



Annual Report and Accounts 2017

Contents

- 01** 2017 financial and operational highlights

Strategic Report

- 02** The STV Family
04 Chairman's statement
06 Operating review
 - Group
 - Consumer
 - Showcase of STV content
 - Productions
 - STV External Lottery Manager**22** Corporate responsibility
29 STV Children's Appeal 2017
32 Performance review
34 Principal risks and uncertainties
36 Risk management

Governance

- 39** Introduction to governance
40 Board of Directors
42 Corporate governance report
55 Remuneration report
72 Directors' report

Financial Statements

- 76** STV Group plc consolidated financial statements – independent auditors' report
82 Consolidated income statement
82 Consolidated statement of comprehensive income
83 Consolidated and parent company balance sheets
84 Consolidated and parent company statement of changes in equity
85 Consolidated and parent company statement of cash flows
86 Notes to the financial statements
113 Five year summary

Additional Information

- 114** Shareholder information
116 Notice of Annual General Meeting

STV is Scotland's leading digital media brand, providing consumers with quality content on air, online and on demand.

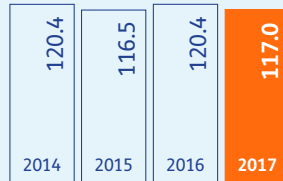


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2017 financial and operational highlights

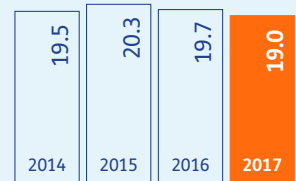
Turnover (£ millions)

-3%



Operating profit* (£ millions)

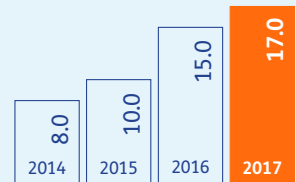
-4%



STV reaches
3.5m
viewers each month
on channel 3

Dividends per share (pence)

+13%

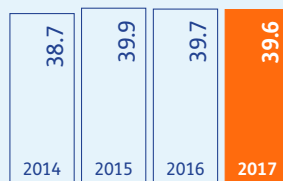


STV2 launches as
Scotland's newest channel

+37%
in streams on
the STV Player

EPS* (pence)

Flat



STV Children's Appeal
raises over £2.6m



* Pre-exceptionals and IAS 19. See Note 30.

The STV Family

UNRIVALLED CONNECTION WITH CONSUMERS, REACHING 80% OF SCOTS EVERY MONTH

ON AIR



STV audience share continues to track above ITV Network

0.6

share points ahead of Network in peak-time

46/50

of Scotland's top commercial programmes shown on STV



STV2 regularly attracts more viewers than many long-established non-terrestrial channels

57%

reach of STV2 since launch

Top 30

non-PSB digital channel

STV delivers high quality content on air, online and on demand for consumers to access free of charge, via multiple platforms wherever and whenever they want.

ONLINE



stv.tv

Building audiences by delivering content online and on social media channels

3.7m
unique monthly browsers

20%
increase in article views

ON DEMAND



STV Player

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

37%
growth in streams

43 mins
average time spent on STV Player

Chairman's statement

Baroness Margaret Ford



2017 was a landmark year for the Company marking its sixtieth anniversary, and we celebrated the fact that STV is as relevant, trusted and iconic a brand and a presence in Scottish life as at any time over the past six decades.

It is a marker of the resilience and strength of commercial free to air television that in this anniversary year, the reach and impact of STV is unrivalled and we continue to deliver the largest mass audience for advertisers seeking to connect with Scottish consumers.

Delivering returns to shareholders

When I was appointed Chairman, I stated my intention to deliver value to our shareholders through the introduction of a progressive dividend policy. This decision reflected the Board's confidence in the underlying financial strength of the Company and the resilience of the core business, despite macro-economic uncertainty placing downward pressure on the advertising revenue market during this period.

We have fulfilled this commitment since our return to dividend in 2013. Our policy continues to pay out between 60-80% of cash generation after pension deficit contributions and I am pleased to propose a final ordinary dividend of 12 pence per share. This will result in a total dividend of 17 pence per share, an increase of 13% year on year. In line with this commitment to the long-term delivery of increased shareholder returns, in August we announced the Board's intention to return an additional sum of

£10 million capital to shareholders over a period of up to 18 months. This process commenced in September 2017.

Sustainable growth

The strong capital discipline instilled across the business, along with the business continuing to be cash generative during 2017, has enabled the key net debt:EBITDA ratio target to be maintained in the range of one to one and a half times. This has provided financial flexibility and facilitated the additional return of capital to shareholders to be committed.

Our trading arrangements with ITV have provided a buffer against weakness in the national advertising market and changing macro-economic circumstances. Through these arrangements STV is responsible for the growth components of the STV Family of consumer services and non-broadcast products.

The strong profitable growth trend in our digital activities continued during 2017 as the STV Player was extended on to new platforms, increasing accessibility and availability of our content.

Investing in our connections with audiences

In the year that marked a significant anniversary of STV's longevity, a newly created channel was launched. STV2, Scotland's newest and most innovative television channel has been formed through the integration of the five local television (L-DTPS) licences won by STV. STV2 has brought together city-focused television services, initially established for Glasgow and Edinburgh, with those subsequently enabled for Aberdeen, Dundee and Ayr, into a single networked service with a unitary schedule.

We will engage fully with the process being undertaken by Ofcom to assess the impact on our channels, and STV2 in particular, of the proposed BBC Scotland channel.

STV Productions

STV Productions has secured several new commissions during 2017, including the first drama commission for delivery to the BBC.

The strategy for the business continues to be the growth of a Scottish based production company of scale delivering content to UK and international broadcasters. We support the increased focus of commissioners on ensuring that their schedules represent regional and societal diversity, and we welcome increased commissioning spend being committed to content producers located in the nations and regions of the UK who are in a strong position to deliver on this brief.

Board changes

A significant chapter in the Company's more recent history was brought to a close as Rob Woodward stepped down at the end of 2017 after serving over 10 years as Chief Executive Officer.

Having served on the Board as Senior Independent Director for 10 years, David Shearer also stepped down from the Board at the AGM in April.

I would like to thank them both for their outstanding contribution to the success of the Company and wish them both continued success in the future.

I was delighted to announce the appointment of Simon Pitts as successor to Rob Woodward. Simon took up his role in January 2018.

Simon Miller, who joined the Board during 2016, has been appointed as Senior Independent Director.

On behalf of the Board, I would like to thank all colleagues across the business for their contributions during 2017. Their energy, drive, creativity and passion to create and produce great content and serve and delight our audiences and consumers is highly valued.

Looking ahead, my Board colleagues and I are looking forward to supporting Simon Pitts as he develops and implements the strategy and plan to take the Company forward and deliver sustainable returns to shareholders.

Thank you for your continued support.



Baroness Margaret Ford
Chairman

STV 60th Anniversary

STV launched on 31st August 1957. Reflecting the fact that Scotland has seen major changes over the past 60 years, STV has come a long way too – growing from a small TV company to a 21st century broadcaster which is now Scotland's leading digital media brand.

STV's diamond anniversary and unique contribution to broadcasting in Scotland was celebrated and commemorated with 1957-style vintage promos and a series of programme highlights.



At a time when STV is very much focused on the future of broadcasting in Scotland, it's great to pause for a moment to reflect on the 60 years that have taken us to where we are and the cultural and social impact of STV on Scottish life.

Operating review – Group

RESILIENT PERFORMANCE; INCREASED RETURNS TO SHAREHOLDERS

During 2017 STV continued to focus on consolidating its position as Scotland's leading digital media business and delivering returns to shareholders.

The de-risking of the business through the trading arrangements with ITV plc has delivered a resilient performance in an adverse market.

A key strategic priority is to diversify our earnings and reduce the broadcast-based percentage to provide a more broadly based revenue stream. In 2017 we continued to build on previous years' progress to achieve a 28% non-broadcast earnings share, up 5 percentage points on the previous year.

Our consumer division margin continued to improve, increasing to 18.7% despite a 7% decline in national advertising revenues.

Key to the development of successful consumer services is our understanding of the demographics, habits and preferences of consumers. We are well on the way to meeting our 2018 consumer insights KPI and expect to exceed this – supported by the considerable data capturing assets at our disposal, including the STV Player and Scottish Children's Lottery.

To meet our 2018 targets, we continued to focus on extending our consumer reach – or monthly average audience in millions – across each of our services and on increasing consumer engagement; the average length of time users interact with our services.

Our digital business continued to deliver profitable growth, with revenues up 14% and a margin of 55%. Demand for catch-up streams on the STV Player was up 37%.

The peak time audience share achieved during 2017 continued to strengthen, tracking 0.6 share points ahead of the ITV Network.

Non-broadcast earnings share

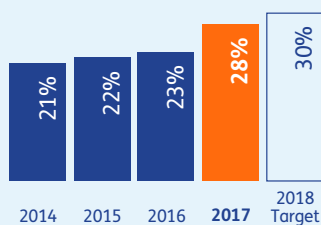
(%)

Why it's important

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

How we measure it

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



AN ICONIC BRAND AT THE HEART OF SCOTLAND

60th anniversary

2017 was a special year for STV as we celebrated our diamond anniversary at the end of August. It was on 31st August 1957 that the distinctive voice of the inimitable James Robertson Justice introduced the channel's launch programme – *This Is Scotland* – a special variety show broadcast live from Glasgow's Theatre Royal. Since that very first programme, STV has entertained and informed generations of Scots, documenting the nation's news and landmark developments through each of the decades and creating memorable television moments across all genres.

Our anniversary provided an opportunity to look back on the channel's development from a small TV company to a 21st century broadcaster which is now Scotland's leading digital media brand.

We commemorated our unique contribution to broadcasting in Scotland with a series of programming highlights. A special edition of popular series *The People's History Show* looked back at some of the shows that have delighted viewers through the years, such as *Weir's Way*, *Scotsport*, *Rebus* and *Take the High Road*, and STV2 broadcast a range of archive highlights including *Taggart*, *Reid about Russia* and *The Steamie*.

To tie in with our commemorative programming, we saw out our special anniversary year with a unique New Year's Eve show, the *Thingummyjig Hogmanay Ceilidh*, which paid homage to one of the most-watched entertainment programmes of the 1970s and 80s. Filmed at St Andrews in the Square in Glasgow and featuring a host of well-known STV faces from both past and present, the show generated considerable positive feedback from viewers.

CELEBRATING
60
YEARS
1957 - 2017

Operating review – Consumer

EXTENDING REACH AND ENGAGEMENT

STV2

It was also a landmark year for the Company as we launched STV2, Scotland's newest and most innovative channel, in April.

STV2 brought together the existing services of the former STV Glasgow and STV Edinburgh channels with the new city licences won for, and serving, Aberdeen, Ayr and Dundee to provide a single local TV network. The channel supports a partnership with colleges and universities across Scotland, providing students with the opportunity to augment their learning in a live broadcast environment.

STV2's distinct schedule features an award-winning soap, international drama, classic films, sports, and entertainment including a 5pm weekday magazine show and a weekly late night chat show.

Underpinning the channel is its strong news focus, with hourly news bulletins and three dedicated half-hour programmes featuring stories from across Scotland at 1pm, 6pm and 10pm. In addition its flagship news programme, *STV News Tonight*, which airs weeknights at 7pm, provides a landmark service combining Scottish, UK and international news from a Scottish perspective.

Consumer division margin

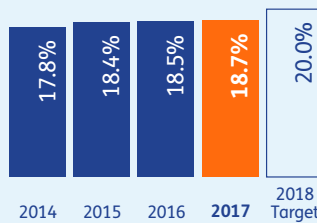
(%)

Why it's important

Margin improvement across the period provides evidence of profitable growth.

How we measure it

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



Consumer insights

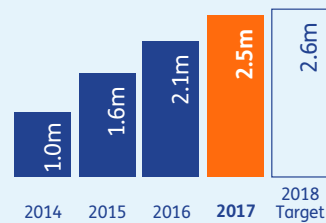
(millions)

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.



Consumer reach

(monthly average millions)

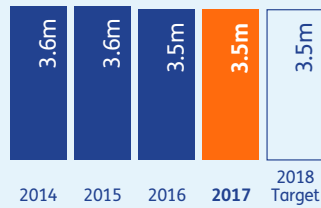
Why it's important

These measurements indicate the breadth of the consumer base of each service in the STV Family.

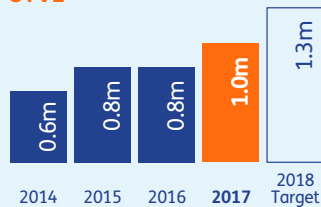
How we measure it

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

STV audience



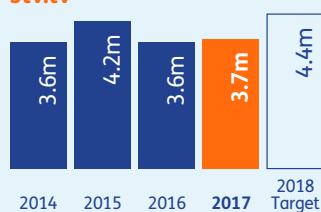
STV2



STV Player



stv.tv



STV2's daily reach is in the top 30 non-terrestrial channels in Scotland and it regularly attracts more viewers than long-established channels including Sky Sports, Comedy Central, Sky Atlantic and Discovery. STV2 offers advertisers a new marketing platform and enhanced opportunities to reach audiences across Scotland.

News and current affairs

Over the course of the year, STV strengthened its position as 'the home of Scottish news', delivering an increased news output across all platforms and, following the launch of STV2, daily bulletins increased from six to 14 to reach 1.6 million viewers across our channels each week.

Scotland Tonight continued to be the most-watched Scottish current affairs programme, providing analysis of the day's headlines, guest interviews, political debate and social media interaction to offer viewers a platform for discussion of the big issues of the day.

On air and online coverage of the 2017 General Election was comprehensive. Continuing STV's strong track record of delivering election debates for viewers in Scotland, a debate was screened prior to the June General Election to give an audience comprising a representative cross-section of the Scottish electorate the opportunity to put their questions to the leaders of the four main political parties. *Scotland Debates* was broadcast live from the Tramway in Glasgow. Live face-to-face interviews with the Scottish party leaders, filmed for STV2, were also shown on *Scotland Tonight*.

STV consolidated its position as 'the home of Scottish news' during 2017 and extended its news output considerably with the launch of STV2 and the channel's *STV News Tonight*.

Operating review – Consumer

Digital margin

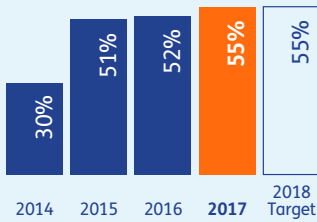
(%)

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

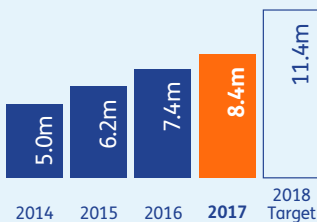
(£ millions)

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 continuing STV Family of services.



The extensive election coverage also included news reports from Holyrood, updates on STV2's *STV News Tonight*, and in-depth analysis on *Scotland Tonight* each weeknight in the run-up to the polls on 8 June. A live overnight results programme was simulcast on STV and STV2. Senior politicians and expert commentators joined the presenters in the studio throughout the night to discuss the results being reported by STV from count centres across Scotland. Working in partnership with ITV News, STV also brought viewers the key developments from all over the UK.

In an STV news first, a series of special *Scotland Tonight* programmes was broadcast live from inside the Scottish Parliament during April.

STV News Tonight

STV2 reflects what is happening across Scotland with a distinct and exciting schedule featuring live events, news and a diverse range of programming including soap, drama, sport and movies.

The STV2 schedule includes hourly news bulletins and three dedicated half-hour news programmes with stories from across Scotland. In addition, STV2's flagship *STV News Tonight* programme offers a landmark service combining Scottish, UK and international news from a Scottish perspective.

STV News Tonight airs weeknights at 7pm.



Consumer engagement

(mins per day, per user)

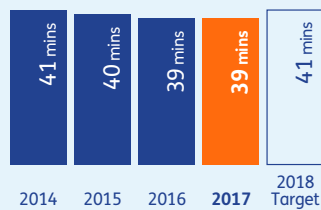
Why it's important

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

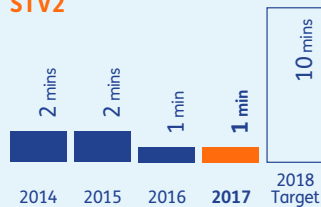
How we measure it

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

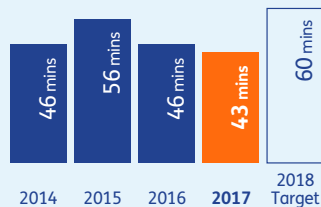
STV audience



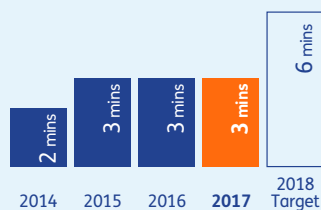
STV2



STV Player



stv.tv



Entertainment, drama and sport

A series of returning entertainment hits – including *The Voice UK*, which began in January following its move from BBC One, *Ant & Dec's Saturday Night Takeaway*, *I'm A Celebrity Get Me Out of Here*, *Britain's Got Talent* and *The X Factor* – helped boost peak time audiences.

In 2017 STV screened its best-watched drama in the last decade – the third series of *Broadchurch*, which reached 1.7million viewers – and other stand-out highlights for the genre included *The Loch*, a Scottish-set drama which outperformed the ITV Network by 6 share points, and psychological thriller *Liar*, which had an audience of 533,000.

STV also aired the best-watched soaps in Scotland – *Coronation Street* and *Emmerdale* – both of which saw a year on year growth in audience of 3% and 0.5% respectively.

Sports highlights also attracted excellent viewing figures. In January, horse racing galloped back to STV and Six Nations Rugby kicked off in February. In April STV's city channels broadcast exclusive coverage of Celtic v Rangers in The Glasgow Cup Final, and in June the World Cup qualifier: Scotland v England reached over 1.3m viewers.

Edinburgh Festival 2017

For the 2017 international event, STV and STV2 featured 43 programmes of dedicated coverage.



Our coverage set out to reflect the Edinburgh Festival the way that audiences experience it, capturing not only the broad spectrum of shows on offer but also the fun and unbeatable atmosphere of this world-famous event.

The market for STV Consumer services

SUPER-SERVING CONSUMERS

As Scotland's leading digital media brand, STV provides quality content – on air, online and on demand – attracting mass audiences to maximise advertising revenue generation.

Engaging with Scotland

- ▶ Delivering content across multiple platforms is key to engaging with our audiences across Scotland
- ▶ In a country where the average person watches over 3 hours and 40 minutes of TV each day, 70% own a smartphone and 56% have a tablet, STV is well-placed to serve consumers with a diverse range of content to access whenever and wherever they want

Maximising reach

- ▶ STV is the most watched commercial channel in Scotland
- ▶ Viewers spend on average 1 hour 42 minutes watching STV every day
- ▶ 60% of the population use at least three STV services each month
- ▶ The STV Player achieved 28 million long form streams in 2017

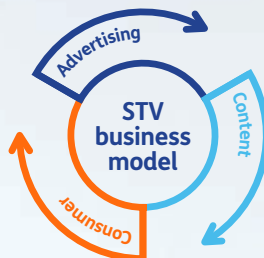
STV Consumer

Delivers unique, high quality content to attract mass audiences which is 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.



Operating review – Consumer

Peak time audience

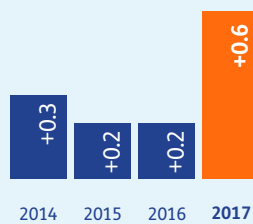
(share points)

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.



STV Player

A key driver of non-broadcast earnings, the STV Player delivered a strong performance during 2017.

Available on a wide range of platforms, from iOS and Android tablets and smartphones to set-top boxes and Smart TVs such as those provided by Youview, Freeview Play and Fire TV, the STV Player offers simulcast and on-demand access to the STV and STV2 schedules.

Long form streams across the year (live and catch-up) on the STV Player totalled 28 million, a 37% growth year on year. Particularly strong results were seen for soaps catch-up streams, with streams of *Coronation Street* alone up 47% driven in part by the screening of an additional episode every week. Demand for drama catch-up streams was also very high, with the top five dramas in 2017 generating a 63% increase year on year.

Live streams continued to increase during 2017. Reaching a total of 6.4 million, these were up by 1.4 million or +29% year on year.

Offering simulcast and on-demand access to the STV and STV2 schedules, the STV Player saw particularly strong performances in 2017.

The People's History Show

The series – which achieves a share above Network on STV and is fronted by presenter and journalist Sarah Mack and historian and adventurer Ashley Cowie – looks back in time to discover the places and people that make up Scotland's shared social history.



The People's History Show digs deep into Scotland's lesser-known past and we've filmed some very inspirational, awe-inspiring and emotional stories featuring the blood, sweat and tears of the people who built our nation.

Showcase of STV content





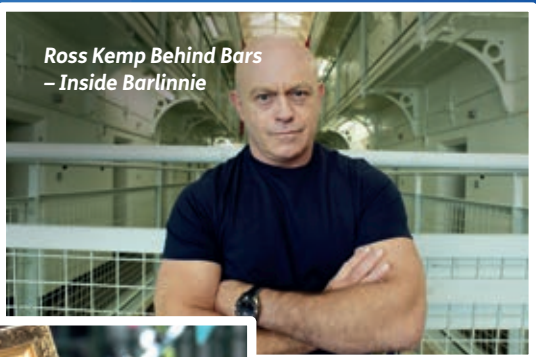
The People's History Show
See page 13



Celebrity Antiques Road Trip
See page 17



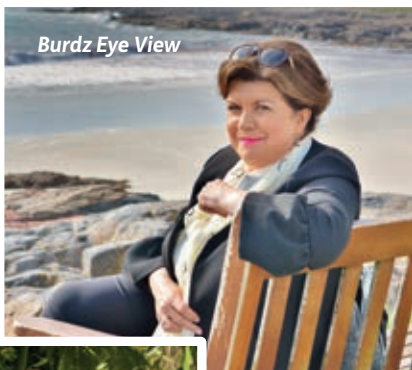
The Dressing Room
See page 19



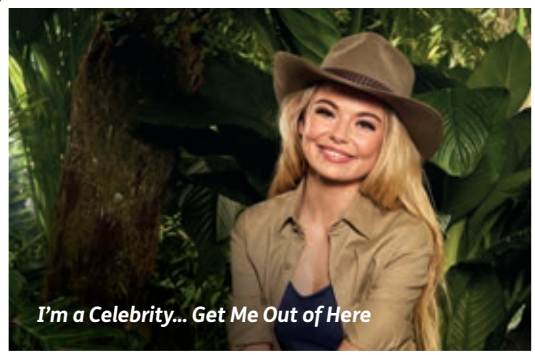
Ross Kemp Behind Bars
– Inside Barlinnie



Edinburgh Festival 2017
See page 11



Burdz Eye View



I'm a Celebrity... Get Me Out of Here



Operating review – Productions

CREATED WITH PASSION, CRAFTED WITH CARE

New commissions and recommissions were secured, including a new drama series for the BBC.

Entertainment

In January ITV Daytime commissioned STV Productions to make 20 episodes of a new high-stakes game show *Babushka*, conceived by Armoza Formats, a key player in the global content market. The show, which aired in May, later received a nomination in the prestigious Rose d'Or Awards, which are organised by the European Broadcasting Union and recognise the very best in international television and online entertainment.

ITV game show *Catchphrase* maintained its hit status during 2017, again demonstrating its success as a returning entertainment format. In October ITV confirmed its commission of a sixth series for broadcast in 2018.

International format deals were secured during 2017 for *The Dressing Room* to be remade in the Netherlands and Norway, and for *SafeWord* to be remade for MTV in the US. Both were original formats co-developed and

co-produced by STV Productions and Motion Content Group – *The Dressing Room* originally produced in the UK for UKTV and *SafeWord* for ITV2.

Towards the end of the year, a new BBC commission for a Saturday night game show, *And They're Off... For Sport Relief*, was confirmed. Production then commenced for the six-part series to start airing on BBC One in January 2018.

Daytime and popular factual

BBC One long-running daytime show *Antiques Road Trip* remained a ratings winner and top performer for both the channel and STV Productions. Series 14, which aired in January, reached over 17 million people across the UK and in August a further four series of the show were commissioned. Series 15-18, comprising ninety 45-minute programmes, are being aired over two years.

The BBC also commissioned a seventh series of the show's celebrity version, *Celebrity Antiques Road Trip*, and the new series of 20 hour-long episodes began airing on BBC Two in mid-November. In December, the commission of an eighth series of the hit show featuring high-profile celebrity antique hunters was confirmed.

Production revenue

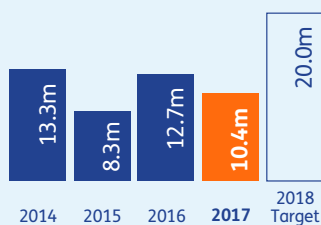
(£ millions)

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.



STV Productions has a record of successes across a range of genres, including drama, entertainment and factual, for a wide range of broadcasters.

Documentaries

During 2017 a raft of new commissions for documentaries was secured.

In January *The Paper Thistle: 200 Years of The Scotsman*, a one-hour programme produced for BBC Scotland, told the fascinating story of one of Britain's most famous newspapers, *The Scotsman*.

In February *Alan Cumming's Edge of Scotland*, sponsored by VisitScotland, was broadcast on STV and a version which aired on NBS in the US won an Emmy Award for Best Lifestyle Programme. The hour-long film saw the Scottish film and TV star reflecting on his experiences as he explored the Outer Hebrides.

Channel 4 commissioned a film following another personal journey of discovery for a famous Scot. *Richard Wilson's Highland Fling* – which featured actor, director and broadcaster Richard Wilson fulfilling a lifelong ambition to tour the Highlands and Islands – aired on More4 in October.

Unique individual insight was also the focus for *My Beatles' Black Album with Charles Hazlewood*. Produced for Sky Arts, this saw the acclaimed British conductor examining the break-up of the greatest pop group in history.

A third series of *Stopping Scotland's Scammers*, sponsored by The Royal Bank of Scotland and produced early in 2017 for broadcast on STV, featured investigations of a financial nature. The four programmes highlighted the range and scope of scams in Scotland and their impact on victims. Aimed at raising awareness of the issue and helping people protect themselves from financial crime, the series reached 669,000 viewers.

One of the major documentary highlights of the year, which generated a great deal of media interest and public support, was a special film produced for the ITV autumn 'Crime and Punishment' series. *Ross Kemp Behind Bars – Inside Barlinnie* saw the former actor turned presenter providing a hard-hitting and thought-provoking insight into the lives of inmates and prison officers within Scotland's historic and most famous prison. The hour-long programme aired at the beginning of November and in Scotland it won a 34% audience share, with 650,000 viewers.

A landmark documentary series on the history of the Scottish police commissioned by BBC Scotland, began screening on BBC One at the end of November. *The Force: The Story of Scotland's Police*, comprised three episodes which focused on the development of the service through the years.

Celebrity Antiques Road Trip

Airing on BBC Two, *Celebrity Antiques Road Trip* features some of Britain's best-loved celebrities who take to the road in vintage vehicles for a treasure trail around the UK's antique emporiums.

The seventh series – 20 hour-long episodes – began airing on BBC Two in mid-November and in December, the BBC confirmed its commission of an eighth series of the hit show.



The market for STV Productions services

DIVERSIFICATION OF GENRES

STV Productions continued to secure multi-genre commissions for a variety of channels – with several returning hit series, new factual programmes and a new BBC four-part legal drama.

Connecting with audiences

- ▶ All of the high-quality content we create and produce for UK and overseas broadcast networks shares a common objective – audience engagement
- ▶ Profit is made on initial sale and on the capitalisation of back-end rights in the UK secondary and overseas markets

A world of possibilities

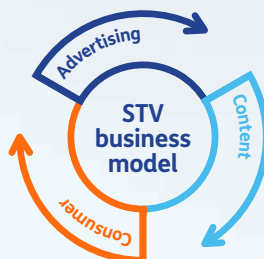
- ▶ The BBC remained our biggest client, due to returning hits *Antiques Road Trip* and *Celebrity Antiques Road Trip* plus new commissions *And They're Off... For Sport Relief* and drama series *The Victim*
- ▶ Our strategic partnership with global content rights management company Motion Content Group enabled the co-investment, co-development and co-production of formats across a broad range of genres
- ▶ Partnerships with a number of international agents supported the effective distribution of our programmes and the sale of their formats outside the UK
- ▶ A deal was agreed with Sky Vision for the international distribution rights to our unscripted catalogue and new BBC drama series, plus the format sales rights for game show *And They're Off... For Sport Relief*, co-developed with Motion Content Group

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.



Operating review – Productions

STV Productions is focusing on the development of a slate of writer-led TV drama, including a raft of projects set in Scotland.

Production margin

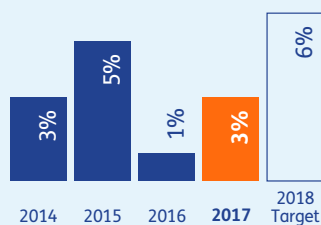
(%)

Why it's important

Margin improvement across the period provides evidence of profitable growth.

How we measure it

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



Another 2017 highlight for STV Productions was the announcement that it had won a Royal Television Society Award for *Scotland and the Battle for Britain* – a two-part documentary which explored Scotland's political transformation during the historic events of recent years.

Drama

In August STV Productions secured a drama series commission for BBC One – a four-part contemporary legal thriller, *The Victim*, written by Rob Williams (*The Man in the High Castle*, *Chasing Shadows*). Set in Edinburgh, *The Victim* will be filmed in Scotland early in 2018. The high quality drama, which will air on BBC One, will present a significant boost for TV production in Scotland, supporting STV's ongoing commitment to the country's creative industries.

Distribution

STV Productions uses a number of leading international agents to distribute its finished programmes and sell their formats outside the UK. At the end of 2017, a deal was agreed for Sky Vision to handle three key content areas. These are the international distribution rights to STV Productions' unscripted catalogue and the new BBC drama *The Victim* which it will produce in 2018, plus the sales rights for the format of game show *And They're Off*, co-developed with Motion Content Group.

The Dressing Room

The Dressing Room is a fixed-rig factual entertainment series which goes behind closed doors to find out what really happens in the dressing rooms of amateur sports teams across Britain. The six-part series was commissioned by UKTV's premium entertainment channel W as an STV Productions and Motion Content Group co-production.

In 2017, format deals were secured for *The Dressing Room* to be remade in the Netherlands and Norway.



Operating review – STV External Lottery Manager

In its first year, over £1 million has been raised to benefit Scotland's children.

Established in late 2016, the STV External Lottery Manager (ELM) was formed to provide operational services, such as ticket sales and marketing, to charitable society lottery, the Scottish Children's Lottery.

The ELM operates on a breakeven basis, invoicing operating costs to the Scottish Children's Lottery. The Group recoups costs incurred from operating both the ELM and the STV Children's Appeal. The ELM purchases regional airtime from the consumer division. Any profit generated by the Group from the sale of regional airtime, after recouping costs, is donated to The Group's main social investment activity, the STV Children's Appeal.

During 2017, ticket sales continued to rise and were boosted with the introduction of a second weekly draw in early October. With weekly sales having now exceeded 100,000, breakeven on sales is expected during Q2 of 2018 at 176,000 ticket sales per week, assuming the current steady growth rate is maintained. Recoupment of the debtor will then commence in H2 of 2018. Revenues generated by the ELM in 2017 increased in line with expectations, from £1.8 million in 2016 to £6.4 million.

The Scottish Children's Lottery achieved a double milestone in 2017. In October it not only celebrated its first anniversary but also marked having raised charitable funds reaching the landmark figure of £1 million. The total charitable amount it raised since launch up until 31 December 2017 was £1.3 million.

The funds generated by the Scottish Children's Lottery – thanks to the support of subscribed players all over Scotland – are used to help children and young people's charities and projects across four key areas: early years' intervention, education and health, employment skills and employability, and community development and citizenship.

To enable funding to be channeled directly into appropriate good causes helping children and young people across these vital areas, the funding awards are distributed through four Scottish Charitable Incorporated Organisations: Chance to Flourish, Chance to Study, Chance to Succeed, and Chance to Connect.

Distributing to deserving causes

Over 50 awards ranging from £1,000 to £50,000 were distributed during 2017, with examples of the charities and projects which have received funding including:

- Enable Scotland in Cumbernauld (£23,777 award). The charity supports children with learning disabilities and their families and carers, and the funding has helped the RASCALS project which provides after school support for children with learning disabilities. It is the only service of its kind in Lanarkshire.
- Bobath Scotland Cerebral Palsy Centre in Glasgow (£11,770 award). The charity offers advice, help and support to children and families living with cerebral palsy all over Scotland. Specialist therapy focuses on reducing pain, developing communication and improving mobility to help children with the condition make the most of their abilities.
- Fischey Music in Edinburgh (£11,696). The charity uses music and song to support the emotional wellbeing of young children and works with thousands every year, from those dealing with the challenges of everyday life to those facing significant emotional trauma, such as loss and grief.
- Strathmore Centre for Youth Development in Blairgowrie (£13,853). The charity offers services to 11-25 year-olds in the Strathmore area, delivering a range of projects providing opportunities for young people to realise their potential. Services range from employment advice and abuse counseling to budgetary guidance and volunteering opportunities.

Increasing awareness

The Scottish Children's Lottery promoted its £1 million milestone through media relations activities targeted at national and regional news titles and charitable sector publications, plus a series of communications directed at MSPs and MPs to further raise public awareness and encourage online applications from eligible charitable organisations and groups across the country.

Generating more funds

In October, a second weekly Scottish Children's Lottery draw was introduced with the objective of generating additional ticket sales to increase the funds raised. The development means that subscribers can now choose to play twice weekly for the chance to win a £25,000 jackpot and raffle prizes and to tune in to STV on Mondays and Thursdays to watch presenters Jennifer Reoch and Sean Batty announcing the winning numbers as they are drawn.



Corporate responsibility

Baroness Margaret Ford
Chairman



As a creative business, our people and the commitment, drive and focus they bring to the Company is a key contributor of our success. Providing an environment that affords everyone the opportunity to maximise their potential is underpinned by a culture focused on delivery of goals and priorities.

Our people strategy is built on The STV Way: to be bold, stand together, and strive to surprise. These values provide colleagues across the business with a cultural framework within which they can undertake their role and develop their skills and potential.

During 2017, an extensive programme of activities has been delivered through The STV Way to support learning and career development, engagement and communications, participation in business improvement, recognition and reward, and wellbeing.

The latest Pulse, our employee opinion survey, was undertaken in late 2017. The survey invited responses from colleagues on permanent contracts of employment and those working on a freelance basis to support production activities. The engagement level was high at 66% and above wider industry benchmarks. This represents an increased level of engagement on the previous year (2016: 61%). Responses and feedback were sought across a range of employment-related topics including internal communications, team working and relationships with managers, understanding of business goals and strategy, working environment, reward and recognition, and benefits and wellbeing. Overall, 85% of respondents stated they were proud to work for the Company.

The feedback is currently being developed into action plans by a cross-business group of Pulse ambassadors. The actions identified will be implemented in early 2018.

STV Learning

Opportunities to undertake broader development and learning to extend knowledge beyond immediate role requirements are delivered through STV Learning. During 2017, this has included over 120 colleagues undertaking 'job drop' placements providing insight into different roles and business areas through short duration placements. Additionally, a comprehensive programme of drop-in sessions where colleagues share insights and experience to provide an overview of their business area have been conducted. Topics covered include the law and the broadcasting code, news gathering skills, insights into virtual reality technology, presentation skills, writing skills.

The STV Way Leadership Development programme has continued providing 35 senior managers with an executive level modular programme delivered by the University of Edinburgh Business School.

Strengthening the talent pipeline and building future leadership capability has been supported through the introduction of a management development programme, *Leading: The STV Way*, which has been delivered to two cohorts covering 25 front line managers representing all areas of the business. The scope of this programme will be extended in 2018 based on positive feedback and development outcomes from participants.

The Company has also increased its commitment to apprenticeship programmes designed to support widening routes to access our industry. Apprenticeships are now being provided within enabling functions and STV News.

Investing in the development of talent for the future is a key aim of the Company's development planning and we continue to build close relationships across secondary, further and higher education. This has included the formation of partnerships with secondary schools through which we can showcase the range of career opportunities available across the creative industries whilst providing colleagues from STV with personal development opportunities.

The strategic partnership with seven colleges and universities formed to deliver STV2 has continued to grow and is the focus of our interaction and support for further and higher education.

Health and wellbeing

Our working environment and wellbeing are important factors in making STV a creative and rewarding place to work. Throughout 2017, ten health related campaigns were delivered.

Raising awareness of mental health in the workplace was a high priority campaign during 2017 and a successful campaign supported by SAMH (Scottish Association for Mental Health) included sessions to increase knowledge and understanding on how to maintain positive mental health. This was followed by mental health training provided for line managers across the business, and in 2018 mental health first aiders will be appointed to support increasing awareness and understanding in this area.

The Company has maintained a Bronze Award under the Scottish Government's Healthy Working Lives campaign. This accreditation has provided a benchmark against which we will continue to enhance STV as a positive and supportive place to work.

Reward and recognition

The remuneration and reward framework applied across all roles continues to be determined with reference to benchmarks from a UK-wide media industry peer group.

This structure provides transparency and relative comparisons to be made with colleagues and the wider sector beyond STV. This enables the Company to ensure remuneration is market competitive, and supports recruitment and retention.

Across this framework, base salary levels increased by 1.5% in 2017. Outwith this annual review process, base salary levels are monitored on an ongoing basis, particularly

in relation to colleagues at earlier stages of their careers where more rapid progression is required to reflect the pace of skills acquisition.

Diversity and inclusion

Our focus on diversity and inclusion is about creating an environment where everyone can thrive, develop and succeed. We are passionate about supporting social mobility and making a real difference to the futures of others.

The Company's commitment to ensuring all colleagues are treated with dignity, respect and fairness is fulfilled through creating a culture based on merit and equality of opportunity.

A range of programmes and activities are undertaken to widen access routes into employment with the Company and more widely to the creative industries sector.

These include the provision of work experience opportunities structured to inform young people about career opportunities. During 2017, over 50 placements have been provided. We are committed to supporting Modern Apprenticeship programmes which provide an alternative access route into the industry. Apprenticeships provided in Creative & Digital Media enable young people to gain practical industry experience whilst developing the necessary skills for entry and mid level roles. Additionally, we have partnerships with a number of higher education institutions across Scotland, particularly within the content generation areas of our business, which aim to educate and provide practical experience of the opportunities available in our industry within a live broadcast and production environment.

Corporate responsibility

STV is also an employer partner for the Developing the Young Workforce programme in Scotland which aims to increase employment opportunities for school pupils through the provision of employability-related initiatives and work experience opportunities.

To ensure that STV continues to deliver on its commitment as an inclusive employer and one which is accessible to all, regardless of age, marital status, family responsibility, ethnicity, gender or disability, we will be undertaking a series of Diversity Awareness workshops during 2018. These will be introduced with managers and rolled out to all colleagues across the year. These sessions will raise awareness of the importance of engaging a diverse workforce, consider how this can be practically achieved and provide guidance on how potential barriers, such as unconscious bias, can be overcome.

In 2018 we will continue to build on initiatives and schemes already in place with a specific focus on increasing the representation of talent from ethnic minority groups. In 2017 STV Productions supported the 'PACT Indie Diversity Training Scheme' through the provision of a six month paid placement to entry level diverse talent which supported the development and acquisition of the talents and skills required in the creative industries.

Additionally, we are developing employer partnerships with Creative Access and Mama Youth. Both of these schemes exist to help young people from BAME backgrounds secure paid training opportunities in the creative industries.

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 employee became disabled during the course of their employment in 2017.

Modern Slavery Act

The Company recognises that it has a responsibility to take a robust approach to slavery and human trafficking and is committed to preventing these in its corporate activities and to ensuring that its supply chains are free from slavery and human trafficking.

STV's anti-slavery statement reflects its commitment to acting ethically and with integrity in all business relationships and to implementing and enforcing effective systems and controls to ensure slavery and human trafficking are not taking place anywhere within the business or its supply chain. Staff are expected and encouraged to report any concerns about slavery and human trafficking, and management will act upon them in accordance with the relevant policies and procedures.

An assessment of the Company's current operations and supply chains has not identified any activities that are deemed to represent a high level of risk of slavery or human trafficking. Monitoring of this is incorporated into the Company's ongoing risk assessment and this will continue on a routine basis.

The Company's anti-slavery initiatives include:

- the proactive review of policies and operating processes to ensure these provide protection against discrimination, a fair working environment and fair trading conditions that do not violate human rights;
- a rigorous process to identify, monitor and manage the principal risks that have been identified through the business and its supply chains and which are set out in the Company's risk register;
- training which is delivered to staff on an ongoing basis to ensure that responsibilities to achieve compliance with the Company's policies are understood and fulfilled. Specifically, during 2018, staff with responsibility for procurement of suppliers will undertake training designed to support a response to slavery and human trafficking risks.

Gender pay report

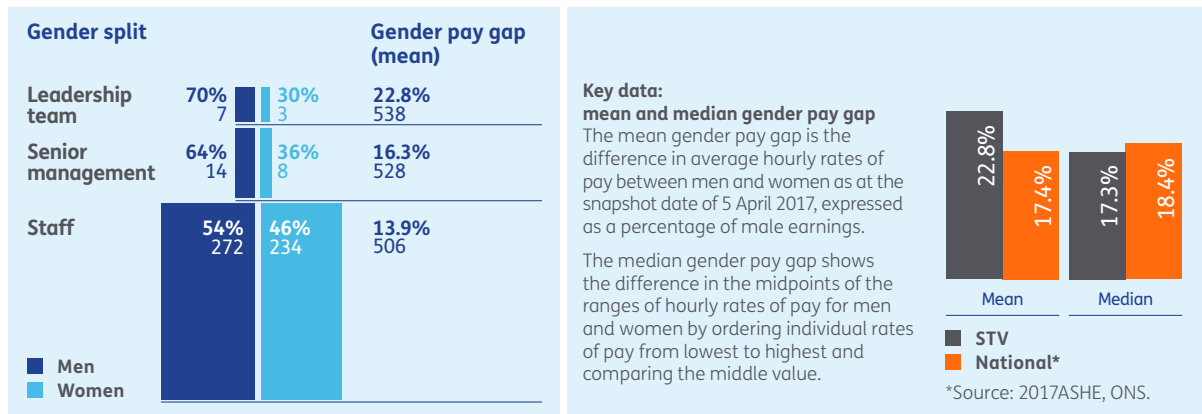
Under the requirements of the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, the Company will publish a gender pay report annually. The 2017 report is based on a total population of 538 colleagues who were in employment on the statutory

reporting date of 5 April 2017. On this date the Company's gender profile was 46% women and 54% men.

The 2017 report identifies a gender pay gap which, as is the case in a number of organisations, arises as

a result of a higher proportion of men than women in senior management and leadership roles. Our gender profile and mean and median gender pay gaps, as at 5 April 2017, are outlined below.

Gender split and gender pay gap by level



The Company has chosen not to target a specific number or percentage of women for senior management or leadership positions, but to concentrate efforts on encouraging more women to remain with the Company and progress through the organisation to these roles. As at April 2017, just under a third of the leadership team and 36% of the senior management team were female.

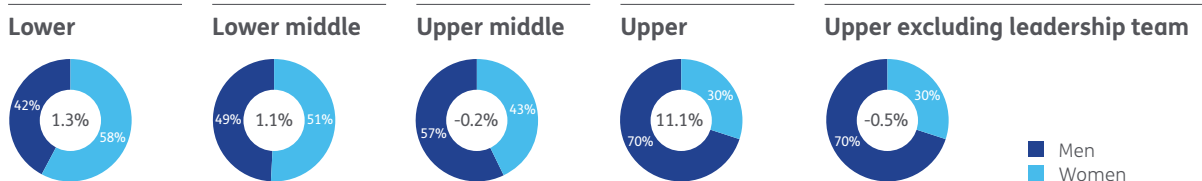
Mean pay gap and proportion of women and men, in each pay quartile

With the exception of the leadership team, base salary levels across the organisation are determined with reference to a pay and grading framework applied by a wide range of companies in the creative industries sector and administered by Towers Watson, benefit consultants. As a result of the rigour with which this framework is applied across all grades of employment within the Company, we are confident that

colleagues are paid equally for undertaking equivalent roles regardless of gender or any other personal characteristic.

This is reflected in the charts below which outline the proportion of women and men in each pay quartile, and illustrates that the gender pay gap within the first three pay quartiles is less than 1.5%. Inclusion of the Company's leadership team, all of whom are within the upper pay quartile, results in a mean pay gap

of 11.1% due to the proportion of positions at this level which are held by male colleagues. Exclusion of the leadership team from the upper quartile returns a negligible gender pay gap of -0.5%. That is, outwith the leadership team, the average hourly pay of women and men in the upper pay quartile is equivalent. This confirms that the main reason for the Company's gender pay gap is the balance of men and women across senior roles.



Corporate responsibility

Bonus gender pay gap

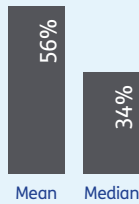
The Company's bonus gender pay profile is also influenced by a higher proportion of men than women holding senior management and leadership roles. These roles which attract higher levels of remuneration have a higher bonus opportunity.

Key data:

mean and median bonus gender pay gap

The mean bonus gender pay gap is the difference in average bonus payment between men and women in the year to 5 April 2017.

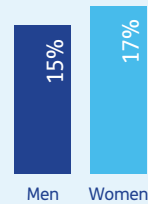
The median bonus gender pay gap shows the difference in the midpoints of the ranges of bonus pay for men and women by ordering individual payments from lowest to highest and comparing the middle value.



Key data:

proportion of men and women awarded a bonus

This is the percentage of men and women who were awarded a bonus payment in the 12 months leading up to the snapshot date of 5 April 2017.



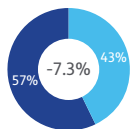
We are confident that colleagues undertaking equivalent roles have equivalent bonus opportunity, regardless of gender or any other personal characteristic. This is illustrated through an analysis by bonus pay quartile.

Within the upper middle bonus pay quartile the bonus earned by female

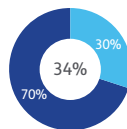
colleagues is greater than the bonus earned by male colleagues by 7.3%.

In the upper bonus pay quartile, which includes senior management and all leadership team roles, there is a mean bonus gender pay gap of 34%; however, removing the leadership team from this quartile closes this gap to 0.8%.

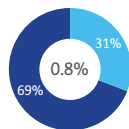
Upper middle



Upper



Upper excluding leadership team



■ Men
■ Women

Bonus payments earned by colleagues who are employed on a part-time basis (8% of those in receipt of a bonus payment) are pro-rated to reflect the actual hours of work; however, the bonus pay gap calculation does not recognise that individuals may be working part-time. 12% of our people work on a part-time basis of which 98% are women.

Next steps

In response to our 2017 gender pay report, our action plan will build on our existing diversity and inclusion programme. This programme comprises a number of targeted interventions to support our long term aim of achieving a greater balance of women in senior roles. This will include raising awareness of flexible working options and ensuring equality of

access to opportunities for career development, as well as progressing our wider objective of creating an inclusive culture that fosters diversity, progression and equality of opportunity for all, regardless of any personal characteristic.

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 wellbeing 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 37 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 44 staff have completed the safety training in 2017.

In 2016, we implemented an online training system BeSafe, which has a number of modules that are tailored to individual job roles. Training continued in 2017, with modules including Manual Handling, Office Safety and Fire Wardens, being covered.

	2017	2016	2015
Total vehicle accidents	16	14	13
Number attributable to driver error	10	7	8
Percentage attributable to driver error	62%	50%	62%

Health and Safety performance in 2017

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.

	2017	2016	2015
Seven-day reportable accidents	0	0	0
Total of all accidents	2	11	11

Our environment

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

Throughout 2017 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 37 members of staff taking part in this initiative. During 2017, STV continued recycling old mobile phones via ICT Reverse and 15 handsets were recycled in this way. Any money raised from ICT Reverse is 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 8 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), STV continues to take on many of their recommendations to lower our CO₂ emissions
- We have reviewed STV pool vehicles and leased vehicles and new vehicles will be of a lower CO₂ 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

Greenhouse gas emission source	FY2017		FY2016		FY2015	
	(tCO ₂ e)	(tCO ₂ e/£m revenue)	(tCO ₂ e)	(tCO ₂ e/£m revenue)	(tCO ₂ e)	(tCO ₂ e/£m revenue)
Scope 1	433.89	3.71	501.46	4.16	454.43	3.90
Scope 2	2,055.77	17.57	2,039.95	16.94	2,105.27	18.07
Statutory total (Scope 1 & 2)	2,489.66	21.28	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 (air)

Decrease in the travel emissions due to:

- During 2017 there was a reduction in international and domestic air travel associated with Productions, so the CO₂ emissions decreased by approx 24% in this area.

SCOPE 2 Energy

There was less than 1% increase in this area, so we have managed to maintain the previous year levels by continuing to replace lighting with LED lights (rather than halogen) and continuing to review the BMS programming to minimise electricity use.

Waste

J&M Murdoch Ltd recycles 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:

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

There is no prescribed methodology under the regulations, but the independent standard we have chosen to use in order to ensure effective emissions management

and transparency in reporting, is the UK Government's Environmental Reporting Guidance (2013 version).

STV must also express 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 CO₂e and the intensity ration we have chosen is CO₂e per million pounds of revenue.



Baroness Margaret Ford
Chairman

STV Children's Appeal 2017

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. And in 2013, The Wood Foundation pledged its support for projects in the North East of Scotland.

In its first seven years, the STV Children's Appeal has raised £16.3 million. This has enabled the charity to make 964 large and small awards to charitable projects across all 32 local authority areas in Scotland, providing much-needed support and assistance to over 66,700 children and young people. The funding helps make a real difference to young lives by providing practical help like food and warm clothes; creating opportunities for training and employability; and enabling social and emotional support for those who need it most.

The STV Children's Appeal is proud to guarantee that all the money it raises is invested in Scotland, helping children and young people across all areas of the country. All of the charity's overheads are met by STV and The Hunter Foundation so that every penny of donations goes directly to helping those in need. For 2017, the Scottish Government once again committed to match-fund the first £1m raised.

Connecting with communities

In 2017, the Appeal continued to engage with communities across Scotland to encourage individuals, schools, businesses and community groups to get involved with the charity at a local level. Community-based fundraising for the Appeal took place throughout the year – a testament to the public support generated for the charity – with events ranging from a sponsored bouncathon, Big Scottish Breakfast events and a Back to School with Sean Batty tour all raising money for Scotland's children.

Since its launch the Appeal has formed fruitful partnerships with high-profile corporate partners including Royal Bank of Scotland, Lidl, Quality Meat Scotland and Tunnocks. This year the Appeal saw a number of new corporate supporters getting behind its cause, including Asset Alliance, Dundee City Council, Glasgow Taxis and Loganair.

Employee engagement

During 2017 STV employees once again proved to be great ambassadors for the Appeal, donating their time and energy to a range of fundraising activities including a tough 500-mile cycling challenge in September. Throughout the year, employees were invited to visit projects which benefit from Appeal funding – a valuable opportunity to see at first-hand the difference their fundraising efforts make in the community.

STV staff raised £113,685 for the Appeal throughout the year and this was matched by the Company to make a £227,370 donation. The STV Children's Appeal was fundraising partner for a number of mass participation events during 2017 with people across Scotland, as well as corporate partners and celebrity supporters, walking, running and cycling for the Appeal. The Kiltwalk, Great Edinburgh Run, Great Women's 10k and Pedal for Scotland cycling challenge all saw participants raising funds for Scotland's children.

Programming

In March, *STV Children's Appeal – Changing Lives* aired on STV, revealing how the Appeal makes a real difference to the lives of children and young people in Scotland.

STV also aired a series of programmes in October to highlight the work carried out by the Appeal and by local fundraisers across the country to raise money and awareness about child poverty in Scotland. The line-up of programmes culminated in the annual televised *STV Children's Appeal Live Show* hosted by Lorraine Kelly, who announced the total sum raised in 2017.

STV Children's Appeal 2017



£16.3 MILLION RAISED IN THE FIRST SEVEN YEARS





Performance review

During 2017, the business has been further derisked and the strategy to deliver sustainable growth and increase returns to shareholders was progressed.

The Group uses non-statutory measures of performance to give shareholders a better understanding of the underlying performance of its operations and cash generation. The principal adjustments made to the statutory results are for IAS19, as this is a significant non-operational non-cash item, and for exceptional items, due to their non-recurring and often non-cash nature. A reconciliation of the adjusted results to the statutory results is included at Note 30.

Revenue

Total revenue decreased by 3% to £117.0m (2016: £120.4m) reflecting the weakness in national airtime in the first three quarters of the year, partly offset by the first full year of revenues for the STV ELM. The STV ELM provides services to support the operation of the Scottish Children's Lottery (SCL) which launched in October 2016.

Consumer division revenues were down 5% at £100.2m (2016: £105.9m) caused by a weak national airtime performance which was down 7%, in line with the ITV Network. Regional airtime experienced a weak end to the year which resulted in 2017 being down 2%, although this has been followed by a stronger start to 2018. Digital revenues continued to grow strongly, up 14% to £8.4m (2016: £7.9m).

Production division revenues at £10.4m (2016: £12.7m) were down 18% due to a lower volume of deliveries.

The STV ELM invoiced £6.4m of costs to the SCL and the division operates on a breakeven basis.

Operating profit

Operating profit, before exceptional items, reduced by 4% to £19.0m (2016: £19.7m). Operating profit after exceptional items increased by 3% to £17.4m (2016: £16.9m).

Consumer division operating profit at £18.7m (2016: £19.6m) was down 5% as the impact of the £5.6m (7%) reduction in national advertising revenues was almost fully offset by reduced programme costs and digital profit growth. Consumer division operating profit includes a loss on STV2 (2016: City TV) of £0.8m (2016: £0.8m) which will fall as the channel continues to grow in 2018. The operating margin of the Consumer division increased to 18.7% (2016: 18.5%) reflecting high margin STV Player growth which resulted in the digital margin continuing to expand to 55% (2016: 52%).

Productions' operating profit, before exceptional items, increased modestly to £0.3m (2016: £0.1m) and the operating margin increased to 2.9% (2016: 0.8%). There were no exceptional costs in 2017 resulting in Productions' operating profit after exceptional items of £0.3m (2016: £2.7m loss).

The STV ELM operates on a breakeven basis as noted above and had a loss after exceptional items of £1.6m (2016: £nil).

Exceptional items

A £1.6m exceptional item has been recognised in 2017 comprising a £0.9m IAS39 non cash change to discount the SCL long term debtor and £0.7m to write off non-billable set up costs of ELM and SCL. In 2016 the remaining balance of goodwill related to STV Productions, amounting to £2.8m, was written off.

Finance costs

Net finance costs increased to £3.5m (2016: £1.2m) due to the non cash IAS19 finance charge increasing to £2.5m (2016: £nil). Cash interest costs fell to £1.0m (2016: £1.2m).

Statutory result

The statutory result for the year after tax, exceptional items and IAS19 interest was a profit of £11.7m (2016: £12.6m). The Group's effective tax rate decreased to 14% (2016: 17%) due to the utilisation of prior year losses and capital allowances.

Earnings Per Share (EPS)

EPS before exceptional items and IAS19 interest was flat at 39.6p (2016: 39.7p) reflecting the fall in operating profit and profit before tax being offset by the lower effective tax rate. On a statutory basis, EPS amounted to 30.1p (2016: 32.5p). A reconciliation is included in Note 12 in the Notes to the Financial Statements.

Cashflow and net debt

Net debt at 31 December increased by £9.1m to £35.5m (2016: £26.4m) with the net debt: EBITDA ratio, as detailed in Note 25 in the Notes to the Financial Statements at 1.41x, within the target range of 1.0x – 1.5x on a covenant basis. The cash outflow includes £3.9m of working capital funding for the SCL from the STV ELM. The total investment of £9.1m in the SCL will be recouped in future years. There is also a £3.7m timing impact on sums due from ITV under the Network Affiliate

Agreement (NAA) and Advertising Sales Agreement (ASA) which will be received in Q2 2018. Other major outflows were £2.2m on working capital, mainly in the Productions division, £3.4m of capital expenditure investment, £7.9m of pension deficit funding cash payments and share purchases and dividends totalling £8.2m. Included in this total is £0.6m of shares purchased and cancelled under the £10.0m buyback programme announced in August.

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) and capital expenditure, reduced to 64% (2016: 89%) due to the timing impact from the NAA and ASA and other working capital movements noted above. The ongoing target remains 90% for 2018 and beyond.

In September 2017, the Group announced an extension of its £60m revolving credit and overdraft facility to June 2022, providing medium term funding certainty.

Pensions

The IAS19 deficit decreased to £70.6m (2016: £88.8m) pre-tax, £58.6m (2016: £72.6m) post-tax due to strong asset returns. The assumptions underpinning the deficit calculation are detailed in Note 28 in the Notes to the Financial Statements. The 31 December 2017 triennial valuation process has recently commenced and is expected to be completed by 31 March 2019. The previous valuation and deficit payment recovery plan were agreed in December 2016 and are detailed in Note 28 in the Notes to the Financial Statements. The payments will fully fund the pre-tax £129.9m trustees' valuation deficit calculated as at 30 November 2016.

Balance sheet

The principal movements on the Group's balance sheet were the movement in the IAS19 pension deficit, the debtor movements in working capital and the change in net debt, 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. The impact and likelihood of each risk is considered and risks 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 2017 one additional risk was added to the register which related to the Lobbying (Scotland) Act, coming into force in March 2018. 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

STV's 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 and simplified in December 2016 to provide improved efficiency, transparency and stability.

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 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 and there is still a question over whether there will be a further referendum on Scottish independence. 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 if Scotland was 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; the Group's bank facility arrangements being extended from 2019 to 2022; and £15m of the core net debt being subject to interest rate hedges to July 2018 to reduce exposure to financial market movements. In addition, the Scottish Government has agreed that STV's 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 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 with financial support by STV, which amounted to a debtor of £9.1m gross at 31 December 2017. This debtor is expected to be recovered by 2022 and requires weekly ticket sales to increase by 33% from the 2017 year end run rate to achieve the cash flow breakeven point of £176k ticket sales per week.

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 apart from the £9.0m debtor from the SCL noted above. 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

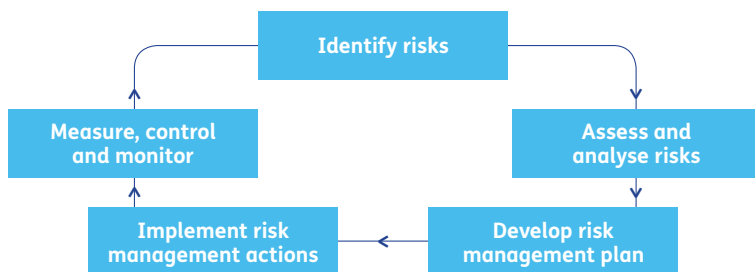
STV has no significant interest bearing assets and its income and operating cash flows are substantially independent of changes in market interest rates. Interest rate hedges are maintained to reduce the impact of changes in market interest rates on the Group's borrowings.

Brexit

While there is no immediate or specific risk to STV, the general macroeconomic risk of the UK's departure from the European Union ('Brexit') could affect the UK's economic performance which in turn would affect advertising and would have an adverse impact upon the Group's revenue due to STV's dependence on advertising as set out above.

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.

Risk is inherent in the Company's business and activities and the review of risk and risk management is embedded throughout the Company. The ability to identify, assess, monitor and manage each type of risk to which the Company is exposed is an important factor in its financial soundness, performance, reputation and future success. The management of risk is considered to be of vital importance and as such, it is a matter for the full Board and not delegated to a committee. Accordingly, the Directors have overall responsibility for establishing and maintaining an adequate system of internal controls and risk management policies and also for reviewing the effectiveness of each. This is communicated to the Leadership Team and each member is accountable for all risks assumed in their respective areas of responsibility and for the execution of appropriate risk management discipline.

During the year a thorough review of STV's risk register was carried out, 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.

The Board has approved a formal risk management policy, 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 2017, various reviews were carried out by the internal auditors, including: (i) cyber risk; (ii) payroll controls; (iii) progress, governance and management of an internal project; and (iv) revenue controls.

Given the growing importance of cyber security, Phase 2 of the cyber risk review will be carried out in Q1 2018. This review will build upon the initial high level review of cyber risk arrangements already undertaken and extend coverage and assessment to other parts of STV's IT infrastructure and operations.

A cyber risk register was established during 2017 which is reviewed twice a year.

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. At the November Audit Committee meeting, a follow-up report of all recommendations made by the internal auditors over the past two years was provided by the Company. 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:

Risk category	← Unacceptable to take risks				Higher willingness to take risks →					
	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, beyond 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.

Baroness Margaret Ford
Chairman

Introduction to governance

Board of Directors

STV is committed to maintaining the highest standards of corporate governance and has created a working culture where honesty, openness and fairness are valued.

The Board is responsible for the overall leadership and control of STV and there is a formal schedule of matters reserved for decision by it. This includes approval of strategy, annual budgets, financial statements, significant capital expenditure, changes to capital structure, Board appointments and STV's corporate governance arrangements and system of internal control.

The Board also delegates some of its responsibilities to Board Committees, details of which are set out on pages 46 to 49.

Diversity

All Board appointments are based on meritocracy and candidates will be considered against appropriate criteria, as the prime consideration is to maintain and enhance the Board's overall effectiveness.

Diversity means positive recognition of the differences individuals can bring to the Company and how these individuals work together to exploit these differences for the benefit of the business. 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 25.

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 2017 evaluation was internally facilitated. 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 and further details of the work of the Nomination Committee can be found 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, chaired by Anne Marie Cannon, ensures that our remuneration framework is appropriately structured, in a fair and responsible manner. The report from the Committee denotes the approach taken to executive remuneration and the work done on revising the Company's Remuneration Policy as well as other work carried out during the year on this high profile topic. The revised Remuneration Policy is set out on pages 55 to 63 and with this new framework in place and aligned to our strategic objectives, the Committee expects the new Policy to remain in place until a

further vote is required in 2021. Our annual report on remuneration, which will be subject to an advisory vote, can be found on pages 64 to 71.

Relationship with Shareholders

The AGM provides an opportunity for shareholders to meet the Board and to ask questions. Our 2018 AGM is scheduled for 26 April 2018 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 of the financial year ended 31 December 2017, the Company has complied fully with the UK Corporate Governance Code 2016 (the Code) and this section, together with the report by the Directors on remuneration, set out on pages 55 to 71, 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 colleagues on the Board for their excellent and constructive input and to acknowledge the exemplary performance of Rob Woodward, who resigned as CEO at the end of 2017. My thanks also go to our employees, our shareholders and our stakeholders who supported us throughout the year. 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

at 13 March 2018



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 Senior Independent Director of both Segro plc and NewRiver REIT plc, Chairman of Buckingham Palace Reservicing Programme and a Senior Advisor to H/2 Capital Partners. Margaret is Chairman of the Tennis Foundation, a non-executive director of the British Olympic Association and National President of the British Epilepsy Association. 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 a Fellow of the Royal Society of Edinburgh.



Simon Pitts Chief Executive Officer

Appointed: January 2018

Simon was previously a member of the executive board of ITV plc, holding the position of Managing Director, Online, Pay TV, Interactive & Technology. Over a 17 year career there, Simon held a range of senior roles, was one of the main architects of the company's recent transformation, and oversaw strong growth in ITV's digital businesses. Simon was also on the board of news provider ITN for eight years and is Vice Chair of the trustees of the Royal Television Society.



left to right by row, from top left

Margaret Ford
Simon Pitts
George Watt
Michael Jackson
Christian Woolfenden
Anne Marie Cannon
Ian Steele
Simon Miller

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.

Simon Miller Non-Executive Director

Appointed: December 2016
Committees: Nomination

Simon is an experienced company director and chair with exposure to a wide range of financial and commercial 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 and non-executive director of Scottish Friendly Assurance Limited. Simon read Law at Cambridge.

Christian Woolfenden Non-Executive Director

Appointed: June 2014
Committees: Audit

Christian has extensive operational, consumer marketing and digital experience and is currently Managing Director of Photobox, the online photo printing company. 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. She 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. Anne Marie 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 Chartered Accountant in 1980 with Arthur Young McClelland Moores. His subsequent career involved time with The British Linen Bank, Touche Ross, Rutherford Manson Dowds and Deloitte. Prior to retiring as Senior Partner for Deloitte in Scotland and Northern Ireland, Ian had been on the UK Board of Deloitte LLP for over eight years. He was a Corporate Finance Advisory Partner with Deloitte and was Head of Global Advisory for some three years and is a member of 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.

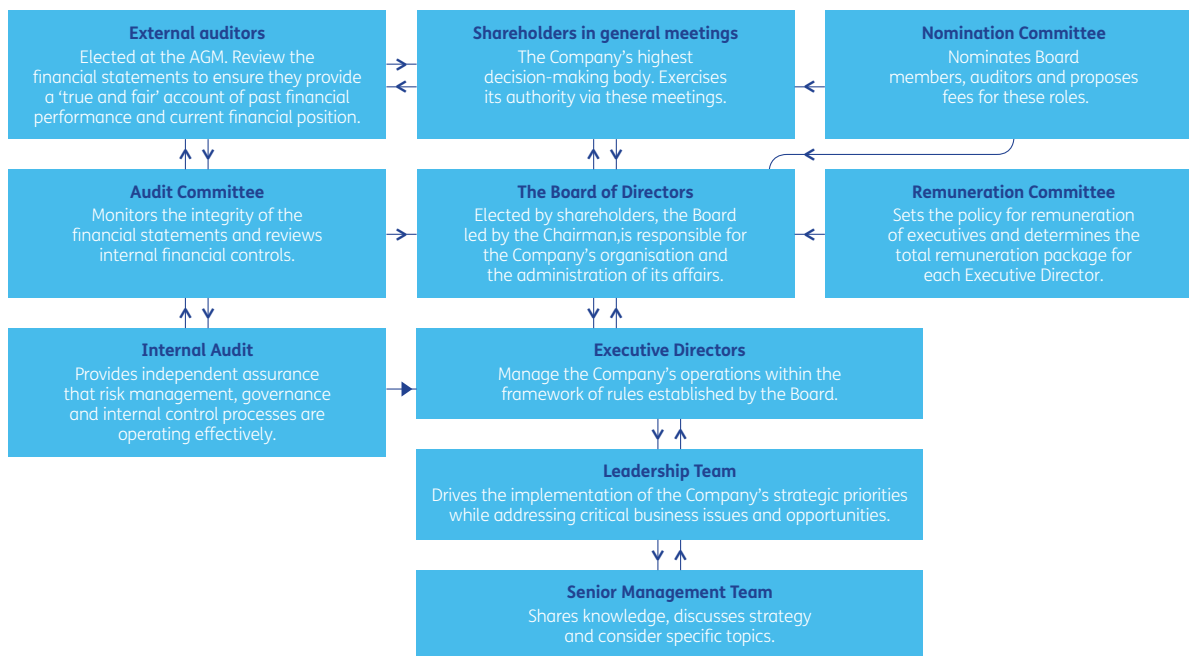
Michael Jackson Non-Executive Director

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 and "Patrick Melrose" for Sky Atlantic and Showtime.

Corporate governance report

Governance structure



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 2017, the Company was subject to the provisions of the UK Corporate Governance Code (2016) and the Board considers that it has complied with all relevant provisions of the 2016 Code.

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.

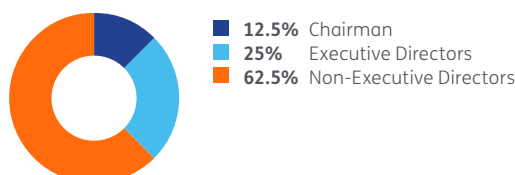
Board of Directors

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	Simon Pitts (appointed 3 January 2018) Rob Woodward (resigned 31 December 2017)
Chief Financial Officer	George Watt
Non-Executive Directors	Simon Miller (appointed Senior Independent Director 25 April 2017) David Shearer (retired as Senior Independent Director 25 April 2017) Michael Jackson Christian Woolfenden Anne Marie Cannon Ian Steele

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-Executive Directors' 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

The roles of Chairman and Chief Executive are separate with a clear division of responsibility between them, which is set out in writing and approved by the Board. The Board delegates responsibility for the day to day running of the business through the Chief Executive to executive management while the Board 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.

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,

Corporate governance report

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 performance reporting and budget updates.

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

- likely long term-consequences of any decision
- interests of the Company's employees
- need to foster the Company's business relationships
- impact of the Company's operations on the community and the environment
- desirability of maintaining a reputation for high standards of business conduct
- 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 2017 is set out below:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held:	8	3	3	4
Attendance:				
Margaret Ford	8	3*	3*	4
Simon Miller**	7	–	–	1*
David Shearer (resigned 25 April 2017)	3	1	–	1
Simon Pitts (appointed 3 January 2018)	–	–	–	–
Rob Woodward (resigned 31 December 2017)	8	3*	–	–
George Watt	8	3*	–	–
Michael Jackson	8	–	1	1*
Anne Marie Cannon	7	2	3	1*
Christian Woolfenden	8	2	–	1*
Ian Steele***	8	3	3	4

* Attended at the invitation of the respective Chairman.

** Appointed to the Nomination Committee on 14 December 2017.

*** Appointed Chairman of the Audit Committee on 25 April 2017.

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 attended the 2017 annual Strategy Day in November which was held off site to allow Directors to step out of their usual Board meeting routines and fully consider all matters being discussed. The future strategy of the business was not the main focus, given the imminent arrival of a new Chief Executive, since his input would be fundamental, so various aspects of the organisation were looked at in greater detail than Board meetings generally allowed. Presentations were received from members of the Leadership Team, allowing more in depth examinations of specific elements of the Productions, Sales, Broadcasting and STV ELM areas of the business and Directors agreed that this was extremely helpful and had provided a better understanding of the drivers and key influencing factors in these specific areas.

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 2017 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 to extension of current bank facility arrangements
- approval of the Annual Report and the full and half-year financial results
- approval and declaration of dividends
- approval of the 2018 Budget
- approval of revised KPI targets
- approval of viability statement

Strategy

- presentations on initiatives to grow revenue
- approval of share buyback scheme
- approval of progressive dividend policy
- approval of the launch of STV2
- approval of the Company's strategy
- discussion on various regulatory issues
- approval of the three year plan

Corporate development

- agreement of STV's corporate objectives and values for 2017

Corporate governance report

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 2018
- approval of the 2018 AGM Resolutions
- approval of the appointment of Simon Pitts
- performance evaluation
- 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 2017.

Board committees

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

<p>Leadership Board of Directors</p>	<ul style="list-style-type: none"> • 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 	
<p style="text-align: center;">▼</p> <p style="text-align: center;">Audit Committee</p> <ul style="list-style-type: none"> • 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 	<p style="text-align: center;">▼</p> <p style="text-align: center;">Remuneration Committee</p> <ul style="list-style-type: none"> • 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 	<p style="text-align: center;">▼</p> <p style="text-align: center;">Nomination Committee</p> <ul style="list-style-type: none"> • 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
<p style="text-align: center;">Page 48 Audit Committee Report</p>	<p style="text-align: center;">Page 55 Remuneration Committee Report</p>	<p style="text-align: center;">Page 47 Nomination Committee Report</p>

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:

Anne Marie Cannon (Chairman)
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 71. The written terms of reference of the Remuneration Committee set out 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 (retired 25 April 2017)
Ian Steele
Simon Miller (appointed 2 December 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 following the announcement that Rob Woodward, Chief Executive Officer would step down from his role and it was agreed that Russell Reynolds Associates, which has no other connection with STV, be appointed to assist with the process of finding a new CEO.

The Committee considered the alignment of Board composition with Company strategy and a vigorous and robust process thereafter began whereby the specification for the role and the main attributes required by the successful candidate were discussed and agreed. The need to ensure that the Board as a whole had the necessary skills to secure its long term success was agreed to be vital and following a series of interviews with several exceptional quality candidates, a short list of three was agreed. While all were considered to be high calibre individuals, the preferred candidate was Simon Pitts, who was then MD of Online, Pay TV, Interactive & Technology at ITV and a member of ITV's Management Board. The Committee's recommendation of this appointment to the Board was unanimously agreed and Simon Pitts joined the Company on 3 January 2018.

Corporate governance report

Report from the Audit Committee

The members of the Committee during the year were:

Ian Steele (appointed Chairman on 25 April 2017)
David Shearer (retired as Chairman on 25 April 2017)
Christian Woolfenden
Anne Marie Cannon

The Audit Committee was chaired by David Shearer up until his retirement on 25 April 2017 and thereafter by Ian Steele, both of whom have recent and relevant financial experience.

The Committee 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 are not now able to provide both audit and tax services so following the tender for STV's tax services carried out last year, KPMG has carried out tax work for the Company while PwC continue in their role as 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 or infringe the EU Audit rules. 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.

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 2017 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 in 2016 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 the year end assumptions. Management's treatment and disclosures in relation to IAS19 were considered to be appropriate.

SCL debtor recoverability

As a new venture which has received significant financial backing from the Group, the assumptions around the future expected progress of the SCL were considered. In particular, the key objective of reaching cashflow breakeven in 2018 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 2018 and the likely recoupment of the debtor balance over the following four years from 2018. The change in the timing of the recoverability of the debtor resulted in an IAS39 provision of £0.9m being required to discount the present value of the cash flows expected from the SCL. 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 bearing in mind the EU Audit rules. 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 solely of covenant reporting and the Audit Committee agreed that PwC was the most suitable supplier.

There will always be projects for which the external auditor is best placed to perform the work to the extent that its skills and experience along with its knowledge of the Company makes it the most appropriate provider. While it is important that the independent role of external auditors in reporting to shareholders is not compromised, it is equally important that the Company is not deprived of expertise when and where it is needed.

External audit effectiveness

With regard to the requirement for the Audit Committee to assess the effectiveness of the external audit process, 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 2017 included:

Month	Committee	Activity
January	Remuneration	Consideration of performance under 2016 Bonus 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 Approval of Internal Audit Plan for the year Review of internal controls/risk management Committee Performance Evaluation
March	Nomination	SID succession
March	Remuneration	Approval of Remuneration Report, 2017 remuneration and Committee Performance Evaluation
April	Nomination	CEO Succession – role specification
August	Nomination	CEO succession – approval of Simon Pitts
August	Audit	Review of Half Year Results Review of Auditor report on Half Year Results Internal Audit update Review of internal controls/risk management
November	Audit	Annual Business Risk Review Internal audit update
November	Nomination	General succession planning
December	Remuneration	Review of Remuneration Policy and NXD fees

Leadership Team

The Leadership Team comprises the Executive Directors; Director of Channels; Director of Content; Commercial Director; Director of Corporate Development; HR & Communications Director; Chief Technology and Platforms Officer; and the Head of Legal and Regulatory Affairs. The purpose of the team is to drive the implementation of the Company's strategic priorities while addressing critical business issues and opportunities. The team meets weekly and is focused on Group-wide performance with the emphasis on collaboration and teamwork and ensures that there are clear lines of accountability.

Senior Management Team

The Senior Management Team is made up of approximately 25 managers from around the Group who meet monthly to discuss strategy, share knowledge and address specific issues.

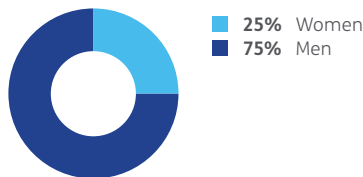
Diversity

STV believes that diversity is wider than simply gender and aims to hire the best candidates with the widest range of skills and experience, whatever their background or gender. The Board is committed to improving diversity in its membership in the broadest sense as a diverse Board provides a range of perspectives, insights and challenges that are needed to support good decision making.

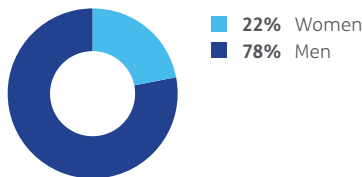
STV takes the concept of diversity seriously and further details can be found on page 23. Diversity is about recognising, respecting and valuing the differences each person can bring and the Board appreciates that it is crucial to the achievement of the Group's strategic objectives. Diversity of perspective 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.

Corporate governance report

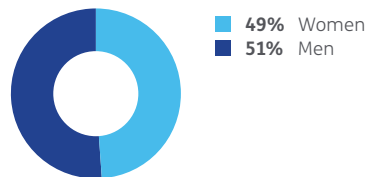
Board



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. 49% 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.

A thorough induction programme was devised for Simon Pitts which commenced prior to him assuming his role in January 2018. This included him spending two days at the main office in December 2017 where he met staff and had full access to the Leadership Team as well as to the 2018 budget process and other strategic processes. Since joining STV, Simon has visited other STV offices and met with various shareholders, stakeholders and advisors.

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 to each question by Directors. Thereafter, the Chairman held one to one meetings with the Non-Executive Directors to discuss the results. The Senior Independent Director spoke with all Directors individually to evaluate the Chairman's performance.

On completion of the 2017 performance evaluation, the performance of each Director was found to be effective and 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 and meetings were well chaired with an appropriate level of involvement outside formal meetings. It was suggested that Board meetings be longer to allow more in depth reviews into specific areas of the business and that additional opportunities for interaction with the Leadership Team be arranged.

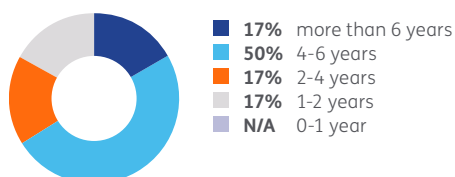
The evaluation process further concluded that the Board was made up of strong and independent minded Non-Executive Directors each of whom made a significant contribution to the overall success of the Company and who demonstrated full commitment in their respective roles. All were able to allocate sufficient 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 16 January 2018. The Nomination Committee confirmed to the Board that the contributions made by the Directors offering themselves for re-election at the AGM in April 2018 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 Pitts who joined the Board on 3 January 2018, 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



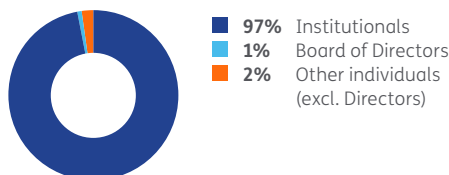
Corporate governance report

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.signalshares.com

Remuneration report



Anne Marie Cannon
Chairman of the Remuneration Committee

Annual Statement

I am pleased to introduce the Directors' Remuneration Report for the year ended 31 December 2017. In line with the three year cycle under the remuneration reporting regulations, we will be seeking shareholder approval for a renewal of our Remuneration Policy at this year's AGM in April 2018.

We are committed to open and ongoing dialogue with our shareholders and we also recognise that market practice and investor expectations of executive remuneration continue to develop at a considerable pace. We are confident that our proposed approach will meet these changing expectations and practice whilst providing an incentive structure that is appropriately aligned with our strategy and the delivery of our plans and priorities.

As we have embarked on this triennial review process, we have reconfirmed the key principles we believe should underpin our remuneration framework as follows:

- Closely aligning rewards with the delivery of Company strategy;
- Ensuring a significant proportion of the awards are based on long term success criteria;
- Reflecting changes in best practice and governance;
- Simplifying and streamlining the framework for clarity and effectiveness;
- Ensuring market competitiveness.

Proposed changes to Remuneration Policy from previous policy

The Committee has determined that the current framework continues to support the delivery of our key strategic objectives whilst providing incentives to deliver sustained long-term value for our shareholders. Therefore, the Committee is not proposing to make any major changes to the structure of the Remuneration Policy at this time. We are, however, proposing to incorporate some additional features to ensure that we continue to be aligned with evolving guidance. Specifically, the following changes are proposed:

- **LTIP holding period:** Strengthening the requirement under our existing Policy to ensure a two-year post-vesting holding period is applied to all long-term incentives awards granted from 2018 awards;
- **Increasing shareholding requirements:** Increasing the shareholding requirement for Executive Directors from 100% to 150% of salary; and
- **Reducing pension provision for new hires:** For future executive appointments, reducing the maximum pension contribution from 20% to 7% of salary. This reduced contribution is consistent with the pension benefits provided to employees across the business.

A shareholder consultation on the new arrangements was conducted in early 2018 and I would like to thank those who took part in this process. The responses have indicated a strong level of support for the current Remuneration Policy and the further changes that the Committee is proposing to implement.

Remuneration report

CEO succession

In April 2017, Rob Woodward confirmed his intention to resign and the Board implemented a succession process. In order to provide the Board with sufficient time for a successor to be appointed, it was agreed that Rob Woodward would continue in his role throughout his notice period of up to 12 months. Simon Pitts was appointed in January 2018 at which time Rob Woodward left the Company's employ and received a payment in respect of his fixed pay in lieu of notice for the four month balance of the remaining notice period. Details of the termination arrangements are set out in full in the Annual Report on Remuneration.

Full details of Simon Pitts' remuneration, which was determined in accordance with the Remuneration Policy, are also set out in the Report. In order to facilitate the appointment, it was necessary to make share awards and compensatory payments, in line with the Remuneration Policy, which reflected incentive awards forfeited from his previous employer.

2017 incentive outcomes

As a result of progress delivered in 2017, payments have been triggered under the annual bonus. The Executive Directors will receive bonus payments of 40% of salary (32% of bonus potential maximum). The 2015 LTIP was based on performance measured over the three years to 31 December 2017. Based on performance achieved, 13.8% of this award will vest in June 2018. Full details of both the bonus and LTIP outcomes are contained within the Report.

Decisions made for 2018

The Annual Report on Remuneration provides additional detail on the payments and awards made to the Directors in the year and on our intentions for 2018. The Annual Report on Remuneration together with the Annual Statement is subject to an advisory shareholder vote at the AGM on 26 April 2018. I look forward to receiving your support for all of the remuneration related resolutions at our AGM.

Anne Marie Cannon

Chairman of the Remuneration Committee
13 March 2018

Directors' Remuneration Policy

The Directors' Remuneration Policy ('the Policy'), determined by the Company's Remuneration Committee ('the Committee') and presented below, will be effective following shareholder approval at the 2018 Annual General Meeting.

Changes from the current policy are: strengthening the requirement to apply a two-year post vesting holding period to all LTIP awards granted from 2018; increasing shareholding requirements for Executive Directors to 150%; and for future executive appointments reducing pension contributions to 7%.

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	<p>When determining the salary of the Executive Directors, the Committee takes into consideration a number of factors including:</p> <ul style="list-style-type: none"> 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 	<p>There is no prescribed maximum salary</p> <p>In general, any salary increase for Executive Directors will be in line with other employees in the Group</p> <p>The Committee retains discretion to award larger increases where considered appropriate to reflect the factors described in this table</p> <p>Salaries with effect from 1 January 2018 are set out on page 64</p>	None
Benefits			
To provide competitive levels of employment benefits consistent with role	<p>Executives are entitled to receive a taxable cash allowance in lieu of benefits in kind, including car and private medical insurance. This cash benefits allowance is excluded from the calculation of any other benefit provided by the Company</p> <p>Other reasonable benefits may be granted to Executive Directors at the discretion of the Remuneration Committee</p> <p>The Executive Directors are eligible to participate in the Company's all employee share plans, as offered from time to time, on the same terms as all employees</p>	<p>The cash allowance paid to Executive Directors in lieu of benefits in kind is currently £15,500 per annum</p> <p>Participation in all employee share plans is subject to HMRC plan rules and limits</p>	None
Pension			
To provide competitive levels of retirement benefit	<p>The Group operates a defined benefit (DB) scheme (closed to new members), a defined contribution (DC) scheme and a Group personal pension plan</p> <p>Executive Directors have the option to receive a taxable cash allowance in lieu of pension benefits</p> <p>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 2017</p>	<p>The maximum pension contribution or taxable cash allowance in lieu of pension is 20% of salary for current Executive Directors.</p> <p>For future executive appointments, pension allowance will be capped at 7% of base salary</p>	None

Remuneration report

Objective and link to strategy	Operation	Maximum opportunity	Performance conditions
Annual bonus			
<p>Aligns reward to the delivery of annual financial and strategic performance measures. Deferral creates long term alignment with shareholders</p>	<p>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</p> <p>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</p> <p>Recovery and dividend equivalent provisions apply (see explanatory notes)</p>	<p>125% of salary</p>	<p>Payment is determined by reference to performance assessed over one financial year based on a range of financial and strategic performance measures</p> <p>For 2018, these measures will include:</p> <ul style="list-style-type: none"> • operating profit • cash flow • personal objectives <p>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</p> <p>At threshold and target performance 12.5% and 50% of base salary, respectively, is currently payable</p> <p>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</p> <p>The Committee has the discretion to adjust targets for any exceptional events that may occur during the year</p>
Long Term Incentive Plan			
<p>Aligns reward to the delivery of long-term financial performance delivered for shareholders</p>	<p>Awards are made under the terms of the STV Long Term Incentive Plan</p> <p>Awards are normally in the form of a right to acquire shares in the Company for a zero or nominal amount</p> <p>Awards vest over a period of at least three years, subject to the satisfaction of performance conditions</p> <p>A post-vesting holding period of two years will apply</p> <p>Recovery and dividend equivalent provisions apply (see explanatory notes)</p>	<p>The maximum award in respect of a financial year is normally 100% of salary</p>	<p>Vesting is determined by reference to performance assessed over a period of at least three years, based on performance measures which the Committee consider to be aligned with the delivery of strategy and long term shareholder value</p> <p>The measures for the 2018 award are:</p> <ul style="list-style-type: none"> • earnings per share (EPS) • non-broadcast operating profit • relative total shareholder return <p>The Committee has discretion to use different or additional measures or weightings to ensure that the LTIP remains appropriately aligned to the business strategy and objectives</p> <p>The Committee has the discretion to adjust targets for any exceptional events that occur during the period</p> <p>The threshold for vesting is no higher than 25% of the maximum award</p>
Shareholding requirement			
<p>To strengthen long term alignment with shareholders</p>	<p>Executive Directors are required to hold shares equivalent to 150% of their annual salary</p>	<p>The required level of holding is 150% of salary</p>	

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 and cash flow) 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 at that time.

Discretion

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

Differences in remuneration policy for all employees

All employees are entitled to base salary, pension and benefits. Bonus plan participation is dependent on the role and seniority and responsibility of the role. Long-term incentive awards are only available to the leadership team and key senior staff by invitation.

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy where the terms of the payment were agreed (i) before the 2015 AGM (the date the Company's first shareholder-approved Directors' remuneration policy came into effect); (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

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

Remuneration report

Non-Executive Directors

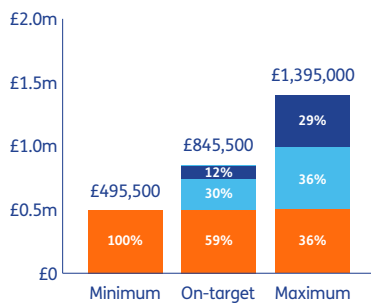
The table below sets out the key elements of the policy for non-Executive Directors:

Objective and link to strategy	Operation	Maximum opportunity
To attract Non-Executive Directors with the requisite skills and experience	<p>The fees of the Non-Executive Directors are determined by the Board based upon recommendations from the Chairman and Chief Executive Officer (or, in the case of the Chairman, based on recommendations from the Senior Independent Non-Executive Director and the Chief Executive Officer)</p> <p>The fee for Non-Executive Directors encompasses a basic fee and may also include supplementary fees for committee or other duties</p> <p>The Chairman receives a single fee for all duties</p> <p>Fees are normally reviewed annually with changes effective from 1 January</p> <p>Fees are paid in cash</p> <p>The Chairman and Non-Executive Directors do not participate in any bonus or share incentive scheme, nor do they participate in any pension arrangements</p>	<p>Fees are set at a level which reflects skills, experience, time commitment and appropriate market data</p> <p>Fees are set within the limits set by the Articles of Association</p> <p>Fees with effect from 1 January 2018 are set out on page 65</p>

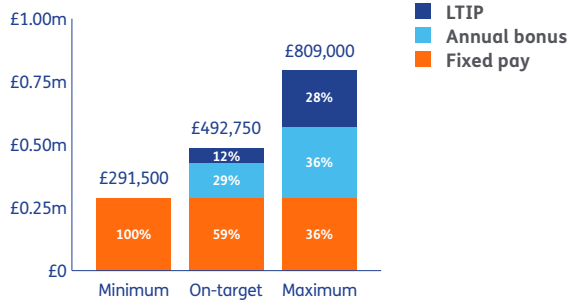
Illustrations of application of remuneration policy

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

Chief Executive Officer



Chief Financial Officer



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

- Minimum – reflects fixed pay only (base salary as at 1 January 2018, benefits allowance (£15.5k), and cash in lieu of pension contributions at 20% of salary)
- Target – reflects fixed pay, target bonus (62.5% of salary) and LTIP awards (100% of salary) vesting at threshold performance (25% of maximum)
- Maximum – reflects maximum bonus (125% of salary) and LTIP awards vesting in full (100% of salary).

Recruitment remuneration policy

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

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

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

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

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

Service contracts

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

Director	Date of contract/ letter of appointment	Unexpired term	Notice period by Company/Director
Executive			
S Pitts	3 January 2018	Rolling contract	12 months/6 months
G Watt	27 February 2001	Rolling contract	12 months/6 months
Non-Executive			
Director	Date of contract/ letter of appointment	Date(s) of (re)appointment	Unexpired as at March 2018
Baroness Ford	1 June 2013	26 April 2016	1 year 1 month
M Jackson	1 May 2009	30 April 2015	1 month
C Woolfenden	1 June 2014	25 April 2017	2 years 1 month
A M Cannon	1 November 2014	25 April 2017	2 years 1 month
I Steele	1 November 2015	26 April 2016	1 year 1 month
S Miller	2 December 2016	25 April 2017	2 years 1 month

Remuneration report

Policy on payment for loss of office

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

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

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

Treatment of awards for a ‘good leaver’

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

The Committee reserves the right to make any other payments in connection with a Director’s cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a Director’s office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the Director’s legal and/or professional advice fees in connection with his cessation of office or employment.

Change of control

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

Consideration of employment conditions elsewhere in the Company

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

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

The Committee actively considers the relationship between general changes to employees pay and conditions and any proposed changes in the remuneration packages for Executive Directors to ensure it can be sufficiently robust in its determinations in light of the position of the Company as a whole.

Although the Committee takes into account the pay and conditions of other employees, the Company did not consult with employees when developing the Policy.

Consideration of shareholder views

The views of the Company's shareholders are very important and the Committee welcomes constructive feedback with respect to the remuneration policies or structure which we take on board to formulate our arrangements.

Remuneration report

Annual Report on Remuneration

This section of the report sets out how the Policy will be implemented in 2018 and how it was implemented during 2017. Some sections of this report, where indicated, have been audited.

Statement of implementation of remuneration policy for 2018

Executive Directors

The salaries for 2018 are set out below:

Executive Director	2017 salary £000	2018 salary £000	% increase
S Pitts	–	400	–
G Watt	226	230	2%

Salary levels of employees throughout the Company were increased by an average of 2% in January 2018.

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

For 2018, 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%
Total		125%

In 2018 the Executive Directors will receive awards under the LTIP at the level of 100% of salary. These will vest after three years subject to the following performance targets and will be subject to a two-year holding period post vesting:

Performance measure	Calibration of targets	Weighting	Threshold vesting (25% of maximum)	Maximum vesting
EPS	Annualised growth in adjusted EPS from FY17 to FY20	50%	7%	12%
Non-broadcast operating profit	Operating profit for non-broadcast activities in FY20	30%	£7m	£11m
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.

Buy-out award for Simon Pitts appointment

Simon Pitts was appointed as Chief Executive Officer on 3 January 2018. His remuneration package was determined in accordance with the Remuneration Policy and is described in the section above in respect of 2018 implementation.

Additionally, in order to facilitate Simon Pitts' appointment, it was necessary to make share awards and compensatory payments reflecting incentive awards forfeited from his previous employer. This buyout package was designed to be no more generous than the awards forfeited and to reflect the performance conditions, form and time horizons of the forfeited awards, in line with the provisions of Remuneration Policy. This package comprised an immediate cash payment of £187k made on joining (reflecting a forfeited cash payment), awards of STV Group plc deferred shares (with a face value of £666k) vesting in phases over the period to 2021, and an STV Group plc LTIP award (with a face value of £652k) which will vest in 2020, subject to the achievement of the 2017 STV Group plc LTIP performance targets measured over the three years to 31 December 2019, as set out on page 67. As these payments and awards were made in 2018, they are not disclosable in the tables which form the rest of this report but will be included in full in next year's report.

Non-Executive Directors

Following a review of fee levels during 2017, it was determined that the basic fee for Non-Executive Directors would be increased by 2% whilst the fee payable for chairing the audit and remuneration committees would increase by 100% to £5k per annum, to reflect market norms. Additionally, the fee structure has been simplified and the fee previously paid for membership of a board committee has been consolidated into the basic fee.

The fee payable to the Chairman will not be increased in 2018.

Non-Executive Director	£
Chairman fee	125,000
Basic Non-Executive Director fee	38,250
Additional fees: Senior Independent Director	12,750
Chairing the Audit or Remuneration Committee	5,000

Single total figure of remuneration

Executive Directors (audited)

The table below sets out the single total figure of remuneration for the Executive Directors for the 2017 financial year. Comparative figures for 2016 are also shown.

Executive Director	Financial year	Salary £000	Taxable benefits £000	Annual bonus £000	Deferred payment £000	Long-term incentives £000	Pension £000	Total £000
R Woodward	2017	401	16	159	–	41	80	697
	2016	395	16	142	175	n/a	79	807
G Watt	2017	226	16	90	–	23	45	400
	2016	223	16	80	99	n/a	45	463

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 2017, 20% of this will be deferred into shares for three years for George Watt. In accordance with the plan rules and terms of his departure, the annual bonus payment earned by Rob Woodward will be paid in cash immediately.

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 Incentive Plan – This will vest in June 2018. Awards will be payable in relation to performance of non-broadcast earnings growth.

Pension – Both Executive Directors receive a taxable cash allowance in lieu of pension.

Remuneration report

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 2017.

Performance condition	Annual contribution (% salary)			Performance targets		Actual performance outcome			
	Weighting	Threshold	Maximum	Threshold	Maximum	(£m)	(% salary)	R Woodward	G Watt
Operating profit	50%	6.25%	62.5%	£18.5m	£23.5m	£19.0m	16%	£65,394	£36,862
Cash flow	25%	3.125%	31.25%	£17.5m	£21.1m	£12.8m	0%	Target not met	
Personal objectives	25%	3.125%	31.25%	See below			24%	£94,051	£53,015
Total	100%	12.5%	125%	-	-	-	40%	£159,445	£89,877

The personal objectives relate to the key strategic priorities of the business and projects related to progression of the business plan, achievement of KPIs and delivery of shareholder value. Assessment of performance against these objectives concluded that a bonus payment equal to 40% of salary appropriately reflected performance delivered in 2017 for both Executive Directors.

The key objectives that were successfully delivered were continued growth and increased profitability of the digital business; extending the STV Family of consumer services through the launch of STV2; progression of the Company's data strategy and growth of the Scottish Children's lottery towards its breakeven target date.

The Committee is of the opinion that the performance targets are commercially sensitive and that it would be detrimental to the interests of the Company and its shareholders to disclose them at this time.

The Committee will review disclosure of personal objectives targets at the end of each performance period and will disclose these if satisfied they are no longer sensitive.

Long-term Incentive Plan (audited)

The table below sets out the achieved performance for the 2015 Long-term Incentive Plan:

Performance period	EPS (50% of award)		Non-broadcast profit (30% of award)		Relative TSR vs. FTSE Small Cap (20% of award)		Overall vesting
	Annualised growth	Vesting	Final year performance FY2017	Vesting	Ranked TSR vs. Group	Vesting	
1/1/15-31/12/17	0.8%	Nil	£5.4m	46%	Below Median	Nil	13.8%

Scheme interests awarded in 2017 financial year (audited)

The table below shows awards made to the Executive Directors during 2017 under the LTIP. As Rob Woodward had tendered his resignation in April 2017, he did not participate in the 2017 LTIP award:

Executive Director	Award type	Basis of award	Face value of award*	Threshold vesting	Performance period
G Watt	LTIP	100% of salary	£226k	25% of maximum	1/1/17-31/12/19

* Calculated using the closing share price 364.5 pence on the date prior to the date of award.

The awards granted under the LTIP in 2017 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 and straight-line vesting between threshold and maximum.

Payments for loss of office (audited)

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

Rob Woodward tendered his resignation on 25 April 2017. To support the Board in identifying a successor and ensuring a smooth transition, it was agreed that Rob Woodward would continue in his role throughout his notice period of a maximum of up to 12 months duration. Following confirmation that a successor had been identified, Rob Woodward's employment was terminated on 31 December 2017. Details of the remuneration paid to Rob Woodward in respect of his services as an Executive Director in 2017 are set out in the single figure and accompanying notes. Details of the remuneration arrangements in respect of his departure, including the treatment of outstanding share awards, are set out below. In accordance with his service agreement and the Company's Remuneration Policy, Rob Woodward received a payment in lieu of notice of £166k. This payment comprised base salary, benefits and pension allowance for the remaining four months of his 12 month notice period which was not worked.

The deferred share element of the 2016 annual bonus plan will be released in line with the normal release date in March 2020.

Rob Woodward's outstanding awards under the Company's long-term incentive plan will be treated in accordance with the respective plan rules. The 2015 STV Group plc LTIP will vest in June 2018 at the level set out elsewhere in this report and the 2016 STV Group plc LTIP will be exercisable on the normal release date subject to the determination of performance over the three-year performance period and pro-rated to reflect the term of employment.

Options held under the 2013 Value Creation Plan will remain exercisable until March 2023, as previously determined by the Remuneration Committee.

Remuneration report

Payments to past Directors (audited)

No payments to past Directors were made during the year.

All employee share plans

A new three year Save As You Earn Option Plan ('SAYE') was launched in October 2017 at a price of 349 pence per share. George Watt joined the 2017 SAYE at the maximum contribution level with 5,157 shares under option exercisable on 1 November 2020.

George Watt was fully subscribed under the 2014 SAYE which matured on 1 November 2017 and exercised 5,325 shares at the option price of 338 pence per share.

External appointments

During 2017, Rob Woodward served as a non-executive director of Blancco Technology Group plc. George Watt received £20k as a non-executive director of SpaceandPeople plc. In accordance with STV's policy, Executive Directors are entitled to retain their fees.

Non-Executive Directors (audited)

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

Non-Executive Director	Financial year	Basic fees £	Additional fees ¹ £	Total fees £
Baroness Ford	2017	125,000	–	125,000
	2016	95,000	–	95,000
D Shearer	2017	15,000	2,500	17,500
	2016	45,000	7,500	52,500
M Jackson	2017	32,500	1,667	34,167
	2016	32,500	5,000	37,500
C Woolfenden	2017	32,500	5,000	37,500
	2016	32,500	5,000	37,500
A M Cannon	2017	32,500	7,500	40,000
	2016	32,500	6,458	38,958
I Steele	2017	32,500	6,667	39,167
	2016	32,500	5,000	37,500
S Miller	2017	40,833	3,334	44,167
	2016	2,708	–	2,708

Notes

Additional fees relate to the fee structure in place during 2017 through which 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 was paid. David Shearer resigned on 25 April 2017.

Statement of Directors' shareholding and share interests (audited)

Under the current policy, Executive Directors are required to build up a shareholding equal to 100% of salary. Non-Executive Directors are required to build up a shareholding equivalent to their basic fee over a three-year period. The table below summarises the Directors' interests in shares and the extent, where applicable, to which the shareholding requirements have been achieved.

From 2018, the shareholding requirement will be increased to 150% of salary under the new policy.

Director	Number of beneficially owned shares ²	Number of nil cost options	Number of SAYE options subject to conditions	Number of unvested LTIP awards at 31/12/17	Total interests held at 31/12/17	Monetary value of shares at 31/12/17 ³	Shareholding requirements (% salary)	Current shareholding (% salary/basic fee)	Requirement met ⁴
Executive									
R Woodward ¹	447,944	336,735	4,900	198,925	784,679	2,550	100	635	Yes
G Watt	271,094	133,470	5,325	174,188	404,564	1,315	100	581	Yes
Non-Executive									
Baroness Ford	25,958	–	–	–	25,958	84	100	67	n/a
M Jackson	–	–	–	–	–	–	100	0	n/a
C Woolfenden	9,092	–	–	–	9,092	30	100	80	n/a
A M Cannon	9,042	–	–	–	9,042	29	100	73	n/a
I Steele	8,000	–	–	–	8,000	26	–	66	n/a
S Miller	5,000	–	–	–	5,000	16	100	36	n/a

1 Resigned 31/12/2017.

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

3 Share price as at 31/12/17 was 325 pence per share.

4 Not applicable as three-year period to acquire is ongoing.

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:

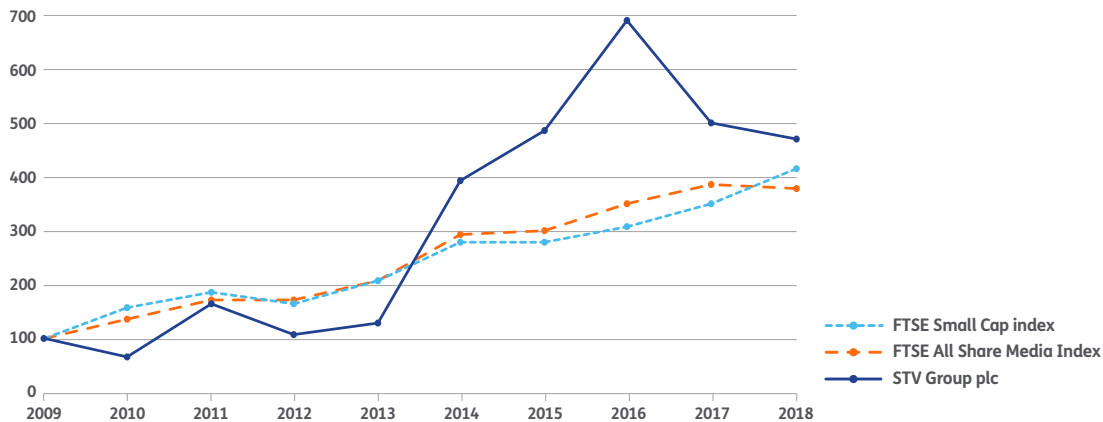
Maximum	Current dilution	Additional dilution during the year in question
10% dilution in ten years	9.16	1.39
5% dilution in ten years	4.40	(0.22)

The bonus plan and the long term incentive plan are subject to a limit of 10% in ten years.

Remuneration report

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 All Share Media indices. The FTSE Small Cap index will be used for performance measures under the new LTIP the FTSE All Share Media index provides a comparison of performance in the media sector.



Single figure of total remuneration

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

Year	Single figure of total remuneration (£000) R Woodward	Bonus pay-out (as % maximum opportunity)	Long-term incentive vesting rates (as % maximum opportunity)
2017	697	32	13.8%
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	-	-

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 2016 and 2017.

	Salary	Taxable benefits	Bonus
Chief Executive Officer	2%	-	12%
All employees	2%	-	n/a

Relative importance of spend on pay

The table below sets out the relative importance of spend on pay in the 2016 and 2017 financial years. These were the most significant outgoings for the Company in the last financial year.

Significant distributions	2017	2016	% change
Overall spend on pay	£20.4m	£19.6m	4%
Dividend or share buy back	£6.8m	£4.3m	58%

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; Anne Marie Cannon (Chairman); Michael Jackson; and Ian Steele. The Committee met three 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.

Advisers 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 connections with the design and operations 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 that 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 £17,350.

In the course of its deliberations during the period under review, the Committee sought the assistance of the Chairman on matters relating to the Directors' performance and remuneration, including the termination of the employment of the former Chief Executive Officer, Rob Woodward, and the structure of the buy-out package element of the remuneration to be paid to the newly appointed Chief Executive Officer, Simon Pitts.

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 25 April 2017.

	Votes for	%	Votes against	%	Total votes cast	Votes withheld*
2016 Remuneration Report	30,517,889	99.33	207,052	0.67	30,727,065	2,124

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

Anne Marie Cannon
Chairman of the Remuneration Committee
13 March 2018

Directors' report

The Directors present the Directors' report, together with the audited accounts for the year ended 31 December 2017. The Directors' report comprises pages 72 to 74 and the sections of the annual report incorporated by reference are set out below:

Directors during 2017 financial year – See page **42**

Greenhouse gas emissions – See page **28**

Employee diversity and inclusion – See page **23**

Principal risks – See pages **34 and 35**

Corporate governance report – See pages **42 to 54**

Employee involvement – See pages **22 to 24**

Dividends

The proposed total dividend for 2017 is 17.0p per share – an increase of 13% on 2016 (15.0p). During 2017 the final 2016 dividend of 11.0p per share was paid together with the interim dividend for 2017 of 5.0p per share. A final dividend of 12.0p per share has been declared which, subject to approval at the AGM in April, will be paid on 31 May 2018, to shareholders on the register at 13 April 2018.

Share capital

The Company announced a share buyback programme on 22 September 2017 and as at 13 March 2018 the Company has completed the buyback of 330,294 ordinary shares of 50p each, the aggregate consideration of which was £1,160,507. Each of these shares was cancelled upon purchase. Consequently, on 13 March 2018 there were 39,217,937 ordinary shares of 50p each in issue, each with one vote and no shares are held in treasury.

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 69.

As at 13 March 2018, the Group had been notified of the following interests of 3% or more in its shares:

Shareholders	Shares held	%
Crystal Amber Advisers	6,336,041	16.11
Columbia Threadneedle Asset Mgt	3,777,707	9.60
Slater Investments	3,475,001	8.83
UBS Global Asset Mgt	3,133,876	7.96
Schroder Inv. Mgt	2,625,240	6.67
Majedie Asset Mgt	2,199,277	5.59
Chelverton Asset Mgt	1,641,365	4.17
Cavendish Asset Mgt	1,429,100	3.63

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 16 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 2017.

Annual General Meeting

Details of the 2018 AGM, together with the Notice of AGM can be found on pages 116 to 124.

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 Pitts who was appointed to the Board on 3 January 2018 as Chief Executive Officer. Rob Woodward resigned as Chief Executive Officer on 31 December 2017. David Shearer retired from the Board on 25 April 2017.

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 during the year (2016: £nil).

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 2017, 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 in 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

Margaret Ford
Chairman
13 March 2018

Financial Statements

- 76** STV Group plc consolidated financial statements – independent auditors' report
- 82** Consolidated income statement
- 82** Consolidated statement of comprehensive income
- 83** Consolidated and parent company balance sheets
- 84** Consolidated and parent company statement of changes in equity
- 85** Consolidated and parent company statement of cash flows
- 86** Notes to the financial statements
- 113** Five year summary

Additional Information

- 114** Shareholder information
- 116** Notice of Annual General Meeting

STV Group plc consolidated financial statements

Independent auditors' report to the members of STV Group plc

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2017 and of the Group's profit and the Group's and the Parent company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the Parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- 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.

We have audited the financial statements, included within the Annual Report and Accounts (the 'Annual Report'), which comprise: the consolidated and parent company balance sheets as at 31 December 2017; the consolidated income statement and consolidated statement of comprehensive income, the consolidated and parent company statements of cash flows, and the consolidated and parent company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent company.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Group or the Parent company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview



- Overall Group materiality: £775,000 (2016: £899,190), based on 5% of profit before tax and exceptional items.
- Overall Parent company materiality: £420,000 (2016: £854,230), based on an allocation of Group materiality.
- We performed audit work over all three segments of the business.
- Taken together, the entities where we performed our audit work accounted for 99% of Group revenue and 95% of Group profit before tax.
- Retirement benefit obligations (Group and Parent company).
- Carrying value of deferred programme production costs (Group only).
- Recoverability of External Lottery Management's ('ELM') other receivable (Group only).

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Parent company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, Pensions legislation and UK tax

legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with legal advisors, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. 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 testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p>Retirement benefit obligations (Group and Parent company) (Refer to page 90 (Significant accounting policies) and page 107 (Retirement benefit schemes)).</p> <p>The Group has a net retirement benefit obligation of £70.6m (2016: £88.8m) and the Parent company an obligation of £30.6m (2016: £39.2m). These balances are significant in the context of the Group and Parent company balance sheets and are dependent on key judgemental assumptions, including discount rate, inflation rate and mortality rates adopted by the Directors in the actuarial valuations. Given the judgements involved and that slight movements in these assumptions can have a significant impact on the overall obligations, 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.</p>	<p>We considered the reasonableness of the key assumptions used in the actuarial valuation, being the discount rate, inflation rate (based on the Retail Price Index and the Consumer Price Index) and mortality rates, assessing if they were within our expected range.</p> <p>All actuarial assumptions, with the exception of the mortality assumptions, fell within our expected range based on our knowledge and experience. For the mortality assumptions, 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 evidence through a scheme specific mortality study they had commissioned, we agreed that the final judgements made by the Directors were reasonable.</p>
<p>Deferred programme production costs carrying value (Group only) (Refer to page 88 (Significant accounting policies) and page 102 (Inventories)).</p> <p>Productions inventory of £14.8m (2016: £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.</p>	<p>We analysed the Directors' assessment of each production in the catalogue to determine, based on the past history of sales and licence periods, the appropriateness of their projected future revenues for each production individually, which are expected to be generated through associated sales in the UK and overseas, including attributable advertising sales generated through digital platforms.</p> <p>We considered the actual sales in 2017 against last year's forecast to establish the level of accuracy in management's forecasting.</p> <p>Finally, we performed sensitivities on the key assumptions for future associated sales to satisfy ourselves that no impairment of inventory was required. We concluded that there was sufficient headroom and that the carrying value of inventory was not greater than its net realisable value.</p>

STV Group plc consolidated financial statements

Independent auditors' report to the members of STV Group plc

Key audit matter	How our audit addressed the key audit matter
<p>ELM Other receivable (Group only) (Refer to page 88 (Significant accounting policies) and page 102 (Trade and other receivables)).</p> <p>Other receivables of £8.2m (2016: £5.4m) relates to costs recoverable from the running of the Scottish Children's Lottery, through ELM. The recoverability of these costs is dependent on the future growth of the lottery and its ability to generate 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 during 2018 and costs recovered over a four year period thereafter.</p>	<p>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.</p> <p>We have reviewed the Directors forecasts and considered the 2017 performance against these forecasts. The forecasts have been revised by the Directors and this led to the debtor being discounted to reflect the extended period over which repayment is now expected. We have reviewed this calculation and agree with the approach taken by management and the discount applied of £0.9m.</p> <p>The recoverability of this balance is dependent on the Directors future sales growth assumptions for lottery ticket sales. We reviewed the growth achieved since inception, and the future forecasts, and have concluded that the forecasts adopted by the Directors are reasonable.</p>

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 structure of the Group and the Parent company, the accounting processes and controls, and the industry in which they operate.

Several subsidiary entities within the Group require an audit of their own financial information and coverage from these audits was included as part of the scoping exercise. Entities which were individually financially significant, or contained individually significant balances, were included in the overall scope. All audits were carried out by the Group engagement team and we performed work over all segments of the business.

Taken together, the segments and functions where we performed our audit work accounted for 99% of Group revenues and 95% of Group profit before tax.

A full scope audit was performed on the Parent entity.

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 in aggregate on the financial statements as a whole.

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

	Group financial statements	Parent company financial statements
Overall materiality	£775,000 (2016: £899,190).	£420,000 (2016: £854,230).
How we determined it	5% of profit before tax and exceptional items.	An allocation of Group materiality.
Rationale for benchmark applied	Consistent with last year, we have applied this benchmark, in line with generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate. We also believe the measure of profit before tax and exceptional items is the measure most commonly used by the shareholders to measure the performance of the Group.	We considered the most appropriate benchmark for the Parent company to be total assets as it is a holding company, however, this resulted in a materiality that was significantly higher than Group materiality. Therefore, we applied an allocation of Group materiality.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £127,200 and £750,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £39,000 (Group audit) (2016: £44,960) and £21,000 (Parent company audit) (2016: £42,712) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Parent company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

STV Group plc consolidated financial statements

Independent auditors' report to the members of STV Group plc

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 42 to 54) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ('DTR') is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 42 to 54) with respect to the Parent company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Parent company. (CA06)

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

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 34 of the Annual Report 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.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 33 of the Annual Report 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 to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and 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 UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the Group and Parent company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 74, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent company obtained in the course of performing our audit.
- The section of the Annual Report on page 49 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of the Directors' Responsibilities set out on page 74, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Parent 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.

Other required reporting

Companies Act 2006 exception reporting

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 Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Parent 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.

Appointment

Following the recommendation of the audit committee, we were appointed by the Directors on 4 March 2004 to audit the financial statements for the year ended 31 December 2004 and subsequent financial periods. The period of total uninterrupted engagement is 14 years, covering the years ended 31 December 2004 to 31 December 2017.

Kenneth Wilson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
13 March 2018

Consolidated income statement

Year ended 31 December 2017

	Note	2017 £m	2016 £m
Revenue	6	117.0	120.4
Net operating expenses	7	(99.6)	(103.5)
Operating profit		17.4	16.9
Analysed as:			
Operating profit before exceptional items		19.0	19.7
Exceptional items	9	(1.6)	(2.8)
Operating profit		17.4	16.9
Finance costs – borrowings	10	(1.0)	(1.2)
– IAS 19 pension	10	(2.5)	–
		(3.5)	(1.2)
Profit before tax		13.9	15.7
Tax charge	11	(2.2)	(3.1)
Profit for the year		11.7	12.6
Earnings per share			
Basic	12	30.1p	32.5p
Diluted	12	29.6p	31.9p

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

Consolidated statement of comprehensive income

Year ended 31 December 2017

	Note	2017 £m	2016 £m
Profit for the year		11.7	12.6
Items that will not be reclassified to profit or loss:			
Re-measurement of defined benefit pension schemes	28	12.7	(88.7)
Deferred tax (charge)/credit thereon	22	(2.4)	15.1
Write up of investment to market value	16	0.6	–
Other comprehensive income/(expense)		10.9	(73.6)
Total comprehensive income/(expense) for the year		22.6	(61.0)

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

Consolidated and parent company balance sheets

at 31 December 2017

	Note	Group		Company	
		2017 £m	2016 £m	2017 £m	2016 £m
Non-current assets					
Intangible assets	14	2.6	2.7	–	–
Property, plant and equipment	15	8.6	7.3	–	–
Investments	16	1.4	0.8	48.6	48.0
Deferred tax asset	22	18.4	21.7	5.2	7.1
Trade and other receivables	18	8.2	5.9	167.5	153.7
		39.2	38.4	221.3	208.8
Current assets					
Inventories	17	20.6	19.5	–	–
Trade and other receivables	18	26.7	22.8	77.0	76.7
Cash and cash equivalents	19	6.1	13.3	–	–
		53.4	55.6	77.0	76.7
Total assets		92.6	94.0	298.3	285.5
Equity attributable to owners of the parent					
Ordinary shares	24	19.7	19.8	19.7	19.8
Share premium	24	101.9	101.9	101.9	101.9
Capital redemption reserve		0.1	–	0.1	–
Merger reserve		173.4	173.4	–	–
Other reserve		0.7	0.4	0.7	0.4
Accumulated (losses)/profit		(334.1)	(348.5)	86.5	78.5
Total equity		(38.3)	(53.0)	208.9	200.6
Non-current liabilities					
Borrowings	21	41.6	39.7	–	–
Derivative financial instruments	20	–	0.1	–	–
Retirement benefit obligations	28	70.6	88.8	30.6	39.2
Provisions	23	0.1	0.3	–	–
		112.3	128.9	30.6	39.2
Current liabilities					
Trade and other payables	20	17.5	17.9	58.8	45.7
Current tax liabilities		0.9	–	–	–
Provisions	23	0.2	0.2	–	–
		18.6	18.1	58.8	45.7
Total liabilities		130.9	147.0	89.4	84.9
Total equity and liabilities		92.6	94.0	298.3	285.5

The above consolidated balance sheet 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 £11.3m (2016: £9.7m).

The consolidated financial statements on pages 82 to 112 were approved by the Board on 13 March 2018 and were signed on its behalf by:

Simon Pitts
Chief Executive Officer

George Watt
Chief Financial Officer

Consolidated and parent company statement of changes in equity

Year ended 31 December 2017

	Equity attributable to owners of the parent						
	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Other reserve £m	Accumulated (losses)/profit £m	Total equity £m
Group							
Balance at 1 January 2017	19.8	101.9	–	173.4	0.4	(348.5)	(53.0)
Profit for the year	–	–	–	–	–	11.7	11.7
Other comprehensive income	–	–	–	–	–	10.9	10.9
Total comprehensive income for the year	–	–	–	–	–	22.6	22.6
Shares bought back on-market and cancelled	(0.1)	–	0.1	–	–	(1.0)	(1.0)
Acquisition of treasury shares	–	–	–	–	–	(1.6)	(1.6)
Share based compensation	–	–	–	–	0.3	–	0.3
Deferred tax credit on share based compensation	–	–	–	–	–	0.1	0.1
Issue of treasury shares to employees	–	–	–	–	–	0.5	0.5
Dividends	–	–	–	–	–	(6.2)	(6.2)
Balance at 31 December 2017	19.7	101.9	0.1	173.4	0.7	(334.1)	(38.3)
Balance at 1 January 2016	19.6	101.8	–	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	19.8	101.9	–	173.4	0.4	(348.5)	(53.0)
Company							
Balance at 1 January 2017	19.8	101.9	–	–	0.4	78.5	200.6
Profit for the year	–	–	–	–	–	11.3	11.3
Other comprehensive income	–	–	–	–	–	5.0	5.0
Total comprehensive income for the year	–	–	–	–	–	16.3	16.3
Shares bought back on-market and cancelled	(0.1)	–	0.1	–	–	(1.0)	(1.0)
Acquisition of treasury shares	–	–	–	–	–	(1.6)	(1.6)
Share based compensation	–	–	–	–	0.3	–	0.3
Issue of treasury shares to employees	–	–	–	–	–	0.5	0.5
Dividends	–	–	–	–	–	(6.2)	(6.2)
Balance at 31 December 2017	19.7	101.9	0.1	–	0.7	86.5	208.9
Balance at 1 January 2016	19.6	101.8	–	–	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)
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
Dividends	–	–	–	–	–	(4.3)	(4.3)
Balance at 31 December 2016	19.8	101.9	–	–	0.4	78.5	200.6

Consolidated and parent company statement of cash flows

Year ended 31 December 2017

	Note	Group		Company	
		2017 £m	2016 £m	2017 £m	2016 £m
Operating activities					
Cash generated by operations	25	11.2	15.9	12.5	9.4
Interest paid		(0.7)	(1.2)	–	–
Refinancing fees paid		(0.3)	–	–	–
Taxes paid		(0.3)	–	–	–
Pension deficit funding – recovery plan payment		(7.9)	(7.8)	(4.1)	(5.4)
Net cash generated by operating activities		2.0	6.9	8.4	4.0
Investing activities					
Purchase of investment		–	(0.1)	–	(0.1)
Capitalised web development spend		(0.5)	(1.4)	–	–
Purchase of property, plant and equipment		(2.9)	(1.8)	–	–
Net cash used in investing activities		(3.4)	(3.3)	–	(0.1)
Financing activities					
Purchase of treasury shares		(1.4)	–	(1.4)	–
Share buyback		(0.6)	–	(0.6)	–
Issue of treasury shares to employees		0.4	0.3	0.4	0.3
Net borrowings drawn		2.0	–	–	–
Dividends paid		(6.2)	(4.3)	(6.2)	(4.3)
Net cash used in financing activities		(5.8)	(4.0)	(7.8)	(4.0)
Net decrease in cash and cash equivalents		(7.2)	(0.4)	0.6	(0.1)
Cash and cash equivalents at beginning of year		13.3	13.7	(4.7)	(4.6)
Cash and cash equivalents at end of year	25	6.1	13.3	(4.1)	(4.7)

Notes to the financial statements

for the year ended 31 December 2017

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 2017 are as follows:

IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
IFRS 16	Leases
IFRS 2	Share based payments (amendments)
IFRS 4	Insurance contracts (amendments)
IAS 40	Investment property

IFRS 2, IFRS 4 and IAS 40 are either not relevant for the Group and parent company or had no material impact on their financial statements.

IFRS 9 'Financial Instruments' replaces all phases of the financial instruments project and IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective from periods beginning on or after 1 January 2018 and introduces: new requirements for the classification and measurement of financial assets and financial liabilities; a new model for recognising provisions based on expected credit losses; and simplified hedge accounting by aligning hedge accounting more closely with an entities risk management methodology. The Group has substantially completed an assessment on the impact of IFRS 9 and the adoption of the standard is unlikely to have a material impact on the Group or parent company financial statements. The standard will be adopted on 1 January 2018 and applied using the cumulative retrospective transition approach whereby any impact is adjusted through equity at the date of adoption.

IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018. The standard will require the Group to identify distinct promises in contracts with customers that qualify as 'performance obligations'. The price receivable from customers must then be allocated between the performance obligations identified. The Group has completed an assessment on the impact of IFRS 15 and no impact is expected on the revenue streams. The standard will be adopted on 1 January 2018 and applied using the cumulative retrospective transition approach whereby any impact is adjusted through equity at the date of adoption.

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 and is effective for annual periods beginning or after 1 January 2019. The full impact of IFRS 16 has not been assessed by Directors. See note 26 for further details on operating leases held.

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 and parent company 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 and parent company 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

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

Internally generated software	between 10% and 25%
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Impairment of assets

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).

Notes to the financial statements

continued

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.

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.

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 together with advertising generated on STV2 and the STV Player platforms. 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. 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 only exception being films acquired for transmission on STV2, which are amortised over a two year period at a rate of 50% in the first year.

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

Financial instruments

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

i) Trade receivables

Trade receivables do not carry any interest and are stated at amortised cost 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.

The ELM debtor, included in non-current assets, is reviewed at each reporting period. If there is a change in the timeline for recovery, the fair value of the debtor is determined by applying the effective interest rate and the resulting discounting provision is recognised in the profit and loss.

ii) Investments

Investments are classified as 'available-for-sale' and are initially measured at fair value, including transaction costs directly attributable to the acquisition of the financial asset. Gains or losses arising from changes in fair value are recognised in other comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the income statement for the period. Equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by other means are held at cost.

iii) Classification of financial liabilities and equities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

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, 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.

Notes to the financial statements

continued

Pensions

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

The defined benefit cost is made up of three categories:

- 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) is 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 estimate (see critical accounting estimates note 5).

iii) Lottery service revenues

Revenue is recognised for ongoing lottery costs rebilled to the SCL when the lottery draw to which the service relates has taken place. Set up costs of £3.2m are being recognised on a monthly basis over 39 months starting from October 2016.

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 21, 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 2017 and 2016 were as follows:

	2017 £m	2016 £m
Total borrowings (note 21)	41.6	39.7
Cash and cash equivalents (note 19)	(6.1)	(13.3)
Net Debt	35.5	26.4
Total equity	(38.3)	(53.0)
Total capital	(2.8)	(26.6)
	(1,268%)	(99%)

The movement in total equity is largely due a pension remeasurement decrease of £12.7m (2016: increase of £88.7m).

Notes to the financial statements

continued

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 25) 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 (2016: £15.0m) were entered into on 9 July 2016 and mature on 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 2017 the Group had no forward foreign currency contracts in place (2016: £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 except for the £8.2m debtor due from the SCL. 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 21) and cash and cash equivalents (note 19)) 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 hedge between 30% and 50% of its core borrowings.

A monthly sensitivity analysis is carried out, and on the level of borrowings of the Group at 31 December 2017, a movement of 0.25% in interest rates would change the level of interest paid in the year by +/- £0.1m (2016: £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 2016 and matures on 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**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.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 28.

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. £1.4m (including £0.7m write offs) was expensed through the income statement in the year (2016: £2.1m). Additional information is disclosed in note 17.

Notes to the financial statements

continued

Lottery recoverability

An amount of £8.2m (2016: £5.9m) 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. Management have considered a change in the timeline for recovery of the debtor and in line with IAS 39, the fair value of the debtor has been determined by applying a discount rate of 3%. This has resulted in a discounting provision of £0.9m. Additional information is disclosed in note 9.

Company

Carrying value of parent company investments

The Company'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 16.

6. 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.

Segment revenues	External revenue	
	2017 £m	2016 £m
Consumer	100.2	105.9
Productions	10.4	12.7
ELM	6.4	1.8
	117.0	120.4

Revenue in 2017 includes £0.8m of revenues from sources outside the UK (2016: £0.7m).

Segment result	2017 £m	2016 £m
Consumer	18.7	19.6
Productions	0.3	0.1
ELM	–	–
	19.0	19.7
Exceptional item attributable to ELM (note 9)	(1.6)	–
Exceptional goodwill impairment attributable to Productions	–	(2.8)
Operating profit	17.4	16.9
Financing	(3.5)	(1.2)
Profit before tax	13.9	15.7
Tax charge	(2.2)	(3.1)
Profit attributable to owners of the parent	11.7	12.6

Operating profit in 2017 includes £0.5m arising outside the UK (2016: £0.3m).

A breakdown of non-broadcast operating profit before exceptionals is as follows:

	2017 £m	2016 £m
Digital	4.6	4.1
Productions	0.3	0.1
Music/telephony	0.5	0.3
	5.4	4.5
Percentage of total operating profit before exceptionals	28%	23%

Segment assets and liabilities	Assets		Liabilities	
	2017 £m	2016 £m	2017 £m	2016 £m
Consumer	33.5	35.0	9.6	11.2
Productions	29.4	30.2	5.1	3.5
ELM	8.2	5.9	0.5	0.6
Total of all segments	71.1	71.1	15.2	15.3
Unallocated corporate	21.5	22.9	115.7	131.7
Consolidated	92.6	94.0	130.9	147.0

Other segment information	Consumer		Productions		ELM	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Capital additions	3.4	3.2	–	–	–	–
Depreciation and amortisation	2.2	2.4	–	–	–	–

Segment assets consist primarily of 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 2016 and 2017 were held in the UK and therefore operate in a single geographical segment.

7. Operating expenses by nature

	2017 £m	2016 £m
Programming costs	47.9	54.1
Staff costs	28.6	25.1
Other external charges	16.8	16.5
Depreciation and amortisation	2.2	2.4
Operating lease charges	2.3	2.6
Other operating charges	0.2	–
	98.0	100.7
Exceptional items	1.6	2.8
	99.6	103.5

Notes to the financial statements

continued

Services provided by the Group's auditors

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

	2017 £m	2016 £m
Group		
Fees payable to Company auditors for the audit of parent company and consolidated financial statements	110	105
Fees payable to the Company's auditors and its associates for other services:		
– The audit of Company's subsidiaries pursuant to legislation	25	25
– Audit-related assurance services	26	25
– Tax advisory services	–	146
– Other services	–	10
	161	311

Included in the audit fees payable is £5,000 (2016: £5,000) paid in respect of the parent company.

Other services in 2016 comprise employee benefit advisory services.

	2017 £m	2016 £m
Fees in respect of STV Group plc pension schemes		
Audit	25	21

8. Staff

Group

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

	2017 Number	2016 Number
Consumer, Productions and ELM		
Established	480	480
Contract	23	28
	503	508

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

Their aggregate remuneration comprised:

	2017 £m	2016 £m
Wages and salaries	20.4	19.6
Social security costs	2.2	2.0
Other pension costs	6.0	3.5
	28.6	25.1

Details of Directors' remuneration is provided in the Remuneration Report on pages 55 to 71.

Company

The Company had no employees during the current or preceding year. No Director received remuneration from the Company during the year (2016: £nil). The emoluments of the Directors are paid by another Group company which makes no recharge to the parent company.

9. Exceptional items

A £1.6m non-cash charge has been incurred during the year in relation to the ELM debtor. A change in the timeline for recovery of the debtor has resulted in an IAS39 discounting provision of £0.9m being applied. The remaining £0.7m is a write off of post-launch non-billable costs.

The tax effect on exceptional items during the year was £0.1m credit (2016: £nil).

10. Finance costs

	2017 £m	2016 £m
Bank borrowings	1.0	1.2
Pension finance charge	2.5	–
	3.5	1.2

11. Tax charge

	2017 £m	2016 £m
Corporation tax:		
Current year	1.2	0.5
Adjustments in respect of prior years	–	(0.1)
	1.2	0.4
Deferred tax (see note 22)	1.0	2.7
Tax charge for the year	2.2	3.1

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

	2017 £m	2016 £m
Profit before tax	13.9	15.7
Tax at the UK corporation tax rate of 19.25% (2016: 20%)	2.7	3.1
Tax effects of:		
Other expenses not deductible for tax purposes	0.1	0.6
Movement in losses not recognised	(0.2)	(0.5)
Impact of changes in tax rates	(0.2)	(0.1)
Changes in estimates related to prior years	(0.2)	–
Tax charge for the year	2.2	3.1

Notes to the financial statements

continued

12. Earnings per share

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

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

	Earnings £m	2017 Weighted average number of shares (m)	Per share Pence	Earnings £m	2016 Weighted average number of shares (m)	Per share Pence
EPS:						
Earnings attributable to ordinary shareholders	11.7	38.9	30.1p	12.6	38.8	32.5p
Basic EPS	11.7	38.9	30.1p	12.6	38.8	32.5p
Potential dilutive shares		0.6			0.7	
Diluted EPS	11.7	39.5	29.6p	12.6	39.5	31.9p
EPS (pre-exceptional items and pre-IAS 19):						
Earnings attributable to ordinary shareholders (pre-exceptional items)	13.3	38.9	34.2p	15.4	38.8	39.7p
Add back: IAS 19 (net of tax at effective rate)	2.1		5.4p	–		–
EPS	15.4	38.9	39.6p	15.4	38.8	39.7p
Potential dilutive shares		0.6			0.7	
EPS	15.4	39.5	39.0p	15.4	39.5	39.0p

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.

13. Dividends

	2017 £m	2016 £m
Equity dividends on ordinary shares		
Declared and paid during the year:		
Final for 2016: 11.0p (2015: 7.0p) per share	4.3	2.7
Interim for 2017: 5.0p (2016: 4.0p) per share	1.9	1.6
Dividends paid	6.2	4.3

A final dividend of 12.0p per share (2016: 11.0p per share) has been proposed and is subject to approval by the board of Directors. It is payable on 31 May 2018 to shareholders who are on the register at 13 April 2018. The ex dividend date is 12 April 2018. This final dividend, amounting to £4.7m has not been recognised as a liability in these financial statements.

14. Other intangible assets

	Web development and branding £m
Cost	
At 1 January 2016	1.8
Additions	1.4
At 1 January 2017	3.2
Additions	0.5
At 31 December 2017	3.7
Accumulated amortisation and impairment	
At 1 January 2016	0.1
Amortisation	0.4
At 1 January 2017	0.5
Amortisation	0.6
At 31 December 2017	1.1
Net book value at 31 December 2017	2.6
Net book value at 31 December 2016	2.7

15. Property, plant and equipment

	Leasehold buildings £m	Plant, technical equipment and other £m	Total £m
Cost			
At 1 January 2016	0.1	28.0	28.1
Additions	–	1.8	1.8
Write offs	–	(7.3)	(7.3)
At 1 January 2017	0.1	22.5	22.6
Additions	0.3	2.6	2.9
Disposals	–	(0.1)	(0.1)
At 31 December 2017	0.4	25.0	25.4
Accumulated depreciation and impairment			
At 1 January 2016	0.1	20.5	20.6
Charge for year	–	2.0	2.0
Write offs	–	(7.3)	(7.3)
At 1 January 2017	0.1	15.2	15.3
Charge for year	–	1.6	1.6
Disposals	–	(0.1)	(0.1)
At 31 December 2017	0.1	16.7	16.8
Net book value at 31 December 2017	0.3	8.3	8.6
Net book value at 31 December 2016	–	7.3	7.3

Notes to the financial statements

continued

16. Investments

	2017 £m	2016 £m
Group		
Listed	0.8	0.2
Other	0.6	0.6
	1.4	0.8

Mirriad, one of the Group's investments, became a listed company during the year. The £0.6m movement represents the increase in the investment to market value.

	2017 £m	2016 £m
Company		
Share in Group undertakings	47.3	47.3
Other investments		
Listed	0.8	0.2
Other	0.5	0.5
	48.6	48.0

The £0.6m movement in other investments represents the increase to market value (see above under Group).

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 2017 which supported moderate growth in the Group through the period from 2018 to 2020. 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 2018 of 10% and then flat growth. Both scenarios still left the Group with significant headroom. The discount rate applied was 7.95% (2016: 8.44%).

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.

Subsidiary undertakings

A full list of subsidiary undertakings as at 31 December 2017 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	
STV Drama 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	Television broadcasting	
STV Dundee Limited	Television broadcasting	
STV Ayr Limited	Television broadcasting	
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 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.

Notes to the financial statements

continued

17. Inventories

	Group	
	2017 £m	2016 £m
Deferred programme production	14.8	14.8
Programme production work in progress	4.9	4.0
Recorded programmes	0.9	0.7
	20.6	19.5

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 noncurrent categories and to be consistent with practice elsewhere in the industry. It is anticipated that £1.0m is likely to be realised within 12 months.

At 31 December 2017, the net present value (NPV) of the future sales, estimated over a maximum period of 15 years for drama and 10 years for other genres of programming, was £24.7m (2016: £18.4m), with the net book value of £14.8m representing 54% (2016: 80%) of the future sales. A discount rate of 6.0% (2016: 6.7%) was applied. Revenues in 2018 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 £0.3m
Rate of price inflation (RPI)	Increase/decrease by 0.25%	Increase/decrease by £0.2m
Sales	Increase/decrease by 10.00%	Increase/decrease by £1.7m

18. Trade and other receivables

	Group				Company			
	Current		Non-current		Current		Non-current	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Trade receivables	15.4	14.7	–	–	–	–	–	–
Amounts owed by group undertakings	–	–	–	–	75.9	75.7	167.5	153.7
Prepayments and accrued income	10.9	7.9	–	–	1.1	1.0	–	–
Other receivables	0.4	0.2	8.2	5.9	–	–	–	–
	26.7	22.8	8.2	5.9	77.0	76.7	167.5	153.7

As of 31 December 2017, trade receivables of £1.8m (2016: £1.5m) are past due. These are net of a provision for bad debts of £nil (2016: £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:

	2017		2016	
	Gross £m	Provision £m	Gross £m	Provision £m
Up to 3 months	15.4	–	14.7	–

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 £8.2m (2016: £5.9m), 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. Management have considered a change in the timeline for recovery of the debtor and in line with IAS 39, the fair value of the debtor has been determined by applying a discount rate of 3%. This has resulted in a discounting provision of £0.9m – refer to note 9.

A loan to a subsidiary undertaking of £80.0m (2016: £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.

19. Cash and cash equivalents

	Group	
	2017 £m	2016 £m
Cash and cash equivalents	6.1	13.3

20. Trade and other payables

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Current				
Trade payables	4.3	4.0	–	–
Accrued expenses and deferred income	9.5	11.1	0.5	0.1
Amounts owed to group undertakings	–	–	54.2	40.9
Bank overdraft	–	–	4.1	4.7
Social security and other taxes	3.7	2.8	–	–
	17.5	17.9	58.8	45.7
Non-current				
Derivative financial instruments (note 4)	–	0.1	–	–

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

21. Borrowings

	Group	
	2017 £m	2016 £m
Bank loans	41.6	39.7

The borrowings are repayable as follows:

Expiring in 2 to 5 years	41.6	39.7
--------------------------	------	------

All undrawn committed borrowing facilities are repayable within 2 to 5 years (2016: 2 to 5 years).

The amount of bank loans is net of £0.4m unamortised borrowing costs (2016: £0.3m).

The effective interest rates were as follows:

	2017 %	2016 %
Bank loans (floating)	2.0	2.0

Notes to the financial statements

continued

At 31 December 2017, the Group had revolving credit and overdraft bank facilities in place totalling £60.0m (£60.0m at 31 December 2016). At 31 December 2017, £42.0m of the facility was drawn down.

An extension to the £60.0m revolving credit and overdraft facility was agreed on 15 September 2017 and the facility now has a maturity date of June 2022. 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 (2016: £15.0m). The notional principal amount of the outstanding interest rate swap contracts at 31 December 2017 was £15.0m (2016: £15.0m). A fair value on the interest rate swaps of £nil (2016: £0.1m) has been recognised at 31 December 2017.

22. Deferred tax

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

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Deferred tax asset:				
Deferred tax to be recovered after more than one year	(17.0)	(19.5)	(4.7)	(5.6)
Deferred tax to be recovered within one year	(1.4)	(2.2)	(0.5)	(1.5)
	(18.4)	(21.7)	(5.2)	(7.1)
Net deferred tax asset	(18.4)	(21.7)	(5.2)	(7.1)
Deferred tax asset not recognised	(1.9)	(2.1)	-	-

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 £1.9m (2016: £2.1m) which has not been recognised relates to a combination of trading tax losses and non-trade debits.

The movement in deferred tax assets and liabilities during the year, taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Tax trading losses £m	Other temporary differences £m	Accelerated tax depreciation £m	Retirement benefit obligations £m	Total £m
Group					
At 1 January 2017	(4.2)	(0.7)	(1.5)	(15.3)	(21.7)
Charge/(credit) to income	0.3	(0.1)	(0.1)	0.9	1.0
(Credit)/charge to equity/OCI	-	(0.1)	-	2.4	2.3
At 31 December 2017	(3.9)	(0.9)	(1.6)	(12.0)	(18.4)
Company					
At 1 January 2017	(0.3)	-	-	(6.8)	(7.1)
Charge to income	0.3	-	-	0.4	0.7
Charge to equity/OCI	-	-	-	1.2	1.2
At 31 December 2017	-	-	-	(5.2)	(5.2)

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.

23. Provisions

	Onerous lease provisions	
	2017 £m	2016 £m
At 1 January	0.5	0.8
Utilised during the year	(0.2)	(0.3)
At 31 December	0.3	0.5
The provisions are expected to be utilised:		
Within one year	0.2	0.2
Greater than one year	0.1	0.3
	0.3	0.5

24. Share capital and premium

	Number of shares (thousands)	Ordinary shares £m	Share premium £m	Total £m
At 1 January 2017	39,548	19.8	101.9	121.7
Shares bought back on-market and cancelled	(181)	(0.1)	-	(0.1)
At 31 December 2017	39,367	19.7	101.9	121.6

The total authorised number of ordinary shares is 63 million shares (2016: 63 million shares) with a par value of £0.50 per share (2016: £0.50 per share). All issued shares are fully paid.

The Group commenced a share buyback programme during the year. At 31 December 2017 181,000 shares had been purchased and cancelled.

Notes to the financial statements

continued

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

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Operating profit/(loss)	17.4	16.9	(0.8)	(0.9)
Adjustments for:				
Depreciation (note 15)	1.6	2.0	–	–
Amortisation (note 14)	0.6	0.4	–	–
Share based payment	0.3	0.3	0.3	0.3
Goodwill impairment charge	–	2.8	–	–
ELM exceptional	1.6	–	–	–
EBITDA	21.5	22.4	(0.5)	(0.6)
Increase in inventories	(1.1)	(0.3)	–	–
Increase in trade and other receivables (excluding ELM)	(3.9)	(0.7)	(0.1)	(0.2)
Decrease in trade and other payables (excluding ELM)	(1.4)	(0.1)	–	–
Increase in ELM trade and other receivables	(3.9)	(5.9)	–	–
Increase in ELM trade and other payables	–	0.5	–	–
Increase in intra-Group balances	–	–	13.1	10.2
Cash generated by operations	11.2	15.9	12.5	9.4

Reconciliation of movement in net debt

	At 1 January 2017 £m	Cash flows £m	Non-cash changes £m	At 31 December 2017 £m
Share buy-back	–	–	(0.4)	(0.4)
Long-term borrowings	(39.7)	(1.7)	(0.2)	(41.6)
Total liabilities from financing activities	(39.7)	(1.7)	(0.6)	(42.0)
Deduct: Share buy-back	–	–	0.4	0.4
Cash and cash equivalents	13.3	(7.2)	–	6.1
Net debt	(26.4)	(8.9)	(0.2)	(35.5)

The share buy-back liability is included within Trade and other payables on the balance sheet and relates to a contract to purchase our own shares as part of the share buy-back scheme.

The long-term borrowings non-cash changes 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.

	2017 £m	2016 £m
Operating profit	19.0	19.7
Depreciation and amortisation	2.2	2.4
Post employment benefit changes	2.5	2.6
Non-cash and other adjustments	1.4	1.5
	25.1	26.2

26. Operating lease commitments

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

	2017 £m	2016 £m
Within one year	2.1	1.6
Between two and five years	8.0	5.4
After five years	6.1	5.2
	16.2	12.2

27. Transactions with related parties

Key management compensation

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:

	2017 £m	2016 £m
Short-term employee benefits*	1.4	1.6

*See Remuneration Report page 64-65 for details.

Other related party transactions

During the year £3,700 (2016: £3,700) of fee income was received from the Group's investment companies and a balance of £2,220 owed at 31 December 2017 (31 December 2016: £1,110).

During the year airtime advertising transactions occurred between the Group and a company of which Christian Woolfenden is the Managing Director. The transactions amounted to £32,683 during the year (2016: £nil) with an outstanding receivable of £25,610 at 31 December 2017 (31 December 2016: £nil).

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

28. Retirement benefit schemes

Defined contribution schemes

The Group operates two money purchase schemes, the STV Pension Scheme and the Pearl & Dean Cinemas Pension Scheme, for which the pension cost charge for the year amounted to £1.5m (2016: £1.5m).

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 2017 was £70.6m (2016: £88.8m).

Company

The net pension deficit was £30.6m (2016: £39.2m).

Notes to the financial statements

continued

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	
	2017 £m	2016 £m	2017 £m	2016 £m
Total defined benefit scheme obligations	(440.0)	(448.2)	(182.2)	(186.6)
Total defined benefit scheme assets	369.4	359.4	151.6	147.4
Net pension deficit	(70.6)	(88.8)	(30.6)	(39.2)

A related offsetting deferred tax credit for the Group of £12.0m (2016: £15.3m) and the Company of £5.2m (2016: £6.3m) is included under non-current assets. Therefore the net pension scheme deficit for the Group amounts to £58.6m at 31 December 2017 (£73.5m at 31 December 2016) and the Company amounts to £25.4m (2016: £32.9m).

Total defined benefit scheme obligations

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

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Defined benefit obligation at 1 January	448.2	320.9	186.6	134.8
Current service cost	–	0.1	–	–
Interest cost	12.2	12.1	5.1	5.1
Remeasurement losses/(gains)	0.4	135.8	(0.2)	55.9
Benefits paid from plan	(20.8)	(20.7)	(9.3)	(9.2)
Defined benefit obligation at 31 December	440.0	448.2	182.2	186.6

Assumptions used to estimate the scheme obligations

The 1 January 2015 valuation has been updated to 31 December 2017 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	
	2017	2016	2017	2016
Rate of increase in salaries	nil%	nil%	nil%	nil%
Rate of increase of pensions in payment	3.21%	3.30%	3.21%	3.30%
Discount rate	2.55%	2.80%	2.55%	2.80%
Rate of price inflation (RPI)	3.20%	3.30%	3.20%	3.30%

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 the mortality assumptions used at both 31 December 2016 and 2017.

	Group		Company	
	2017 Years	2016 Years	2017 Years	2016 Years
Retiring at balance sheet date:				
Male	18.8	19.1	18.5	18.8
Female	20.8	21.4	20.6	21.1
Retiring in 25 years:				
Male	20.6	20.8	20.1	20.3
Female	22.3	22.7	22.5	22.9

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 3-4%
Rate of price inflation (RPI)	Increase/decrease by 0.25%	Increase/decrease by 2%
Rate of mortality	Decrease by 1 year	Decrease by 4%
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.

Total defined benefit scheme assets

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

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Fair value of scheme assets at 1 January	359.4	313.1	147.4	127.2
Interest income	9.9	12.1	4.0	5.0
Return on plan assets excluding interest income	13.1	47.1	5.4	18.9
Contributions from the employer	9.4	9.2	4.2	5.9
Administrative expenses paid from plan assets	(1.6)	(1.4)	(0.1)	(0.4)
Benefits paid from plan	(20.8)	(20.7)	(9.3)	(9.2)
Fair value of scheme assets at 31 December	369.4	359.4	151.6	147.4

Notes to the financial statements

continued

Scheme assets

At 31 December 2017 the Scheme's assets were invested in a diversified portfolio that consisted primarily of investment funds and debt instruments. The fair value of the Scheme's assets are shown below:

Group	At 31 December 2017			At 31 December 2016		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Investment funds	109.7	144.2	253.9	40.3	181.6	221.9
Debt instruments	100.3	–	100.3	103.9	–	103.9
Cash and cash equivalents	8.9	–	8.9	29.4	–	29.4
Derivatives	–	6.3	6.3	–	4.2	4.2
	218.9	150.5	369.4	173.6	185.8	359.4

Company	At 31 December 2017			At 31 December 2016		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Investment funds	44.7	59.5	104.2	17.3	74.6	91.9
Debt instruments	41.4	–	41.4	42.8	–	42.8
Cash and cash equivalents	3.6	–	3.6	11.2	–	11.2
Derivatives	–	2.4	2.4	–	1.5	1.5
	89.7	61.9	151.6	71.3	76.1	147.4

Amounts recognised through the income statement:

Amounts recognised through the income statement are as follows:

	2017 £m	2016 £m
Amount charged to net operating expenses: Current service cost – defined benefit	(1.9)	(2.0)
Amount charged to finance costs: Net interest expense	(2.5)	–
Total charged in the consolidated income statement	(4.4)	(2.0)

Amounts recognised through the statement of comprehensive income:

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

	2017 £m	2016 £m
Remeasurement gains/(losses):		
Return on plan assets excluding interest income	13.1	47.1
Actuarial gains/(losses) on liabilities arising from change in:		
– demographic assumptions	11.8	(55.9)
– financial assumptions	(12.2)	(62.0)
– experience adjustments	–	(17.9)
Total recognised in the consolidated statement of comprehensive income	12.7	(88.7)

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 was agreed with monthly payments commencing in January 2017. Annual payments will increase 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 2018 are £10.2m (2017: £10.0m) which reflects the deficit funding payments described above.

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

29. 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 (2016: £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 2017 LTIP valuation are:

	%
Risk-free interest rate	0.46
Expected dividend yield	4.20
Expected share price volatility	30.00

Notes to the financial statements

continued

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	2017 Number	2016 Number
2013 VCP	1.00	470,205	470,205
2014 LTIP	3.40	20,040	150,705
2015 LTIP	4.25	302,473	302,473
2016 LTIP	3.67	324,265	324,265
2017 LTIP	3.65	292,888	–

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 2017 there were 452,030 (2016: 461,463) options outstanding under the plans. The employee share plans are valued using the Black and Scholes model.

30. Reconciliation of statutory results to adjusted results

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. The principal adjustments made to the statutory results are for IAS 19, as this is a significant non-operational, non-cash item, and for exceptional items, due to their non-recurring and often non-cash nature.

	2017			2016		
	Profit before tax £m	Basic EPS pence	Diluted EPS pence	Profit before tax £m	Basic EPS pence	Diluted EPS pence
Post-exceptional	13.9	30.1p	29.6p	15.7	32.5p	31.9
Add back: exceptionals	1.6	4.1p	4.1p	2.8	7.2p	7.1p
Pre-exceptional	15.5	34.2p	33.7p	18.5	39.7p	39.0p
Add back: IAS 19	2.5	5.4p	5.3p	–	–	–
Adjusted results	18.0	39.6p	39.0p	18.5	39.7p	39.0p

Five year summary

For the year ended 31 December 2017

	2013 £m	2014 £m	IFRS 2015 £m	2016 £m	2017 £m
Results					
Revenue	112.1	120.4	116.5	120.4	117.0
Profit from operations before exceptional items	18.0	19.5	20.3	19.7	19.0
Profit on ordinary activities before taxation and exceptional items	14.3	17.3	18.6	18.5	15.5
Assets					
Non-current assets	22.6	26.9	22.3	38.4	39.2
Current assets	47.8	61.2	55.0	55.6	53.4
Total assets	70.4	88.1	77.3	94.0	92.6
Equity and liabilities					
Current liabilities	62.0	19.7	18.6	18.1	18.6
Non-current liabilities	0.8	64.9	47.8	128.9	112.3
Equity	7.6	3.5	10.9	(53.0)	(38.3)
Total equity and liabilities	70.4	88.1	77.3	94.0	92.6
Key statistics					
Earnings per ordinary share – basic	32.2p	38.7p	29.8p	32.5p	30.1p
– diluted	31.2p	37.6p	29.0p	31.9p	29.6p
Dividends per ordinary share	2.0p	8.0p	10.0p	15.0p	17.0p

Shareholder information

Registrars

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The Registry, 34 Beckenham Road
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Tel: 0871 664 0300*
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Fax: +44 (0) 1484 601 512
Email: enquiries@linkgroup.co.uk
Website: www.signalshares.com

Independent auditors

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Chartered Accountants and Statutory Auditors
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Solicitors

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Burness Paull LLP
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Principal bankers

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Stockbrokers

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Panmure Gordon & Co
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Secretary and registered office

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Company registration number

SC203873

Annual Report on internet

The 2017 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:

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PR Manager

STV Group plc

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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: +44 (0) 371 664 0385.**

Your shareholding

You can check your shareholding at any time by visiting our share portal at: www.signalshares.com

Link share dealing services

Link 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.linksharedeal.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.

Notice of Annual General Meeting

THIS INFORMATION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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

If you have sold or transferred all of your shares in STV Group plc (the 'Company'), please pass this document, together with the accompanying documents to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

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

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

Notice is hereby given that the Annual General Meeting of the Company will be held at Pacific Quay, Glasgow G51 1PQ on Thursday 26 April 2018 at 11 am for the purpose of considering and, if thought fit, passing the resolutions below.

Resolutions 1 to 11 (inclusive) will be proposed as ordinary resolutions and Resolutions 12 to 15 (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 2017 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 64 to 71 of the Annual Report and Accounts for the financial year ended 31 December 2017.

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

3. To approve the Directors' Remuneration Policy, in the form set out on pages 57 to 63 of the Annual Report and Accounts for the financial year ended 31 December 2017.

Resolution 3 seeks approval (on a binding basis) of the remuneration policy governing Directors' remuneration. If the remuneration policy is approved and remains unchanged, it will be valid for up to three financial years without a new shareholder approval. If the Company wishes to change the Directors' remuneration policy, it will need to put the revised policy to shareholders to vote on before it can implement any new policy.

4. To declare a final dividend of 12.0p per ordinary share for the year ended 31 December 2017.

The Board proposes a final dividend of 12.0p per ordinary share for the year ended 31 December 2017 which, if approved, will be paid on 31 May 2018 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 13 April 2018.

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

Simon Pitts is standing for election following his appointment as Chief Executive Officer on 3 January 2018. 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 Pitts can be found on page 40.

Resolutions 6 to 8

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.

6. To re-elect Baroness Margaret Ford as a Director of the Company.

Biographical details of Baroness Ford can be found on page 40 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, Baroness Ford's performance continues to be effective and to demonstrate commitment to the role.

7. To re-elect George Watt as a Director of the Company.

Biographical details of George Watt can be found on page 41 and the following formal performance evaluation, Mr Watt's performance continues to be effective and to demonstrate commitment to the role.

8. To re-elect Ian Steele as a Director of the Company.

Biographical details of Ian Steele 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 Steele's performance continues to be effective and to demonstrate commitment to the role.

9. 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.

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

11. 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 £6,536,323; and
- (b) up to an aggregate nominal amount of £6,536,323 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

Notice of Annual General Meeting

next Annual General Meeting of the Company after the passing of the resolution, but so that the Directors may at any time prior to such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if the authority conferred by this resolution had not expired; and all unexercised authorities previously granted to the Directors to allot equity securities are revoked.

The Directors require the authority of shareholders to allot the Company's shares and the first part of this resolution extends for a further year the general authority for the Directors to allot a limited number of ordinary shares (13,072,646 being shares representing one third of the ordinary issued share capital of the Company as at 13 March 2018, 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 (13,072,646 being shares representing one third of the ordinary issued share capital of the Company as at 13 March 2018, 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 2019. 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

12. That subject to the passing of 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 11 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 11 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 £980,448,

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 1,960,897 ordinary shares, representing 5% of the ordinary issued share capital of the Company as at 13 March 2018.

It also allows the Directors to allot shares up to a nominal amount of £13,072,646 (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 £6,536,323 (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 2019. 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 13.

13. That subject to the passing of Resolution 11 and in addition to any authority granted under Resolution 12, the Directors be and are hereby empowered, pursuant to Section 570 of the Companies Act 2006 to allot equity securities (within the meaning of Section 560 of that Act) for cash either pursuant to the authority conferred by Resolution 11 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 £980,448; 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 1,960,897 ordinary shares, representing 5% of the ordinary issued share capital of the Company as at 13 March 2018 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.

14. 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 3,921,794 Shares, the aggregate nominal value of which is £1,960,897;
 - (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(6) of the Market Abuse Regulation (No 598/2014); 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.

Notice of Annual General Meeting

This resolution seeks the authority of shareholders to allow the Company to purchase its own shares. The authority sought extends to 3,921,794 Shares, representing 10% of the ordinary share capital of the Company in issue as at 13 March 2018. The maximum price, which may be paid per Share, amounts to not more than 5% above the average of the middle market quotations of the Company's shares for the five business days immediately preceding the date of purchase. The power will only be used if the Board is satisfied that it will be in the best interests of the shareholders generally.

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

The Company announced a share buyback programme on 22 September 2017 and as at 13 March 2018 the Company has completed the buyback of 330,294 ordinary shares of 50p each, the aggregate consideration of which was £1,160,507. Each of these shares was cancelled upon purchase. Consequently, on 13 March 2018 there were 39,217,937 ordinary shares of 50p each in issue, each with one vote and no shares are held in treasury.

As at 13 March 2018 warrants and options to subscribe for 1,260,193 ordinary shares in the capital of the Company were outstanding, representing 3.21% of the Company's issued ordinary share capital as at 13 March 2018 (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 3.57% of the issued ordinary share capital of the Company (excluding treasury shares held by the Company).

15. 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 2018

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 Investors section 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 Link Asset Services on 0871 664 0300 or enquiries@linkgroup.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.signalshares.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 Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF no later than 11.00am on 24 April 2018 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, speak 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 24 April 2018 (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 2018 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 39,217,937 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 2018 are 39,217,937.

Notice of Annual General Meeting

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, Link Asset Services (IDRA10) by 11.00am on 24 April 2018 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 Link Asset Services on 0871 664 0300 or enquiries@linkgroup.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 send a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Link 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.

The revocation notice must be received by Link Asset Services no later than 8am on 26 April 2018 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. Any member attending the meeting has a right to ask the Company questions and 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.

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.

Notice of Annual General Meeting

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.



The STV Appeal 2018 is here

Visit www.stv.tv/appeal to see how you can help.

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Company Registration Number SC203873

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