.2
Acquisition of treasury shares	–	–	–	(0.2)	(0.2)
Share based compensation	–	–	0.3	–	0.3
Value of employee services	0.1	–	(0.8)	1.7	1.0
Deferred tax charge on share based compensation	–	–	–	(0.3)	(0.3)
Current tax credit on share based compensation	–	–	–	0.4	0.4
Dividends	–	–	–	(4.3)	(4.3)
Balance at 31 December 2016	**121.7**	**173.4**	**0.4**	**(348.5)**	**(53.0)**
Balance at 1 January 2015	121.4	173.4	0.6	(291.9)	3.5
Profit for the year	–	–	–	11.4	11.4
Other comprehensive expense	–	–	–	(0.8)	(0.8)
Total comprehensive income for the year	–	–	–	10.6	10.6
Own shares acquired	–	–	–	(0.9)	(0.9)
Share based compensation	–	–	0.3	–	0.3
Deferred tax credit on share based compensation	–	–	–	0.8	0.8
Dividends	–	–	–	(3.4)	(3.4)
Balance at 31 December 2015	**121.4**	**173.4**	**0.9**	**(284.8)**	**10.9**
Company					
Balance at 1 January 2016 (restated)	121.4	–	0.9	102.3	224.6
Profit for the year	–	–	–	9.7	9.7
Other comprehensive expense	–	–	–	(30.7)	(30.7)
Total comprehensive expense for the year	–	–	–	(21.0)	(21.0)
Own shares acquired	0.2	–	–	–	0.2
Acquisition of treasury shares	–	–	–	(0.2)	(0.2)
Share based compensation	–	–	0.3	–	0.3
Value of employee services	0.1	–	(0.8)	1.7	1.0
Dividends	–	–	–	(4.3)	(4.3)
Balance at 31 December 2016	**121.7**	**–**	**0.4**	**78.5**	**200.6**
Balance at 1 January 2015	121.4	–	0.6	25.0	147.0
Profit for the year (restated)	–	–	–	87.9	87.9
Total comprehensive income for the year	–	–	–	87.9	87.9
Own shares acquired	–	–	–	(0.9)	(0.9)
Share based compensation	–	–	0.3	–	0.3
Dividends	–	–	–	(3.4)	(3.4)
Balance at 31 December 2015	**121.4**	**–**	**0.9**	**108.6**	**230.9**
Pension transferred from fellow Group undertaking (note 6)	–	–	–	(6.3)	(6.3)
Restated balance at 31 December 2015	**121.4**	**–**	**0.9**	**102.3**	**224.6**

Consolidated and parent company statement of cash flows

Year ended 31 December 2016

	Note	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company Restated 2015 £m
Operating activities					
Cash generated by operations	27	**15.9**	20.0	**9.4**	5.6
Interest paid		**(1.2)**	(1.2)	**–**	–
Pension deficit funding – recovery plan payment		**(7.8)**	(7.8)	**(5.4)**	(5.4)
Net cash generated by operating activities		**6.9**	11.0	**4.0**	0.2
Investing activities					
Purchase of investment		**(0.1)**	(0.5)	**(0.1)**	(0.5)
Capitalised web development spend		**(1.4)**	(1.2)	**–**	–
Purchase of property, plant and equipment		**(1.8)**	(1.1)	**–**	–
Net cash used in investing activities		**(3.3)**	(2.8)	**(0.1)**	(0.5)
Financing activities					
Purchase of treasury shares		**–**	(0.9)	**–**	(0.9)
Issue of treasury shares to employees		**0.3**	–	**0.3**	–
Borrowings repaid		**–**	(10.0)	**–**	–
Dividends paid		**(4.3)**	(3.4)	**(4.3)**	(3.4)
Net cash used by financing activities		**(4.0)**	(14.3)	**(4.0)**	(4.3)
Net decrease in cash and cash equivalents		**(0.4)**	(6.1)	**(0.1)**	(4.6)
Cash and cash equivalents at beginning of year		**13.7**	19.8	**(4.6)**	–
Cash and cash equivalents at end of year	27	**13.3**	13.7	**(4.7)**	(4.6)

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

Reconciliation of movement in net debt
Year ended 31 December 2016

	Note	Group 2016 £m	Group 2015 £m
Opening net debt		**(25.7)**	(29.4)
Net decrease in cash and cash equivalents		**(0.4)**	(6.1)
Movement in debt financing		**(0.3)**	9.8
Closing net debt	27	**(26.4)**	(25.7)

Notes to the financial statements

for the year ended 31 December 2016

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 and lottery management services.

2. Adoption of new and revised standards

There are no new IFRS or IFRICs that are effective for the first time this year that have a material impact on the Group or parent company.

New standards, amendments and interpretations issued but not yet effective for the financial year beginning 1 January 2016 (IFRS 9 "Financial instruments"; IFRS 15 "Revenue from contracts with customers") are not early adopted and not expected to have a material impact on the Group or parent company.

IFRS 16 "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 "Leases" and related interpretations. The standard is effective for annual periods beginning or after 1 January 2019 and earlier application is permitted, subject to EU endorsement and the entity adopting IFRS 15 "Revenue from contracts with customers" at the same time. The full impact of IFRS 16 has not yet been assessed.

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 and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention.

The preparation of the Group and parent company 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 5.

Going concern

The Group continues to review forecasts to determine the impact of both the short term and long term liquidity position and expects to meet its covenants over the next twelve months. The Group therefore considers it appropriate to adopt the going concern basis in preparing its consolidated financial statements.

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 are entities over which the Company has control. The Company controls an entity when the Company has existing rights that give it the current ability to direct the activities that affect the Company's returns and exposure or rights to variable returns from the entity. Subsidiaries are included in the consolidated financial statements of the Company from the date control of the subsidiary commences until the date that control ceases. Intra-Group balances and any unrealised gains and losses or income and expenses arising from intra-Group transactions are eliminated in preparing the consolidated financial statements.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Chief Executive.

Foreign currency translation
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.

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.

Intangible assets
i) 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 as an expense 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.

ii) 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%

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

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

Notes to the financial statements

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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.

i) Programme production work in progress

Programming made for third parties is valued at cost less appropriate provisions and is charged to the income statement against related income.

ii) Deferred programme production

Deferred production costs represent original costs of production which are deferred and recognised against future revenue streams expected to be generated in the secondary sales markets. This is to ensure that revenue and costs are matched as closely as possible. The amount to be deferred varies by programme based on future secondary sales potential. There is judgement used in the estimation of future sales and this is referred to in the critical accounting estimates section (note 5).

iii) Recorded programmes

Recorded programmes are programmes which the Group purchases for transmission on its broadcast and catch up channels. They are valued at direct cost including labour and overheads less appropriate provisions and are written off after the first transmission or sale.

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

Financial assets and liabilities

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.

i) 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.

ii) Investments

Equity investments are normally carried at fair value. Where an active market value is not available, the investment is recorded at cost less provision for impairment.

iii) 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.

iv) 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.

v) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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

vii) 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.

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.

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.

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.

Notes to the financial statements

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The defined benefit cost is made up of three categories:

i) 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.

ii) 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.

iii) 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.

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.

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

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 bases:

i) Advertising and sponsorship revenues
Revenues are stated net of advertising agency commissions.

Television advertising revenue and online advertising revenue are recognised on transmission of the advertisement. Revenue from sponsorship of the Group's programmes is recognised on a straight-line basis in accordance with the transmission schedule for each sponsorship campaign.

ii) Programme production revenues
Revenue from third party commissions is recognised on delivery of the finished programme to the commissioning broadcaster as at that point the risks and rewards of ownership pass to that broadcaster for the period of their licence.

Revenues from the sale of the above programmes to overseas broadcasters or the UK secondary market (usually digital channels) are recognised on the signing of the contract with the broadcaster. An element of the original cost of production is deferred and recognised against the future revenue stream expected to be generated in the secondary and overseas sales markets. The amount to be deferred varies by programme based on future overseas and secondary sales potential and involves significant judgement (see critical accounting estimates note 5).

Revenues generated from brand exploitation of the above programmes are recognised when the receipts are remitted to the Group as these revenues are generated by third parties leasing the brand/programme.

iii) Lottery service revenues
Revenue is recognised when the lottery draw to which the service relates has taken place.

Dividend income
Dividend income is recognised when the right to receive payment is established.

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.

Dividend distribution
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.

Exceptional items
Exceptional items are items that are unusual because of their size, nature or incidence and which the Directors consider should be disclosed separately to enable a full understanding of the Group's results.

4. Financial risk management

Capital 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 23, 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. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt. The gearing ratios at 31 December 2016 and 2015 were as follows:

	2016 £m	2015 £m
Total borrowings (note 23)	**39.7**	39.4
Cash and cash equivalents (note 21)	**(13.3)**	(13.7)
Net debt	**26.4**	25.7
Total equity	**(53.0)**	10.9
Total capital	**(26.6)**	36.6
	(99%)	70%

The movement is largely due to the increase in the pension deficit of £88.8m (2015: 39.2m).

Notes to the financial statements

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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) (see note 27) and (ii) the ratio of adjusted EBITDA to cash interest, both of which are tested quarterly. The Group complied with all the covenants in each of the test periods to the balance sheet date.

Derivative financial instruments
The Group's policy is to minimise the exposure to interest rates by ensuring an appropriate balance of floating and fixed rates. The Group's primary funding is at floating rates through its bank facilities. In order to manage its associated interest rate risk, the Group uses interest rate swaps to vary the mix of fixed and floating rates. Interest rate swap contracts of £15.0m (2015: £15.0m) were entered into on 9 July 2014 and matured on 9 July 2016. The swaps were renewed on similar terms for a further 2 years until 9 July 2018. 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.

i) 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 which is also the Group's intra-UK net currency flow. 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 2016 the Group had no forward foreign currency contracts in place (2015: £nil).

ii) 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.

iii) 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 23) and cash and cash equivalents (note 21)) 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.

iv) 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 2016, a movement of 0.25% in interest rates would change the level of interest paid in the year by +/- £0.1m (2015: £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 matured on 9 July 2016. The swaps were renewed on similar terms for a further 2 years until 9 July 2018.

5. 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.

Group

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 15.

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 and mortality rate. Any changes in these assumptions will impact the carrying amount of pension obligations. In the event of the pension liability becoming a surplus, the Company legally has an unconditional right to that surplus and this has been agreed with the scheme trustees.

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.

Notes to the financial statements

continued

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 30.

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 which are a judgemental area. A detailed forecast of future secondary sales is prepared by management based on historic experience and expected future trends. £2.1m was expensed through the income statement in the year (2015: £2.3m). Additional information is disclosed in note 19.

Deferred tax asset recognition
Deferred tax assets are recognised if sufficient future taxable profit is available. Management evaluates the recoverability of deferred tax assets based on projected future taxable profits and as future developments are uncertain and partly beyond management's control, assumptions are necessary to estimate future taxable profits as well as the period in which deferred tax assets will recover. No deferred tax was recognised during the year (2015: £5.1m) in respect of tax losses previously unrecognised.

Lottery recoverability
An amount of £5.9m (2015: £nil) is included within non-current assets as receivable from the Scottish Children's Lottery. It is due to ELM (the lottery management company) and is expected to be recovered from 2018 onwards.

Company
Carrying value of parent company investments
The Group's policy is to carry out annual reviews of its investments. Based on operating results for the subsidiary undertakings and future forecast cash flows, the Directors consider that the investments' recoverable amount is greater than its carrying value and consequently no impairment is considered necessary. Additional information is disclosed in note 18.

6. Prior year restatement

During March 2015, the Caledonian Publishing Pension Scheme was transferred from STV Television Limited to STV Group plc (the parent company). This should have been recognised in the parent company accounts as at 31 December 2015. The prior year figures are restated to account for the aforementioned pension balances.

	Balance at 1 January 2016 £m	Restatement £m	Restated balance at 1 January 2016 £m
Balance sheet:			
Retirement benefit obligations	–	(7.6)	(7.6)
Trade and other payables	(32.7)	0.1	(32.6)
Deferred tax	1.4	1.4	2.8
	(31.3)	(6.1)	(37.4)
Equity:			
Accumulated profit	108.4	(6.1)	102.3
Cash flow:			
Operating activities – cash generated by operations	0.2	5.4	5.6
pension deficit funding – recovery plan payment	–	(5.4)	(5.4)
	0.2	–	0.2

7. 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, Productions and ELM (external lottery management).

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

	External revenue	
Segment revenues	**2016 £m**	2015 £m
Consumer	**105.9**	108.2
Productions	**12.7**	8.3
ELM	**1.8**	–
	120.4	116.5

Revenue in 2016 includes £0.7m of revenues from sources outside the UK (2015: £0.9m).

Segment result	**2016 £m**	2015 £m
Consumer	**19.6**	19.9
Productions	**0.1**	0.4
ELM	**–**	–
	19.7	20.3
Exceptional goodwill impairment attributable to Productions	**(2.8)**	(5.1)
Exceptional fixed/intangible asset write off attributable to Consumer	**–**	(1.0)
Other exceptional items attributable to Group:		
Investment write-down	**–**	(1.0)
Management incentive plan	**–**	(1.7)
Operating profit	**16.9**	11.5
Financing	**(1.2)**	(1.7)
Profit before tax	**15.7**	9.8
Tax (charge)/credit	**(3.1)**	1.6
Profit attributable to owners of the parent	**12.6**	11.4

Operating profit in 2016 includes £0.3m arising outside the UK (2015: £0.4m).

A breakdown of non-broadcast earnings is as follows:

	2016 £m	2015 £m
Digital	**4.1**	3.2
Productions	**0.1**	0.4
Music/telephony	**0.3**	0.9
	4.5	4.5
Percentage of total revenue	**23%**	22%

Notes to the financial statements

continued

Segment assets and liabilities	Assets 2016 £m	Assets 2015 £m	Liabilities 2016 £m	Liabilities 2015 £m
Consumer	**35.0**	38.8	**11.2**	13.4
Productions	**30.2**	29.1	**3.5**	2.0
ELM	**5.9**	–	**0.6**	–
Total of all segments	**71.1**	67.9	**15.3**	15.4
Unallocated corporate	**22.9**	9.4	**131.7**	51.0
Consolidated	**94.0**	77.3	**147.0**	66.4

Other segment information	Consumer 2016 £m	Consumer 2015 £m	Productions 2016 £m	Productions 2015 £m	ELM 2016 £m	ELM 2015 £m
Capital additions	**3.2**	2.3	**–**	–	**–**	–
Depreciation and amortisation	**2.4**	2.5	**–**	–	**–**	–

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

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 2015 and 2016 were held in the UK and therefore operate in a single geographical segment.

8. Operating expenses by nature

	2016 £m	2015 £m
Programming costs	**54.1**	51.0
Staff costs	**25.1**	24.4
Other external charges	**16.5**	15.8
Depreciation and amortisation	**2.4**	2.5
Operating lease charges	**2.6**	2.4
Other operating charges	**–**	0.1
	100.7	96.2
Exceptional items	**2.8**	8.8
	103.5	105.0

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

	2016 £000	2015 £000
Group		
Fees payable to Company auditors for the audit of parent company and consolidated financial statements	**105**	82
Fees payable to the Company's auditors and it's associates for other services:		
– The audit of Company's subsidiaries pursuant to legislation	**25**	21
– Audit-related assurance services	**25**	24
– Tax advisory services	**146**	69
– Tax compliance services	**–**	33
– Other services	**10**	8
	311	237

Included in the audit fees payable is £5,000 (2015: £5,000) paid in respect of the parent company.

Other services comprise employee benefit advisory services.

Fees in respect of STV Group plc pension schemes	2016 £000	2015 £000
Audit	**21**	21

9. Staff

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

	2016 Number	2015 Number
Consumer, Productions and ELM		
Established	**480**	451
Contract	**28**	45
	508	496

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

Their aggregate remuneration comprised:

	2016 £m	2015 £m
Wages and salaries	**19.6**	19.6
Social security costs	**2.0**	1.8
Other pension costs	**3.5**	3.0
	25.1	24.4

Details of Directors' remuneration is provided in the Remuneration Report on pages 55 to 67.

Notes to the financial statements

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10. Exceptional items

The tax effect on exceptional items during the year was £nil (2015: £0.2m).

Goodwill impairment
During the year a provision for impairment of £2.8m (2015: £5.1m) has been recognised against the carrying value of goodwill to reflect the historic trading performance and growth projections in Productions and has resulted in goodwill being fully written down.

Investment write-down
A provision of £1.0m was made against the carrying value of the Group's investment in MirriAd Limited in 2015.

Fixed/intangible asset write off
£1.0m of fixed and intangible assets was written off in 2015. The write off was in relation to City Online services and redundant STV Player platforms.

Management incentive plan
A provision of £1.7m for costs in relation to one off discretionary management incentive plan payments and related national insurance was made in 2015.

11. Finance costs

	2016 £m	2015 £m
Bank borrowings	1.2	1.2
Pension finance charge	–	0.5
	1.2	1.7

12. Tax charge/(credit)

	2016 £m	2015 £m
Corporation tax:		
Current year	0.5	–
Adjustments in respect of prior years	(0.1)	–
	0.4	–
Deferred tax (see note 24)	2.7	(1.6)
Tax charge/(credit) for the year	3.1	(1.6)

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

	2016 £m	2015 £m
Profit before tax	15.7	9.8
Tax at the UK corporation tax rate of 20% (2015: 20.25%)	3.1	2.0
Tax effects of:		
Other expenses not deductible for tax purposes	0.6	1.5
Movement in losses not recognised	(0.5)	(5.1)
Impact of changes in tax rates	(0.1)	–
Tax charge/(credit) for the year	3.1	(1.6)

13. Earnings per share

Basic earnings per share ('EPS'), is calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the 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.

	2016 Earnings £m	2016 Weighted average number of shares (m)	2016 Per share Pence	2015 Earnings £m	2015 Weighted average number of shares (m)	2015 Per share Pence
EPS:						
Earnings attributable to ordinary shareholders	**12.6**	**38.8**	**32.5p**	11.4	38.3	29.8p
Basic EPS	**12.6**	**38.8**	**32.5p**	11.4	38.3	29.8p
Potential dilutive shares		**0.7**			1.0	
Diluted EPS	**12.6**	**39.5**	**31.9p**	11.4	39.3	29.0p
EPS (pre-exceptional items and deferred tax and pre-IAS 19):						
Earnings attributable to ordinary shareholders (pre-exceptional items)	**15.4**	**38.8**	**39.7p**	20.0	38.3	52.2p
Add back: IAS 19 (net of tax)	**–**		**–**	0.4		1.0p
Deduct: one off recognition of deferred tax asset	**–**		**–**	(5.1)		(13.3p)
EPS	**15.4**	**38.8**	**39.7p**	15.3	38.3	39.9p
Potential dilutive shares		**0.7**			1.0	
EPS	**15.4**	**39.5**	**39.0p**	15.3	39.3	38.9p

The adjusted result represents a like for like comparison with the statutory result adjusted for material one off items.

Statutory results are adjusted to reflect the underlying performance of the business, providing a more meaningful comparison of how the business is managed and measured on a day-to-day basis.

Notes to the financial statements

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14. Dividends

	2016 £m	2015 £m
Equity dividends on ordinary shares		
Declared and paid during the year:		
Final for 2015: 7.0p (2014: 6.0p) per share	**2.7**	2.3
Interim for 2016: 4.0p (2015: 3.0p) per share	**1.6**	1.1
Dividends paid	**4.3**	3.4

A final dividend of 11.0p per share (2015: 7.0p per share) has been proposed and is subject to approval by the board of Directors. It is payable on 19 May 2017 to shareholders who are on the register at 18 April 2017. The ex dividend date is 13 April 2017. This final dividend, amounting to £4.4m has not been recognised as a liability in these financial statements.

15. Goodwill

	£m
Cost	
At 1 January and 31 December 2016	10.6
Provisions for impairment	
At 1 January 2016	7.8
Impairment write-down	2.8
At 31 December 2016	**10.6**
Net book value at 31 December 2016	**–**
Net book value at 31 December 2015	2.8

During the year a £2.8m (2015: £5.1m) provision for impairment has been recognised resulting in the capitalised goodwill on the Productions business being fully written down.

Impairment testing

Goodwill is monitored by management at the level of the Group's cash-generating units (CGUs) identified according to operating segment. All goodwill recognised at the year end and previous year end related to Productions.

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a CGU is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by the Board 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 (2%). Management determine net cash flow based on past performance and its expectations of market development.

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

Revenue and margin growth (short term)	Based on approved financial budgets
Growth rate (long term)	2% (2015: 2%)
Discount rate (post tax)	10% (2015: 10%)

The above testing resulted in a recoverable amount equal to the carrying value of the remaining assets and liabilities after the full impairment of goodwill.

16. Other intangible assets

	Web development and branding £m
Cost	
At 1 January 2015	1.7
Additions	1.2
Write offs	(1.1)
At 1 January 2016	1.8
Additions	1.4
At 31 December 2016	**3.2**
Accumulated amortisation and impairment	
At 1 January 2015	0.1
Amortisation	0.3
Write offs	(0.3)
At 1 January 2016	0.1
Amortisation	0.4
At 31 December 2016	**0.5**
Net book value at 31 December 2016	**2.7**
Net book value at 31 December 2015	1.7

Notes to the financial statements

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17. Property, plant and equipment

	Leasehold buildings £m	Plant, technical equipment and other £m	Total £m
Cost			
At 1 January 2015	0.1	27.2	27.3
Additions	–	1.1	1.1
Write offs	–	(0.3)	(0.3)
At 1 January 2016	0.1	28.0	28.1
Additions	–	1.8	1.8
Write offs	–	(7.3)	(7.3)
At 31 December 2016	**0.1**	**22.5**	**22.6**
Accumulated depreciation and impairment			
At 1 January 2015	0.1	18.4	18.5
Charge for year	–	2.2	2.2
Write offs	–	(0.1)	(0.1)
At 1 January 2016	0.1	20.5	20.6
Charge for year	–	2.0	2.0
Write offs	–	(7.3)	(7.3)
At 31 December 2016	**0.1**	**15.2**	**15.3**
Net book value at 31 December 2016	**–**	**7.3**	**7.3**
Net book value at 31 December 2015	–	7.5	7.5

18. Investments

	£m
Group	
Cost	
At 1 January 2016	1.7
Additions	0.1
At 31 December 2016	**1.8**
Provisions for impairment	
At 1 January and 31 December 2016	1.0
Net book value at 31 December 2016	**0.8**
Net book value at 31 December 2015	0.7

	Subsidiaries £m	Other £m	Total £m
Company			
Cost			
At 1 January 2016	47.3	1.6	48.9
Additions	–	0.1	0.1
At 31 December 2016	**47.3**	**1.7**	**49.0**
Provisions for impairment			
At 1 January and 31 December 2016	–	1.0	1.0
Net book value at 31 December 2016	**47.3**	**0.7**	**48.0**
Net book value at 31 December 2015	47.3	0.6	47.9

Other investments of £0.7m (2015: £0.6m) relates to available for sale investments.

Impairment testing

Investments in subsidiaries is monitored by management to ensure that it has not suffered any impairment. In order to assess whether the investment in subsidiaries was subject to impairment, a valuation assessment was performed using a DCF model. The cash flow projections for the model were based on a 3 year plan approved by the Board in October 2016 which supported moderate growth in the Group through the period from 2017 to 2019. The resultant terminal value provided significant headroom against the investment carrying value.

Further sensitivities were modelled to provide management with sufficient comfort that no impairment would be required, namely a +/- 1% change in discount rate and also an operating profit fall in 2017 of 10% and then flat growth. Both scenarios still left the Group with significant headroom.

Based on the above the Directors consider that the investments' recoverable amount is greater than its carrying value and consequently no impairment is considered necessary.

Notes to the financial statements

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Subsidiary undertakings
A full list of subsidiary undertakings as at 31 December 2016 is as follows:

Undertaking	Principal activity	Registered address
STV News Services Limited*	Investment holding undertaking	(1)
STV Television Limited	Investment holding undertaking	
STV Central Limited	Television broadcasting	
STV North Limited	Television broadcasting	
STV Productions Limited	Programme production	
Ginger Television Productions Limited	Programme production	(1)
SKA Ginger Productions Limited (50%)	Programme production	(1)
STV Glasgow Limited	Television broadcasting	
STV Edinburgh Limited	Television broadcasting	
Altissimo Music Limited	Music rights	
stv.tv Limited	Dormant	
Solutions.tv Limited	Dormant	
STV Aberdeen Limited	Dormant	
STV Dundee Limited	Dormant	
STV Ayr Limited	Dormant	
Grampian Television Limited	Dormant	
STV Services Limited*	Group services undertaking	
Scottish News Network Limited	Dormant	
STV SIP Trustees Limited	Dormant	
Rise & Shine (Television) Limited*	Investment holding undertaking	
STV Publishing Limited	Dormant	
STV Out of Home Limited	Dormant	
Peopleschampion Limited	Dormant	
Scottish Media Group (Jersey) Limited	Dormant	(2)
The Ginger Media Group Limited	Dormant	(1)
STV Appeal*	Holding undertaking for charity	
STV Appeal Trading Company Limited	Trading undertaking for charity	
STV Elm Limited*	Group services undertaking	

* directly held

The registered address for all companies (except where noted) is Pacific Quay, Glasgow, G51 1PQ.

(1) 2nd Floor, Bewlay House, 2 Swallow Place, London, W1B 2AE
(2) 13 Castle Street, St Helier, Jersey, Channel Islands, JE4 5UT

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

The investments are stated in the balance sheet at cost less amounts written off for impairment in value. All of the above investments are 100% shareholdings within the Group except where stated.

19. Inventories

	2016 £m	2015 £m
Deferred programme production	**14.8**	14.8
Programme production work in progress	**4.0**	3.6
Recorded programmes	**0.7**	0.8
	19.5	19.2

Deferred programme production stock represents original costs of production which are deferred and recognised against future revenue streams expected to be generated in the secondary sales market.

Deferred programme production stock is classified as a current asset even though it will be realised into cash over several years due to the homogeneous nature of the inventory which would result in an arbitrary split between the current and non current categories and to be consistent with practice elsewhere in the industry. It is anticipated that £1.1m is likely to be realised within 12 months.

At 31 December 2016, the net present value (NPV) of the future sales, estimated over a maximum period of 10 years, was £18.4m (2015: £18.0m), with the net book value of £14.8m representing 80% (2015: 82%) of the future sales. Revenues in 2017 are expected to be £1.7m.

The sensitivities regarding the principal assumptions used to measure the deferred production costs are set out below:

Assumption	Change in assumption	Impact on NPV
Discount rate	Increase/decrease by 0.25%	Decrease/increase by £0.2m
Rate of price inflation (RPI)	Increase/decrease by 0.25%	Increase/decrease by £0.1m
Sales	Increase/decrease by 10.00%	Increase/decrease by £1.1m

20. Trade and other receivables

	Group				Company			
	Current		Non-current		Current		Non-current	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Trade receivables	**14.7**	12.3	**–**	–	**–**	–	**–**	–
Amounts owed by Group undertakings	**–**	–	**–**	–	**75.7**	72.3	**153.7**	141.0
Prepayments and accrued income	**7.9**	8.1	**–**	–	**1.0**	0.8	**–**	–
Other receivables	**0.2**	1.7	**5.9**	–	**–**	–	**–**	–
	22.8	22.1	**5.9**	–	**76.7**	73.1	**153.7**	141.0

As of 31 December 2016, trade receivables of £1.5m (2015: £0.8m) are past due. These are net of a provision for bad debts of £nil (2015: £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:

	2016		2015	
	Gross £m	**Provision £m**	Gross £m	Provision £m
Up to 3 months	**14.7**	**–**	12.3	–

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

Group trade and other receivables of £5.9m (2015: £nil), included within non-current assets, relates to debt due to ELM (the lottery management company) from the Scottish Children's Lottery and will be recovered from 2018 onwards.

A loan to a subsidiary undertaking of £80.0m (2015: £80.0m) is included within the Company amounts owed by Group undertakings. All remaining amounts owed by Group undertakings are unsecured, interest free and have no fixed date of repayment.

Notes to the financial statements

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21. Cash and cash equivalents

	2016 £m	2015 £m
Cash and cash equivalents	**13.3**	13.7

22. Trade and other payables

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Current				
Trade payables	**4.0**	5.1	**–**	–
Accrued expenses and deferred income	**11.1**	9.9	**0.1**	0.1
Amounts owed to Group undertakings	**–**	–	**40.9**	27.9
Bank overdraft	**–**	–	**4.7**	4.6
Social security and other taxes	**2.8**	3.3	**–**	–
	17.9	18.3	**45.7**	32.6
Non-current				
Derivative financial instruments (note 4)	**0.1**	0.1	**–**	–

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

23. Borrowings

	2016 £m	2015 £m
Bank loans	**39.7**	39.4

The borrowings are repayable as follows:

	2016 £m	2015 £m
Expiring in 2 to 5 years	**39.7**	39.4

All undrawn committed borrowing facilities are repayable within 2 to 5 years (2015: 2 to 5 years).

The amount of bank loans is net of £0.3m unamortised borrowing costs (2015: £0.6m).

The effective interest rates were as follows:

	2016 %	2015 %
Bank loans (floating)	**2.0**	2.0

At 31 December 2016, the Group had revolving credit and overdraft bank facilities in place totalling £60.0m (£60.0m at 31 December 2015). At 31 December 2016, £40.0m of the facility was drawn down.

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 (2015: £15.0m). The notional principal amount of the outstanding interest rate swap contracts at 31 December 2016 was £15.0m (2015: £15.0m). A fair value on the interest rate swaps of £0.1m (2015: £0.1m) has been recognised at 31 December 2016.

24. Deferred tax

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

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	Restated* 2015 £m
Deferred tax asset:				
Deferred tax to be recovered after more than one year	**(19.4)**	(8.2)	**(5.6)**	(2.8)
Deferred tax to be recovered within one year	**(2.2)**	(1.4)	**(1.5)**	–
	(21.6)	(9.6)	**(7.1)**	(2.8)
Net deferred tax asset	**(21.6)**	(9.6)	**(7.1)**	(2.8)
Deferred tax asset not recognised	**(2.1)**	(2.2)	**–**	–

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 £2.1m (2015: £2.2m) 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:

	Group					Company		
	Tax trading losses £m	Other temporary differences £m	Accelerated tax depreciation £m	Retirement benefit obligations £m	Total £m	Tax trading losses £m	Retirement benefit obligations £m	Total £m
At 1 January 2016	(5.4)	(1.4)	(1.3)	(1.5)	(9.6)	(1.4)	–	(1.4)
Pension transferred from fellow subsidiary undertaking	–	–	–	–	–	–	(1.4)	(1.4)
At 1 January 2016 restated*	(5.4)	(1.4)	(1.3)	(1.5)	(9.6)	(1.4)	(1.4)	(2.8)
Charge/(credit) to income	1.2	0.4	(0.2)	1.3	2.7	1.1	0.9	2.0
Charge/(credit) to equity	–	0.3	–	(15.1)	(14.8)	–	(6.3)	(6.3)
At 31 December 2016	**(4.2)**	**(0.7)**	**(1.5)**	**(15.3)**	**(21.7)**	**(0.3)**	**(6.8)**	**(7.1)**

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (No.2) on 26 October 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017. Finance Act 2016, which was substantively enacted on 6 September 2016, includes legislation reducing the main rate of UK corporation tax to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

* Refer to note 6 for more information.

Notes to the financial statements

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25. Provisions

	Onerous lease provisions 2016 £m	Onerous lease provisions 2015 £m
At 1 January	**0.8**	1.0
Utilised during the year	**(0.3)**	(0.2)
At 31 December	**0.5**	0.8
The provisions are expected to be utilised:		
Within one year	**0.2**	0.3
Greater than one year	**0.3**	0.5
	0.5	0.8

26. Share capital and premium

	Number of shares (thousands)	Ordinary shares £m	Share premium £m	Total £m
At 1 January 2016	39,298	19.6	101.8	121.4
Issued during the year	250	0.2	–	0.2
Value of employee services	–	–	0.1	0.1
At 31 December 2016	**39,548**	**19.8**	**101.9**	**121.7**

The total authorised number of ordinary shares is 63 million shares (2015: 63 million shares) with a par value of £0.50 per share (2015: £0.50 per share). All issued shares are fully paid.

During the year 250,000 shares (2015: nil) were issued to the Employee Benefit Trust.

27. Notes to the parent and consolidated statement of cash flows

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Operating profit/(loss)	**16.9**	11.5	**(0.9)**	(1.6)
Adjustments for:				
Depreciation (note 17)	**2.0**	2.2	**–**	–
Amortisation (note 16)	**0.4**	0.3	**–**	–
Goodwill impairment charge (note 15)	**2.8**	5.1	**–**	–
Investment write-down	**–**	1.0	**–**	1.0
Fixed/intangible asset write down	**–**	1.0	**–**	–
Management incentive plan	**–**	1.7	**–**	–
EBITDA	**22.1**	22.8	**(0.9)**	(0.6)
Past service cost – pension	**–**	(0.7)	**–**	–
Share based payment	**0.3**	0.3	**0.3**	0.3
	22.4	22.4	**(0.6)**	(0.3)
Increase in inventories	**(0.3)**	(0.9)	**–**	–
(Increase)/decrease in trade and other receivables (excluding ELM)	**(0.7)**	1.0	**(0.2)**	0.2
Decrease in trade and other payables (excluding ELM)	**(0.1)**	(2.5)	**–**	0.1
Increase in ELM trade and other receivables	**(5.9)**	–	**–**	–
Increase in ELM trade and other payables	**0.5**	–	**–**	–
Increase in intra Group balances	**–**	–	**10.2**	5.6
Cash generated by operations	**15.9**	20.0	**9.4**	5.6

Group analysis of movements in net debt	At 1 January 2016 £m	Cash flow £m	Non-cash movements £m	At 31 December 2016 £m
Cash and cash equivalents (note 21)	13.7	(0.4)	–	**13.3**
Bank borrowings (note 23)	(39.4)	–	(0.3)	**(39.7)**
Net debt	(25.7)	(0.4)	(0.3)	**(26.4)**

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

Covenant EBITDA reconciliation

Statutory results are adjusted below for the net debt : EBITDA ratio on a covenant basis. They are adjusted to reflect the underlying performance of the business, providing a more meaningful comparison of how the business is managed and measured on a day-to-day basis.

	2016 £m	2015 £m
Operating profit	**19.7**	20.3
Depreciation and amortisation	**2.4**	2.5
Post employment benefit changes	**2.6**	2.3
Non-cash and other adjustments	**1.5**	1.3
	26.2	26.4

28. Operating lease commitments

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

	2016 £m	2015 £m
Within one year	**1.6**	1.7
Between two and five years	**5.4**	5.9
After five years	**5.2**	6.3
	12.2	13.9

29. Transactions with related parties

During the year £3,700 (2015: £1,700) income was received from related parties and a balance of £1,110 was owed by related parties at 31 December 2016 (31 December 2015: £1,110). 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:

	2016 £m	2015 £m
Short-term employee benefits*	**1.6**	3.8

* See Remuneration Report pages 61 to 62 for details.

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

Notes to the financial statements

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30. 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 £1.5m (2015: £1.1m).

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.

Defined benefit pension deficit

Group

The net pension deficit at 31 December 2016 was £88.8m (2015: £7.8m).

Company

The net pension deficit was £39.2m (2015: £7.6m).

The net assets and liabilities of the schemes are recognised in the consolidated balance sheet and shown within non-current liabilities. The totals recognised in the current and previous years are:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	Restated* 2015 £m
Total defined benefit scheme obligations	**(448.2)**	(320.9)	**(186.6)**	(134.8)
Total defined benefit scheme assets	**359.4**	313.1	**147.4**	127.2
Net pension deficit	**(88.8)**	(7.8)	**(39.2)**	(7.6)

A related offsetting deferred tax credit for the Group of £15.3m (2015: £1.5m) and the Company of £6.3m (2015: £1.4m) is included under non-current assets. Therefore the net pension scheme deficit for the Group amounts to £73.5m at 31 December 2016 (£6.3m at 31 December 2015) and the Company amounts to £32.9m (2015: £6.2m).

Total defined benefit scheme obligations

The movement in the present value of the defined benefit obligation is analysed below:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	Restated* 2015 £m
Defined benefit obligation at 1 January/on transfer	**320.9**	336.2	**134.8**	140.3
Current service cost	**0.1**	0.4	**–**	–
Past service cost	**–**	(0.7)	**–**	0.6
Interest cost	**12.1**	11.7	**5.1**	4.9
Contributions from plan participants	**–**	0.1	**–**	–
Remeasurement losses/(gains)	**135.8**	(6.5)	**55.9**	(2.5)
Benefits paid from plan	**(20.7)**	(20.3)	**(9.2)**	(8.5)
Defined benefit obligation at 31 December	**448.2**	320.9	**186.6**	134.8

* Refer to note 6 for more information.

Assumptions used to estimate the scheme obligations

The 1 January 2015 valuation has been updated to 31 December 2016 by a qualified independent actuary and reflect recent market movements in corporate bond yields and inflation. The major assumptions used by the actuary were:

	Group		Company	
	2016	2015	**2016**	2015
Rate of increase in salaries	**nil%**	nil%	**nil%**	nil%
Rate of increase of pensions in payment	**3.30%**	2.90%	**3.30%**	2.90%
Discount rate	**2.80%**	3.90%	**2.80%**	3.90%
Rate of price inflation (RPI)	**3.30%**	2.90%	**3.30%**	2.90%

In 2015, benefits to members were reduced, including a decrease in pensionable salary increases to £nil. The total impact was an actuarial gain of £1.7m (Group). In addition, a further communication with pensioner members on the option of a Pension Increase exchange was undertaken in 2015. This had a positive impact on liabilities on a technical provisions basis but resulted in an IAS19 actuarial loss of £1.0m (Group) and £0.6m (Company). The two items together resulted in a Group net past service gain of £0.7m and Company net past service loss of £0.6m.

Assumptions regarding future mortality experience are set based on advice, published statistics and experience in each scheme and are reflected in the table below (average life expectations of a pensioner retiring at age 65). As part of the 1 January 2015 valuation process, a detailed research project on the health of approximately 40% of the two schemes' pensioners was undertaken. The outcomes of this study have been reflected in an update of the mortality assumptions and has resulted in an average increase in male pensioner longevity, the category which accounts for the largest element of the schemes' liabilities, of approximately 3.6 years and a deficit increase of £55.9m.

	Group		Company	
	2016 Years	2015 Years	**2016 Years**	2015 Years
Retiring at balance sheet date:				
Male	**19.1**	15.5	**18.8**	14.7
Female	**21.4**	18.1	**21.1**	17.3
Retiring in 25 years:				
Male	**20.8**	18.7	**20.3**	17.4
Female	**22.7**	21.5	**22.9**	20.2

The sensitivities regarding the principal assumptions used to measure the defined benefit obligation are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Group		
Discount rate	Increase/decrease by 0.25%	Decrease/increase by 4%
Rate of price inflation (RPI)	Increase/decrease by 0.25%	Increase/decrease by 2%
Rate of mortality	Decrease by 1 year	Decrease by 5%
Company		
Discount rate	Increase/decrease by 0.25%	Decrease/increase by 3%
Rate of price inflation (RPI)	Increase/decrease by 0.25%	Increase/decrease by 1%
Rate of mortality	Decrease by 1 year	Decrease by 4%

The analysis above 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.

Notes to the financial statements

continued

Total defined benefit scheme assets

The movement in the fair value of the defined benefit scheme's assets is analysed below:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	Restated* 2015 £m
Fair value of scheme assets at 1 January/on transfer	**313.1**	321.3	**127.2**	128.6
Interest income	**12.1**	11.4	**5.0**	4.6
Return on plan assets excluding interest income	**47.1**	(7.0)	**18.9**	(2.6)
Contributions from the employer	**9.2**	9.3	**5.9**	6.0
Administrative expenses paid from plan assets	**(1.4)**	(1.7)	**(0.4)**	(0.9)
Contributions from plan participants	**–**	0.1	**–**	–
Benefits paid from plan	**(20.7)**	(20.3)	**(9.2)**	(8.5)
Fair value of scheme assets at 31 December	**359.4**	313.1	**147.4**	127.2

Scheme assets

At 31 December 2016 the Scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. The fair value of the Scheme's assets are shown below:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Cash and cash equivalents	**29.4**	0.7	**11.2**	0.2
Equity instruments	**–**	155.0	**–**	63.0
Debt instruments	**103.9**	136.5	**42.8**	54.7
Investment funds	**40.3**	–	**17.3**	–
Real estate	**–**	20.9	**–**	9.3
Total quoted assets	**173.6**	313.1	**71.3**	127.2
Cash and cash equivalents	**–**	–	**–**	–
Equity instruments	**–**	–	**–**	–
Debt instruments	**–**	–	**–**	–
Investment funds	**181.6**	–	**74.6**	–
Derivatives	**4.2**	–	**1.5**	–
Total unquoted assets	**185.8**	–	**76.1**	–
Total scheme assets	**359.4**	313.1	**147.4**	127.2

A process to review and change the defined benefit schemes' investment manager and introduce fiduciary management was started in 2015 and completed and implemented during 2016. The result has been a significant reduction in the schemes risk profile, with the 20 year Value at Risk measure halving to approximately £60.0m.

Amounts recognised through the income statement:
Amounts recognised through the income statement are as follows:

	2016 £m	2015 £m
Amount charged to net operating expenses:		
Current service cost – defined benefit	(2.0)	(2.1)
Past service cost – defined benefit	–	0.7
	(2.0)	(1.4)
Amount charged to finance costs:		
Net interest expense	–	(0.5)
Total charged in the consolidated income statement	(2.0)	(1.9)

Amounts recognised through the statement of comprehensive income:
The amounts recognised through the consolidated statement of comprehensive income are:

	2016 £m	2015 £m
Remeasurement (losses)/gains:		
Return on plan assets excluding interest income	47.1	(7.0)
Actuarial (losses)/gains on liabilities arising from change in:		
– demographic assumptions	(55.9)	(4.8)
– financial assumptions	(62.0)	11.2
– experience adjustments	(17.9)	–
Total recognised in the consolidated statement of comprehensive income	(88.7)	(0.6)

Funding arrangements
Contribution rates to the scheme are determined by a qualified independent actuary on the basis of triennial valuation using the projected unit method. The most recent triennial valuation was carried out as at 1 January 2015. This valuation resulted in a deficit of £129.9m on a pre tax basis at 30 November 2016 compared to £83.0m on a pre tax basis at the previous settlement date of 31 March 2014. This differential is principally due to a decrease in gilt yields during this period. The next triennial valuation will take place as at 1 January 2018.

Following the valuation, an 11 year recovery plan has been agreed with monthly payments commencing in January 2017. The 2017 payment will total £8.6m with annual payments increasing at the rate of 2% per annum over the term of the plan. Additionally, in the event of outperformance against the Group's sensitised net cash flow, contingent payments equivalent to 20% of any outperformance above a benchmark of available cash will be paid to the schemes. Sensitised forecast net cash flow is defined as cash flow pre-pension deficit funding payments and returns to shareholders.

The estimated total employer contributions in 2017 are £10.0m (2015: £9.3m) which reflects the deficit funding payments described above.

The weighted average duration of the Plan's defined benefit obligation is approximately 15 years.

Notes to the financial statements

continued

31. Share-based compensation

The purpose of the share-based compensation plans is to align the interests of management and employees with those of shareholders by providing incentives to improve the Company's performance on a long-term basis, thereby increasing shareholder value.

The Company has the following plans currently operating:

i) Long-term incentive plans (LTIP)
ii) Employee share plans

In previous years, a Value Creation Plan (VCP) was in operation with the plan maturing at the 2015 year end.

Share-based compensation costs were £0.3m (2015: £0.3m).

i) Long-term incentive plans

The Group has a long-term incentive plan for Executive Directors and other senior executives. Awards are granted normally in the form of a right to acquire shares in the Company for a zero or nominal amount. Awards vest over a period of at least three years, subject to the satisfaction of performance conditions.

The performance measures are agreed by the Remuneration Committee based on which they consider to be aligned with the delivery of strategy and long term shareholder value. 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. The performance measures are based on a combination of earnings growth and total shareholder return and are valued based on Monte-Carlo simulation.

The assumptions used in Monte-Carlo simulation for the 2016 LTIP valuation are:

	%
Risk-free interest rate	0.44
Expected dividend yield	2.20
Expected share price volatility	25.00

Granted awards under the Company's long term incentive plan that were outstanding at the end of the year had the following market prices at the date of award:

Year awarded	Market price on grant date Pence	2016 Number	2015 Number
2013 VCP	1.00	470,205	1,164,028
2014 LTIP	3.40	150,705	150,705
2015 LTIP	4.25	159,865	159,865
2016 LTIP	3.67	155,814	–

ii) Employee share plans

The employee share plans are open to all employees. They provide for a grant price approximately equal to 90% of the middle market quotation of a share on the dealing day last preceding the relevant date of invitation as derived from the London Stock Exchange daily office list and can be purchased once a year. There are currently 3 employee share plans outstanding and the exercise prices for options under these plans range from £3.34 to £4.02. At 31 December 2016 there were 461,463 (2015: 512,899) options outstanding under the plans. The employee share plans are valued using the Black and Scholes model.

Five year summary

For the year ended 31 December 2016

	Restated* 2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
			IFRS		
Results					
Revenue	102.7	112.1	120.4	116.5	**120.4**
Profit from operations before exceptional items	17.1	18.0	19.5	20.3	**19.7**
Profit on ordinary activities before taxation and exceptional items	11.7	14.3	17.3	18.6	**18.5**
Assets					
Non-current assets	28.2	22.6	26.9	22.3	**38.4**
Current assets	41.9	47.8	61.2	55.0	**55.6**
Total assets	70.1	70.4	88.1	77.3	**94.0**
Equity and liabilities					
Current liabilities	22.5	62.0	19.7	18.6	**18.1**
Non-current liabilities	68.5	0.8	64.9	47.8	**128.9**
Equity	(20.9)	7.6	3.5	10.9	**(53.0)**
Total equity and liabilities	70.1	70.4	88.1	77.3	**94.0**
Key statistics					
Earnings per ordinary share* – basic	13.0p	32.2p	38.7p	29.8p	**32.5p**
– diluted	12.5p	31.2p	37.6p	29.0p	**31.9p**
Dividends per ordinary share	–	2.0p	8.0p	10.0p	**15.0p**

* 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
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Tel: 0871 664 0300*
Tel: (overseas) +44 371 664 0300
Fax: +44 (0) 1484 601 512
Email: shareholderenquiries@capita.co.uk
Website: www.capitashareportal.com

Independent auditors
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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 LLP
120 Bothwell Street
Glasgow G2 7JL

Principal bankers
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2 Triton Square
Regent's Place
London NW1 3AN

Stockbrokers
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Moor House
120 London Wall
London EC2Y 5ET

Panmure Gordon & Co
One New Change
London
EC4M 9AF

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

Company registration number
SC203873

Annual Report on internet
The 2016 Annual Report of STV Group plc including the financial statements is available at: www.stvplc.tv

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

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

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

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

Dividend Reinvestment Plan
STV Group plc operates a Dividend Reinvestment Plan to provide United Kingdom shareholders with a facility to invest cash dividends by purchasing further STV Group plc shares. Further details are available from the Registrar on: 0371 664 0381.**

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

Capita share dealing services
Capita offer a quick and easy share dealing service to buy or sell STV Group plc shares. An online telephone dealing facility is available providing STV Group plc shareholders with an easy to access and simple to use service. There is no need to pre-register and there are no complicated forms to fill in. The online and telephone dealing services allow you to trade 'real time' at a known price which will be given to you at the time you give your instruction. For further information on this service, or to buy and sell shares, please contact: www.capitadeal.com (online dealing); 0371 664 0445*** (telephone dealing).

* Calls cost 12p per minute plus your phone company's access charge. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9am-5:30pm, Monday to Friday excluding public holidays in England and Wales.

** Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9am-5:30pm, Monday to Friday excluding public holidays in England and Wales.

*** Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open between 8am-4:30pm, Monday to Friday excluding public holidays in England and Wales.

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 Tuesday 25 April 2017 at 11 am for the purpose of considering and, if thought fit, passing the resolutions below.

Resolutions 1 to 10 (inclusive) will be proposed as ordinary resolutions and Resolutions 11 to 14 (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 2016 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 in the form set out on pages 55 to 67 of the Annual Report and Accounts for the financial year ended 31 December 2016.

   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 declare a final dividend of 11.0p per ordinary share for the year ended 31 December 2016.

   The Board proposes a final dividend of 11.0p per ordinary share for the year ended 31 December 2016 which, if approved, will be paid on 19 May 2017 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 18 April 2017.

4. To elect Simon Miller as a Director of the Company, having been appointed since the last Annual General Meeting.

   Simon Miller is standing for election following his appointment as a Non-Executive Director on 2 December 2016. 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 Simon Miller can be found on page 41 and the Board confirms that he meets the independence criteria as set out in B.1.1 of the UK Corporate Governance Code.

Resolutions 5 to 7
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.

5. To re-elect Rob Woodward as a Director of the Company.

   Biographical details of Rob Woodward can be found on page 40 and following formal performance evaluation, Mr Woodward's performance continues to be effective and to demonstrate commitment to the role.

6. To re-elect Christian Woolfenden as a Director of the Company.

   Biographical details of Christian Woolfenden can be found on page 41 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 Woolfenden's performance continues to be effective and to demonstrate commitment to the role.

7. To re-elect Anne Marie Cannon as a Director of the Company.

   Biographical details of Anne Marie Cannon can be found on page 41 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 Cannon's performance continues to be effective and to demonstrate commitment to the role.

8. 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.

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

10. 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 £6,591,371; and

    (b) up to an aggregate nominal amount of £6,591,371 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 in both cases 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.

Notice of Annual General Meeting

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 (13,182,743 being shares representing one third of the ordinary issued share capital of the Company as at 13 March 2017, 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 (13,182,743 being shares representing one third of the ordinary issued share capital of the Company as at 13 March 2017, 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 2018. 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.

Special resolutions

11. That subject to the passing of Resolution 10, 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 10 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 10 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; and

    (b) the allotment of equity securities (otherwise than pursuant to paragraph (a) above) having a nominal value not exceeding in the aggregate £988,705,

    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 renews a similar power granted at last year's annual general meeting to grant authority to the Directors to allot a limited number of ordinary shares other than to existing shareholders in proportion to their existing shareholdings.

    The power to be granted by this resolution will be limited, otherwise than in connection with a rights issue or similar pre-emptive issue, to 1,977,411 ordinary shares, representing 5% of the ordinary issued share capital of the Company as at 13 March 2017.

    It also allows the Directors to allot shares up to a nominal amount of £13,182,743 (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 £6,591,371 (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 2018. 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 whether pursuant to this resolution or Resolution 12.

12. That subject to the passing of Resolution 10 and in addition to any authority granted under Resolution 11, 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 10 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 having a nominal value not exceeding in the aggregate £988,705; and

    (b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights (the 'Statement') most recently published by the Pre-Emption Group prior to the date of this notice,

    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.

    The power to be granted by this resolution will be limited to 1,977,411 ordinary shares, representing 5% of the ordinary issued share capital of the Company as at 13 March 2017 and the Board confirms that ordinary shares will not be allotted pursuant to this resolution other than in connection with an acquisition or specified capital investment of the type referred to in the Statement.

13. 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 3,954,823 Shares, the aggregate nominal value of which is £1,977,411;

    (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); and

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

    This resolution seeks the authority of shareholders to allow the Company to purchase its own shares. The authority sought extends to 3,954,823 Shares, representing 10% of the ordinary share capital of the Company in issue as at 13 March 2017. 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.

Notice of Annual General Meeting

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 13 March 2017 warrants and options to subscribe for 1,239,193 ordinary shares in the capital of the Company were outstanding, representing 3.13% of the Company's issued ordinary share capital as at 13 March 2017 (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 3.48% of the issued ordinary share capital of the Company (excluding treasury shares held by the Company).

14. 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.

By order of the Board

Jane E A Tames
Company Secretary

STV Group plc
Pacific Quay
Glasgow G51 1PQ

13 March 2017

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

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 (Calls cost 12p per minute plus your phone company's access charge. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9am-5:30pm, Monday to Friday excluding public holidays in England and Wales). Alternatively, you may appoint a proxy electronically at 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 23 April 2017 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 23 April 2017 (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.

9. As at 13 March 2017 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 39,548,231 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 13 March 2017 are 39,548,231.

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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). 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 23 April 2017 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 (Calls cost 12p per minute plus your phone company's access charge. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9am-5:30pm, Monday to Friday excluding public holidays in England and Wales). 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 4ZF. 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

In either case, the revocation notice must be received by Capita Asset Services no later than 8am on 25 April 2017 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:

    (i) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;

    (ii) the answer has already been given on a website in the form of an answer to a question; or

    (iii) 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 it:

    (i) would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise);

    (ii) is defamatory of any person; or

    (iii) 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

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 it:

    (i) is defamatory of any person or

    (ii) 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 six 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 (calls cost 12p per minute plus your phone company's access charge. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9am-5:30pm, Monday to Friday excluding public holidays in England and Wales).

    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.

Designed and produced by Thunderbolt Projects

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Company Registration Number SC203873

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