ANNUAL REPORT AND ACCOUNTS 2019

Strategic plan delivers profitable growth

16 April 2020

Dear Shareholder

ANNUAL REPORT & ACCOUNTS 2019 AND ARRANGEMENTS FOR THE ANNUAL GENERAL MEETING

This letters notifies shareholders that STV Group Plc's Annual Report and Accounts (the 'ARA') for the year ended 31 December 2019 and Notice of the 2020 Annual General Meeting (the 'AGM') have now been published and are available to view on STV's website at www.stvplc.tv/investors.

It should be noted that STV's 2019 ARA was approved by the Board on 9 March 2020, together with the 2019 Full Year Results Statement, and before the early impact of COVID-19 was known. The outlook narrative and 2020 implementation of the Remuneration Policy do not take account of the significantly different market conditions faced by all UK businesses following implementation of strict social distancing measures by the UK and Scottish Governments.

STV's main priority remains to protect our people and we will continue to follow all Government advice. We have implemented contingency plans to ensure that we remain able to offer a high quality schedule of new drama, entertainment and factual programmes over the coming months, and in particular protect our ability to sustain our public service news output which provides the most popular local news service in Scotland, and is of critical and increasing importance to our viewers in these uncertain times.

We continue to monitor closely the rapidly evolving situation with COVID-19 and on 26 March issued a trading update covering a number of areas of the business and the steps being taken to ensure STV remains financially resilient and can continue to execute its successful growth strategy in the future.

The update confirmed that STV has good ongoing access to liquidity through its £60m overdraft and revolving credit facility, and detailed a number of measures being taken that demonstrate our ongoing focus on cash generation and cost management, to ensure maximum flexibility is retained in the business.

One such measure confirmed was that our Board is no longer recommending a final dividend of 14.7p per share (financial year ended 31 December 2019) and is therefore withdrawing the resolution in advance of the AGM. We recognise how important the dividend is to our shareholders and the Board will revisit the position for future dividends once there is greater clarity on the impact of COVID-19 on the business.

It is also confirmed that in order to ensure maximum financial flexibility, the Management Board has volunteered not to take payment at this time of their performance bonuses earned as a result of the strong financial performance achieved in 2019. Furthermore, the Management Board and the Board of Directors have both volunteered to take a reduction of 25% in their base salary and fees respectively, effective from 1 April 2020 until the end of the Government's lockdown restrictions. The Remuneration Committee will revisit and exercise its discretion with respect to the Management Board performance bonuses for 2019 once there is greater clarity on the impact of COVID-19 on the business.

The ARA indicated that the AGM would take place on 21 April 2020 but given current uncertainty around the timing and extent of the future spread of COVID-19 and the ability of the Company to hold its AGM in accordance with current Government guidance, the Board made the decision to delay the AGM.

The AGM will now be held on **Thursday 28 May 2020 at 11am** in STV's registered office (Pacific Quay, Glasgow G51 1PQ). We are required by law to hold an AGM and are working on the basis that social distancing arrangements will still be in place when our AGM is held. Accordingly, we are implementing contingency arrangements which mean that the meeting will not follow the same format as in previous years but will still meet the minimum legal requirements for an AGM.

Continued overleaf...

On the basis of the Government's clear advice that all non essential travel and social contact should be avoided, the Board reluctantly advises shareholders against attending the AGM in person this year and if any shareholder does attempt to gain entry to the meeting in person, they will be denied access based on the prevailing circumstances. The health and wellbeing of our shareholders, employees, advisers and of the general public is of utmost importance to the Board and the Company is committed to minimising the unnecessary movement of people at this time.

Online proxy voting is recommended so please send us your vote by completing and submitting your form of proxy online through the website of our registrar, Link Asset Services, at www.signalshares.com, to be received no later than 48 hours prior to the time set for the meeting.

To vote online you will need to log in to your Signal Shares Shareholder Portal account or register for Signal Shares if you have not already done so. To register for Signal Shares you will need your investor code which can be found on your share certificate or by contacting Link Asset Services. Once registered, you will immediately be able to vote.

If you are unable to locate any of the documents on the Company's website, need help with voting online or require a paper proxy form sent to you, please contact Link by email at enquiries@linkgroup.co.uk or by calling 0871 664 0300* from the United Kingdom or +44 371 664 0300* from outside of the United Kingdom.

The AGM will comprise only the formal part of the meeting and there will be no presentation from the CEO. Only two directors will attend the AGM and although the meeting will not be streamed, a transcript will be available on the corporate website shortly afterwards. The Board is also inviting shareholders to submit questions by email for the Board to consider at 2020AGM@stv.tv. Requests should be submitted by 6pm on Monday 25 May 2020 and responses will be provided by directors following the conclusion of the AGM.

We will keep shareholders updated of any future changes on our website www.stvplc.tv/investors.

I would ask for your understanding at this unusual time and hope you can appreciate that these changes are being made in the best interests of our shareholders, employees and advisors.

Yours sincerely,

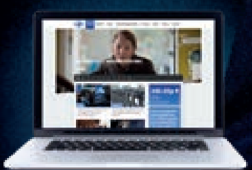
Baroness Margaret Ford OBE
Chairman

* Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00-17:30, Monday to Friday excluding public holidays in England and Wales.

Series reach
1 million

Manhunt
Three-part drama starring Martin Clunes which was the third best performing drama of the decade on STV. Series reach of 1 million and average audience of 703,000.

Contents



View our Annual Report and Accounts and other information about STV at **www.stvplc.tv**

2019 FINANCIAL HIGHLIGHTS

Revenue (£ millions)

2019 **£123.8m**
2018 **£125.9m**

-2%

Operating profit* (£ millions)

2019 **£22.6m**
2018 **£20.1m**

+13%

Total advertising revenue (£ millions)

2019 **£101.6m**
2018 **£100.0m**

+2%

Non-broadcast profit (%)

2019 **28%**
2018 **24%**

On target for 2020

EPS* (pence)

2019 **46.4p**
2018 **41.1p**

+13%

Dividend per share (pence)

2019 **21.0p**
2018 **20.0p**

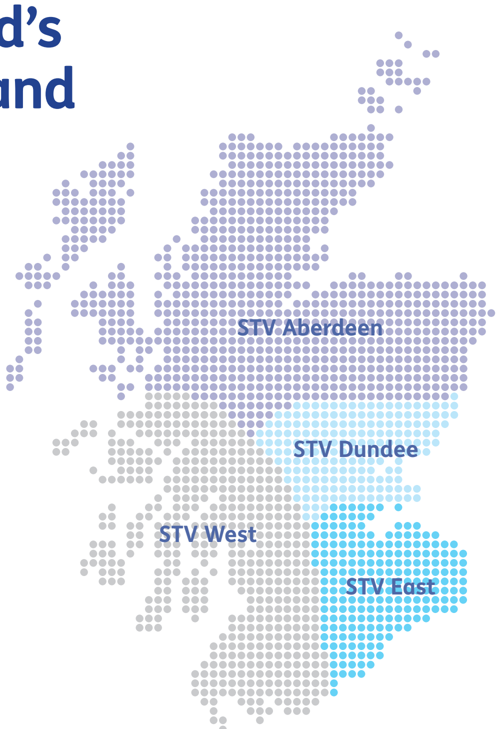
+5%

*pre-exceptional and IAS19, see notes 5 and 30

THE STV INVESTOR PROPOSITION

STV GROUP OVERVIEW

We are Scotland's home of news and entertainment

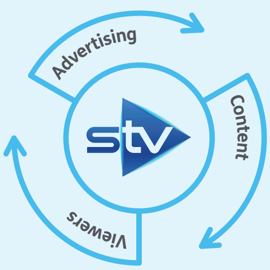


A business model that delivers shareholder returns

Inputs

- Unique, high quality content offering on-air and digital
- Digital presence on all major TV platforms in the UK
- Strong, unique relationships with Scottish businesses, attracting and retaining advertisers

Value creation



Outputs

- Impressive reach to 4 out of 5 adults every month in Scotland, providing commercial USP
- Personalised STV Player experience, driving consumption
- World class production business delivering returning series and formats

THE STV OFFER

A family of great brands and products

Clear strategic objectives that are delivering results

Maximising the opportunities in our marketplace

Working in partnership to deliver sustained success

With key metrics embedded in our business to measure progress

Our mission is simple: to create, commission and curate great shows, make them famous on our channels and platforms and sell them around the world.

BROADCAST

MORE INFO PAGE 08

Maximise the value of our broadcast business

Scotland's No.1 peak time TV channel

17.7% all time viewing share

84% monthly reach

DIGITAL

MORE INFO PAGE 14

Drive digital growth by creating an 'STV for everyone'

Scotland's most popular broadcaster video on demand platform

34.6m video views

3.5m registered users

PRODUCTION

MORE INFO PAGE 20

Build a world class production business

Scotland's largest TV production company

120 hours production

17 shows

CHAIRMAN'S STATEMENT

2019 has been a year of real progress in implementing our strategic plan and with the new team now in place, we have delivered profitable growth against a backdrop of economic uncertainty.

In Broadcast we maintained our decade-long high in viewing share with some break-out performances from STV News and our local programming; in Digital we achieved very strong growth fuelled by a better product, new features, a wider range of content and universal availability across Scotland for the first time; and in Production we laid strong foundations for future growth by investing in STV's creative pipeline to meet local and global demand for content. In June last year, we acquired a majority stake in content producer, Primal Media, providing the means with which to develop new unscripted formats and in early 2020, a minority stake was acquired in drama producer, Two Cities Television, further enhancing STV's reputation as a leading producer of drama.

Delivering cultural change

This year we have seen various cultural and behavioural initiatives implemented across the organisation, designed to deliver sustainable growth and embed real and positive change.

As a creative organisation, STV values diversity in views and voices, continually striving to create an inclusive and collaborative culture that provides equality of opportunity for all, regardless of any personal characteristic. Our activities in this area extend to everyone within the business and beyond to ensure we represent our audiences and viewers. We recognise that change in an organisation can only happen when its people think and act differently, with the support of its leaders and this is why the STV Open Access Charter was established. You can read more about this initiative in our Corporate Responsibility report on page 26.

To extend the positive impact of STV's inclusion strategy, we continue to work towards our target, set in 2018, to achieve a 50:50 gender profile across our top 25% of roles by 2023 and are providing work experience opportunities in Production targeted at candidates from BAME backgrounds.

Our people

My fellow Board members and I have been fortunate to spend time with many of our employees over the past year during various site visits. We were all struck by the commitment and enthusiasm of teams as well as their dedication to the Company. We would like to thank all our employees, whose experience, ambition and dedication to delivering on our customers' expectations are at the heart of our success. With our expert people, unique capabilities and a strong management team, STV is well placed to deliver long-term profitable growth for its shareholders.

Board evaluation

The 2019 Board and Committee Effectiveness Review was facilitated externally by Prism Boardroom with the results discussed by Directors at the January 2020 meeting. No significant issues were raised and while some recommendations were made, these build on the processes currently in place. Further details can be found on pages 57 and 58.

Baroness Margaret Ford OBE

2020 and beyond

Whilst we continue to operate within a challenging economic environment, my Board colleagues and I will ensure we provide the governance framework and rigour to all that STV does.

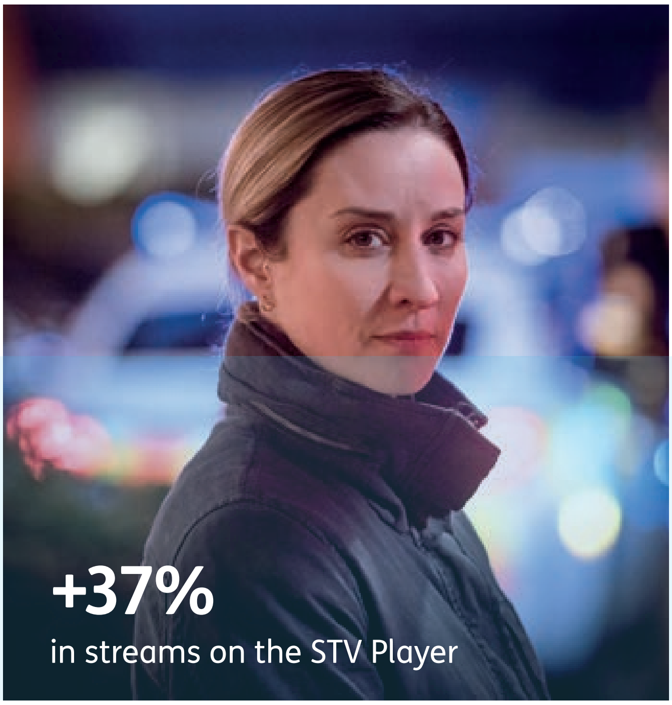
I would like to thank my Board colleagues for their valuable support and wise counsel during 2019 and to Christian Woolfenden who resigned as Non-Executive Director on 9 March 2020 for his contributions and insights during his time on the Board. We look forward to supporting Simon, Lindsay and the management team in the year ahead.

Thank you all for your continued support as we look forward to the year ahead and I hope to meet many of you at our AGM on 21 April 2020.

Baroness Margaret Ford OBE
Chairman

STV has clear strategic priorities that focus the organisation on growth.

£2.6m
raised by the STV Children's Appeal in 2019



+37%
in streams on the STV Player

STV Children's Appeal
£21 million raised for the STV Children's Appeal since launch.

The Bay
Six-part drama. On air the series reached 1.1 million viewers and was one of the best watched dramas on the STV Player with 803,000 streams.

Celebrity Catchphrase
Produced for ITV and hosted by Stephen Mulhern. Series reach of 21 million in 2019.

+17.7%
STV share of viewing

STV 2020 STRATEGIC PROGRESS

Simon Pitts

2019 has been an incredibly busy and positive year where we have demonstrated strong progress against our strategic objectives.

In short, we've been doing what we said we would do as part of our three year growth plan and we are starting to see the positive impact of the changes put in place in 2018.

Brilliant content is at the heart of our business. And whether it's on TV, laptops, tablets or mobiles, what matters most is that it's high quality, relevant, trusted and engaging.

And as we continue to grow STV's reputation across the industry, we are successfully attracting and retaining first rate talent into the business. Our people are our greatest assets and I'm proud to be working with some of the very best in the business.

To recap on our strategic objectives, we've committed to:

- Maximise the value of our broadcast business by delivering high quality, cost effective news and entertainment
- Drive digital growth through the STV Player by creating an 'STV for everyone'
- Build STV Productions into a world class production business.

And we are making tangible progress across all areas in what is a tough economic climate.

Broadcast

Our broadcast division is the engine room of the business. Home to an £800 million schedule of world class content, last year we significantly upped the amount of new, high quality drama on the channel to reflect changing viewing habits, alongside our existing entertainment juggernauts, hard hitting factual series and bespoke local productions – the jewel in our content crown.

That's why we now have a bigger peak time audience than all the other top 10 commercial channels combined, have maintained our decade long high in our viewing share and are bucking the trend in the advertising market. Our commercial on-air offering is unrivalled for advertisers seeking access to a mass Scottish audience. An impressive 98% of commercial TV audiences greater than half a million in Scotland were on STV in 2019.

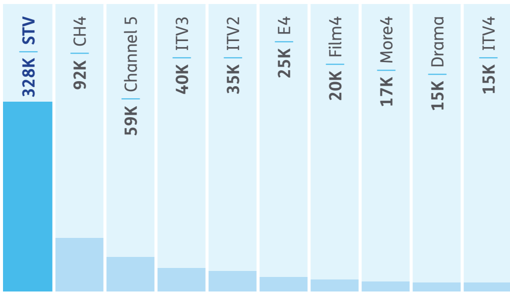
We're also fiercely proud of our news and current affairs output, which had a stellar year in 2019, with both flagship news and current affairs programmes claiming the title of 'most watched' in Scotland, a big moment for our news team.

We are Scotland's commercial public service broadcaster and while ratings are important, we have a clear public purpose – when we successfully combine the two, as with news and current affairs, that's when we're at our best.

All that said, competition is fiercer than ever and in recent years the national advertising market has been under sustained pressure, declining in each of the last four years on the back of the economic uncertainty caused by the Brexit vote. Our contractual relationship with ITV offers us a degree of protection from this advertising volatility but it also highlights the growing importance of a successful diversification strategy across STV's Digital and Production businesses.

STV peak time viewing

Across the top 10 commercial channels in Scotland, STV's audience was bigger than all other channels combined in 2019.



The 2018 restructure and hard work of 2019 have given us a strong foundation for future creative and commercial success.

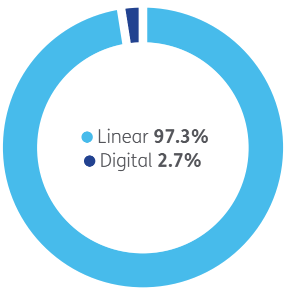
Digital

As consumer habits continue to evolve, so must we. Through the STV Player we're creating an 'STV for everyone' and our Digital division has delivered exceptional growth in the last 12 months, driven by a number of new partnerships and technical innovation.

In addition to the broadcast schedule, over 1000 hours of Player-only content is available from a range of partners, including two 24-hour free-to-air sports channels, with more titles being added every week.

8 out of 10 Scottish adults are now registered users of the STV Player and this direct relationship with our audience allows us to track progress in a more immediate and granular way. I'm delighted that audiences and engagement are growing as we invest to improve our digital service for the future.

There is still significant scope for digital growth in 2019 and beyond



The vast majority of ad impressions still come from STV's linear TV channel, illustrating the growth potential of STV Player.

Production

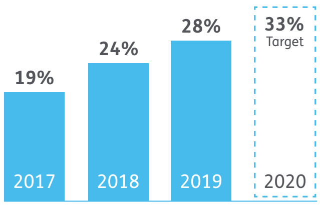
It's been a year of organisational transformation for STV Productions, putting in place the best talent in the right roles and building a robust production pipeline for 2020. We're now in a strong position, producing two successful and critically acclaimed dramas for the first time in over a decade; have several repeat orders of our most successful factual and entertainment series; and have placed more creative bets, in particular by investing in new entertainment and drama companies, to complement our in-house teams and strengthen our creative pipeline for the future.

In 2019, STV Productions delivered 17 shows, 11 of which were series for a total of 8 broadcasters. This adds up to 120 hours of programming.

Giving back to Scotland

It's crucial that we use our platform to give back to Scotland and I'm pleased that the STV Children's Appeal and the Scottish Children's Lottery have enabled us to donate almost £4 million to charities across every local authority area in Scotland in 2019. This is part of our ongoing commitment to help make a real difference to those who need it most – the one in four children and young people affected by poverty across the country.

Diversification strategy: non-broadcast earnings as a % of operating profit



As a measure of the early success of our diversification strategy, we're on track to meet our public KPI of achieving more than one third of profit from non-broadcast activities by the end of 2020, reaching 28% by the end of 2019, up from 24% in 2018.

Looking ahead

I'm pleased to say that 2020 has started well, both on screen and online. STV's share of viewing is up on last year and digital continues to show strong growth, fuelled by new hits like *The Masked Singer*, drama series like *White House Farm* and the return of *Saturday Night Takeaway*. There is also much to look forward to in drama, entertainment, factual and sport right across STV in 2020 and we are positive on the outlook for the year. Although Brexit uncertainty hasn't gone away, we remain fully focused on the areas within our control, and in particular continuing to deliver our growth strategy across local Scottish advertising, digital and productions.

Simon Pitts
Chief Executive Officer

OPERATING REVIEW – BROADCAST

STV REACH: 3.4M ADULTS PER MONTH

THAT'S 4 OUT OF 5 ADULTS IN SCOTLAND

Series reach
1.1 million

Vera
The fourth best watched programme across 2019 on STV. Average audience of 621,000 and series reach of 1.1 million.

OPERATING REVIEW – BROADCAST

Summary profit and loss

	2019	2018
Revenue	£92.3m	£94.5m
Operating Profit	£19.9m	£19.4m
Operating Margin	22%	21%

Bobby Hain
Managing Director

96%
of Scotland watched STV in 2019*

17.7%
audience share (0.5 share points up on ITV Network)

1 in 3
Scots watch STV every day

* Source: BARB Jan-Dec 2019, adults, 09:30-29:59

2019 was a tremendous year for our broadcast channel. We were the best watched peak time channel in Scotland, outperforming every other channel at this time. Of the top 10 commercial channels in Scotland, STV's average peak time audience was bigger than all the others combined, an achievement we're incredibly proud of. Our share of All Time Viewing remains at a decade-long high of 17.7% – that's 0.5 share points up on the ITV Network.

A vibrant schedule of new drama, entertainment juggernauts, bespoke regional productions and a strong showing from STV's News and current affairs drove this performance. Our reach remains very strong, making us the best medium for advertisers in Scotland to reach mass audiences quickly. We reach four out of five adults every month (3.4 million), and the fact that TV viewing is 8% higher in Scotland compared with the rest of the UK helps too.

Our most successful year yet in news

Our flagship news programme *STV News at Six* is now the most popular news bulletin in Scotland, overtaking BBC's *Reporting Scotland* in 2019 and benefitting from significant investment in technology over the past 18 months. The programme delivered an average 30% share across the year, reaching 390,000 people every day.

STV provides a unique editorial offering with four localised versions across Scotland from our studios in Aberdeen, Dundee, Edinburgh and Glasgow. With a revamped website and refreshed social channels, we're now the leading source of news video in Scotland too.

This audience success was matched by industry recognition in the form of a significant win at the Royal Television Society Scotland Awards in June when the Central Belt programme won News Programme of The Year, picking up the baton from the STV North programme which won the previous year.

Our news team also produces *Scotland Tonight*, which is the most watched Scottish current affairs programme. The series further cemented its reputation as the country's go-to destination for current affairs with the decision to move one episode per week into peak time. The move took place from January 2020 and has seen its regular audience for that edition quadruple, regularly beating BBC One's *Question Time*.

Spotlight on STV News: Best watched news in Scotland

STV News at Six is the best watched news programme in Scotland, with an average 30% share, reaching 390,000 per day.

This momentum was also seen online. Across the year, we generated over 200 million video views across our platforms, making us the leading source of news video in Scotland.

We re-launched our STV News digital presence, rebuilding our website and apps for the first time in a decade. Our revamped offerings provide a modern design, flexible interface and range of story-telling tools that make it easier for our journalists to get their work to the world.

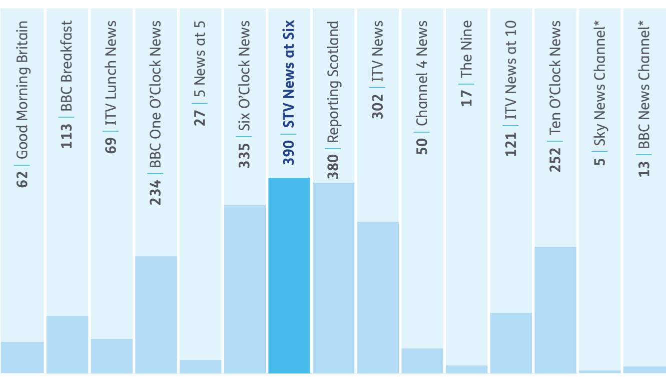
All of this has been on the back of an editorial strategy that is innovative and fiercely local. We set our own news agenda, avoiding pack journalism and offering original news you can't find anywhere else. We constantly strive to drive the news across the country, break stories online and on our programmes, and ensure that other publications follow us.

We offer a wide range of in-depth, original and relevant journalism across our key regions. Our public service requirements and the delivery of high quality, impartial coverage are always paramount. Nowhere was this more evident in 2019 than in our dedicated election coverage, from our lively leaders' debate to our through-the-night coverage, coming to viewers from all regions and providing comprehensive updates from our highly skilled team.

We've also upgraded technology to enhance our output. STV North is now broadcasting in high definition following an upgrade, and the Central Belt upgrade will complete in 2020. We're also experimenting with mobile storytelling where access and space may be limited but our ambitions are not.

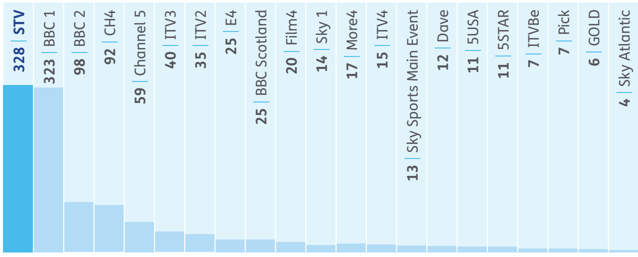
Independent research confirms the trust and popularity of our offering: Ofcom's News Consumption Study 2019 confirmed STV as the most-used source of news for people in Scotland looking for news about their own nation. In terms of regional news provision, audiences in Scotland rated STV higher than BBC One Scotland (73% versus 65%).

Average audience numbers for news programmes 2019



Source: BARB Jan-Dec 2019, avg audience (000s), Individuals, Mon-Fri.
* Average across day (09:30-24:00)

STV peak time viewing ahead of BBC One and the rest of the pack



Source: BARB Jan-Dec 2019, Individuals, 18:00-22:30

Across peak time STV is…

3 x bigger
than Channel 4's audience

6 x bigger
than Channel 5's audience

13 x bigger
than BBC Scotland's audience

Strong commercial offering

The combination of flagship network titles and bespoke Scottish content delivered strong audiences and commercial success with STV offering a unique platform and advertising opportunity to businesses across Scotland. 98% of the programmes on commercial TV attracting audiences greater than half a million viewers in Scotland were on STV in 2019, and we offer the highest reach of any channel in Scotland for the hard-to-reach 16-34 audience.

Our unique selling point for advertisers is the consistent delivery of mass audiences to high quality, must-watch television every day of the week, and a vibrant schedule drove share and income.

With new HD distribution in place for Sky and Virgin, more than half of all viewing of STV (54%) is now High Definition, an increase of 93% year on year, and representing the highest % of HD viewing across any ITV region (ITV network is 36%). As the first fully regionalised HD public service broadcaster on Sky in the UK, this also enables us to more effectively target our advertising.

A vibrant schedule

The Rugby World Cup was the biggest sporting event of the year and saw 2.4 million watching the tournament on STV. The Japan v Scotland game delivered a peak audience of 618,000 and an impressive 60% share. The early match times also drove viewers to the STV Player, delivering 1.1 million live streams across the tournament.

Sean's Scotland was our best watched regional non-news programme tracking six share points up on ITV network. With an average 22% audience share, the series got off to a great start, attracting a larger audience than the opening episode of *Love Island* on ITV2 – quite an achievement! A warm, fun programme full of local traditions, *Sean's Very Scottish Hogmanay* saw us deliver our highest audience for Hogmanay since 2008 reaching over half a million Scots across the bells (reach was 572,000 with an average audience of 301,000).

Our average drama audience was up 5% year on year, driven by a brilliant offering of new drama – 38% more hours than 2018. This included *Deep Water*, *The Bay* and *Manhunt*, which became the third best watched drama of the decade. In entertainment, *Britain's Got Talent* was STV's third best watched show overall; and quiz show, *The Chase*, solidified its position as the best watched daytime show in Scotland (+10%) YoY.

Looking ahead

We have started 2020 with confidence, rolling out an incredibly strong schedule. From our most successful entertainment launch since 2013 with *The Masked Singer* and a brand new period drama, *Belgravia*, from the team that brought us international hit *Downtown Abbey*, to hotly anticipated UEFA Euro 2020, we're hugely excited about what the year ahead will deliver.

Series reach
2.4 million

Britain's Got Talent
STV's third best watched show overall in 2019.

The STV Growth Fund in numbers:

280
deals

Over 50%
of all Growth Fund members new to TV

Almost
£7m
allocated

91%
of members saw an increase in brand awareness

Spotlight on the STV Growth Fund: Driving the Scottish economy

We launched the Growth Fund in May 2018 to support the business community in Scotland and help boost the local economy. Following a fantastic start, in 2019 we announced a doubling of our investment from £5 million to £10 million, to assist more SMEs in their growth ambitions right across Scotland.

Since launch, we've secured over 280 deals with over half of Growth Fund members new to television advertising. Almost £7 million of TV airtime has been allocated.

Research by STV and ScotPulse shows undeniably strong results for those taking part. More than half of members saw an increase in profit in their first year, with 75% reporting a minimum of 20% growth. 91% saw an increase in awareness after their campaign launch. Growth Fund members also created 236 new jobs and opened 22 new premises.

This research also found that over 68% of Scots believe adverts on STV help showcase Scottish businesses more than other channels.

2020 promises to be another strong year for the Growth Fund. Our commitment to driving the Scottish economy by championing Scottish businesses, giving them a platform to grow their business and build their brand on TV, is unwavering. In fact, we want to take it even further.

We'll grow the fund by offering innovative solutions for Scottish businesses including: gifted free airtime for entrepreneurs as they start-up; match funding for SMEs growing and scaling up; and revenue or equity shares for longer term investments.

Early 2020, we announced an exciting new partnership with Scottish EDGE – a competition aimed at identifying and supporting Scotland's up-and-coming, innovative high-growth potential talent – to further support Scotland's entrepreneurs. This sees us gifting two winners' £75,000 airtime and a launch commercial, as well as £100,000 worth of airtime to Scottish EDGE to drive awareness of the competition.

Members have been happy to share their success stories on-air through a series of ads:

> "I would highly recommend the STV Growth Fund. We've seen an increase in sales and at least half our customers say 'I saw you on television', so for us, it's been 100% worthwhile."

Haylee Lilley, Manager, Sidey
(Windows, doors, sunrooms & conservatories business)

> "The response was instant. The footfall has been insane. Every second person is coming in and they've seen us on TV so it's definitely working."

Yasmine Ali, Managing Director, Babyland

OPERATING REVIEW – DIGITAL

STV TOTAL ONLINE VIEWING +23% IN 2019

OVER 42 MILLION VIEWS

I'm a Celebrity… Get Me Out of Here
Streams up 48% in 2019, driving the Player's best-watched month in November.

Deep Water
In an STV Player first, the full series box set was available to stream after episode one aired. It was the best watched drama in 2019 – with a third of total viewing coming via the STV Player.

Coronation Street
Coronation Street is approaching its 60th anniversary in 2020. It is the most streamed programme on the STV Player with 8.5 million total streams in 2019.

OPERATING REVIEW – DIGITAL

Summary profit and loss

	2019	2018
Revenue	£13.0m	£9.6m
Operating Profit	£7.3m	£5.2m
Operating Margin	56%	55%

Richard Williams
Managing Director

+44%
ad impressions

+37%
VoD streams

1,000+
hours of 'Player-only' content

2019 has been a year of confident growth for the Digital division. We set out stretching ambitions for STV Player and we've achieved what we set out to do and more.

We identified new platforms, enhanced our product functionality, created fruitful content partnerships, introduced Player-only content and developed an exciting marketing campaign to drive audiences.

The strategy is paying off. STV Player is now the number one Broadcast Video On Demand player in Scotland. Half a million more users signed up, taking our total registered users to 3.5 million – that's the equivalent of 4 out of 5 Scottish adults. We are confidently on track to fulfil our ambition to become Scotland's digital destination and create an 'STV for everyone'.

Exclusive high quality content together with a simple but effective business model has delivered strong results. We've seen a 37% increase in VoD streams and a 23% increase in total minutes spent on the Player. Commercially, total digital revenues were up 37% year on year with ad impressions up 44%, exceeding our 2019 target.

Must watch content

The Player is nothing without its first class content. The launch of our regionalised Sky and Virgin service means that STV Player is now the exclusive home of Channel 3 catch up programming in Scotland, providing access to an £800 million TV schedule and cementing our market position. The Player is the only place to watch *Coronation Street* and *Emmerdale* on demand, as well as some of the standout dramas of 2019, including *Manhunt*, and entertainment like *Britain's Got Talent*.

Joining the Virgin and Sky platforms has doubled STV's digital reach in Scotland. Sky is by far our largest platform in terms of streams and, despite the availability of ad skipping, it is our most valuable platform with 90% of advertising revenues retained.

In sport, the early start times of matches drove viewers to the Rugby World Cup 2019 digital coverage, delivering 1.1 million streams across the tournament (double the live streams of the previous tournament in 2015) with zero outage, indicating a robust and stable service. Looking ahead, Euro 2020 promises to deliver record digital audiences for us.

We're also taking advantage of changing viewing habits. A third of viewing of crime drama *Deep Water* was on the Player, with some viewers binge-watching the box set prior to its broadcast on TV. This was the most watched drama ever on the Player, delivering 144,000 streams per episode. Entertainment juggernaut, *I'm a Celebrity... Get Me Out Of Here*, delivered 26% more online viewing than in 2018, meaning increasing numbers are watching where and when they want. Indeed, *I'm a Celebrity... Get Me Out Of Here* helped drive the Player's best-watched month in November.

Spotlight on our distribution partnerships: Universal availability for the first time

Our availability has increased significantly in 2019, as we integrate the Player into people's lives across all major platforms. An important launch was the Player's inclusion on the Sky platform in November, which also sees our bespoke ad-server integration giving us complete commercial control.

The STV Player is now available on 13 platforms including Sky, Virgin Media, Now TV, Fire TV, YouView, iOS, Freeview Play, Roku, Samsung Smart TV, Chromecast, Freesat, Android and web.

The Virgin and Sky launches have been pivotal for us, doubling our reach on connected TVs, where we're seeing our biggest growth as VoD increasingly migrates to the living room. Since launching on Virgin in December 2018, 88% of Virgin Users have used STV Player. Since the launch at the end of October, around 25-35% of our VoD streams are coming from Sky.

As a PSB, we occupy a prominent position on all platforms, making us easy to locate and play and this is something we will strive to protect going forward.

"Sky brings together all the best entertainment in one place, so we are thrilled to be bringing our customers in Scotland access to great content via STV Player too."

Jon Simkin, managing director, channels and operations, Sky

The Slap
Eight-part drama based on the best-selling novel.

Over the course of the year, we've significantly increased the amount and range of content on the Player beyond what's on the STV core channel and now offer more than 1,000 hours of Player-only content. We continue to exploit our extensive archive (including top performing shows *Taggart*, *Rebus* and *Take the High Road*), and have secured more than a dozen partnership deals to boost our player content catalogue across drama, entertainment, factual and sport. Deals with partners, including Endemol Shine International, TCB Media Rights, TVF Media, Hopster, Flame, and Jukin', broaden the appeal of our offering and we continue to source new and exciting programming for our viewers.

Increasing and improving the functionality of the Player – with features such as 'Live Restart' and 'Continue Watching' – is enhancing the user experience and keeping our viewers watching for longer.

STV Player as a destination for sports

STV Player is becoming a destination for sports, with continued investment in programming, providing viewers with an even greater choice of exclusive, live and on demand content.

Freesports offers a range of sports including Pro14 Rugby, Premier League Pool, MLS Major League Soccer, World Rally Cross, Cage Warriors and NHL Ice Hockey; and Joe Media provides a wealth of magazine style sports programmes including *House of Rugby* – with James Haskell and Mike Tindall – and *Liquid Football*.

Early in 2020, we added EDGEsport to our portfolio. The fastest growing global action sports channel, EDGEsport provides STV Player viewers with free access to live and premium recorded action sports content from across the world, 24 hours a day. Sports content includes motorsport, mountain biking, BMX, skateboarding, surfing, snowboarding and much more.

Scotland is a nation of sports fans so we're constantly striving to ensure this audience is spoilt for choice on the STV Player.

Looking ahead

We have achieved a great deal across the digital business in 2019 and are equally as excited about 2020. This year, we expect to fully realise the potential of our deal with Sky; expand our content UK-wide on key platforms; and develop greater personalisation on the Player, to help users navigate the ever-increasing amount of content – driving an ever improving experience and an 'STV for everyone'.

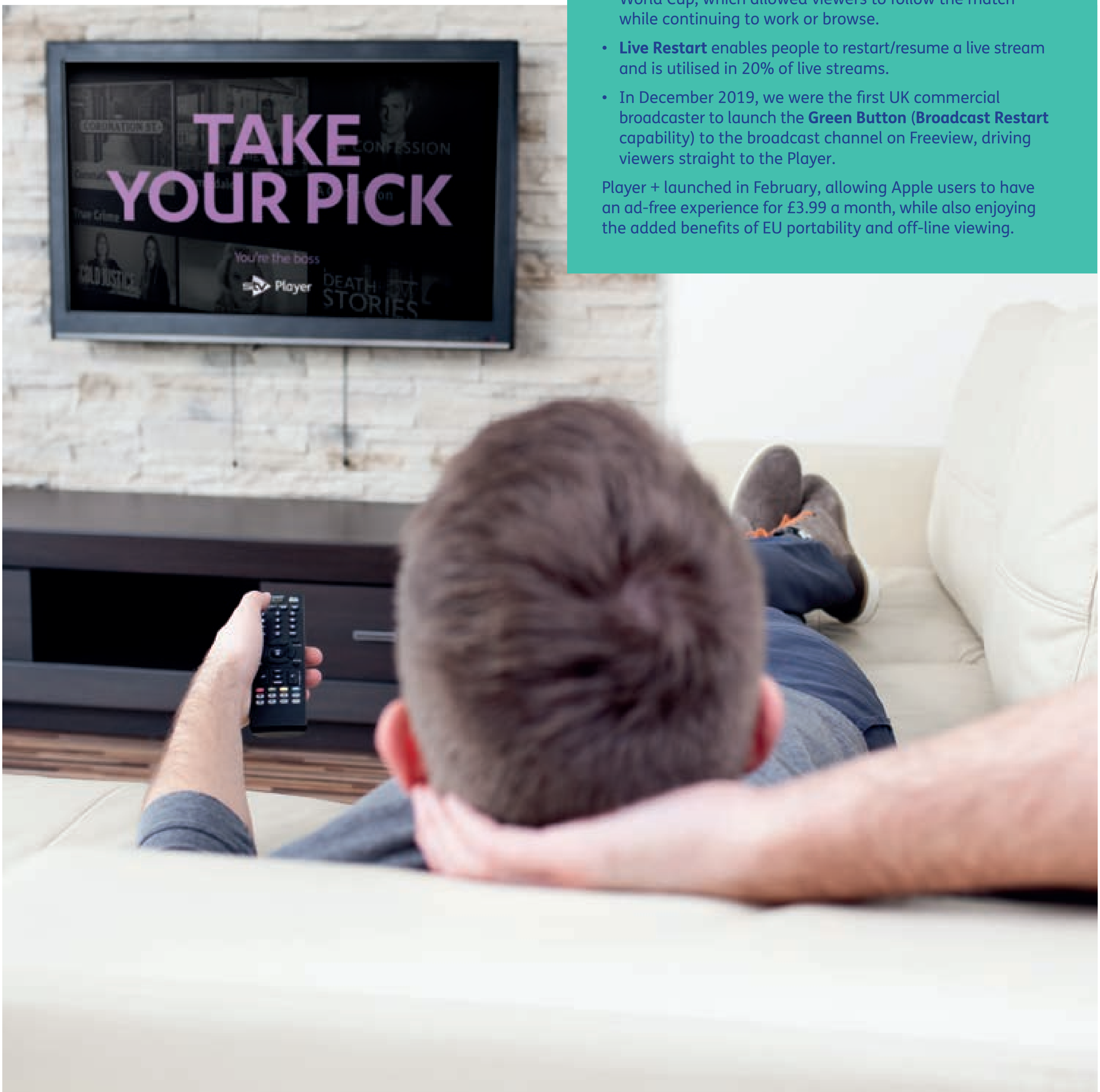
Janet King
STV Player now offers over 1,000 hours of Player-only content – across 2019, drama *Janet King* outperformed established programmes such as *Doc Martin*.

Spotlight on STV Player enhancements:
An ‘STV for everyone’

We’ve significantly enhanced the functionality of our existing suite of apps with new and exciting features, designed to bring users back more often and keep them watching for longer.

- **End of Play** has been introduced to create a more seamless viewing experience between programmes. This drives a quarter of all content starts to watch the next episode.
- **My List** and **Continue Watching** allows users to save shows to watch later or pick up where they left off.
- **Picture in Picture** launched to coincide with the Rugby World Cup, which allowed viewers to follow the match while continuing to work or browse.
- **Live Restart** enables people to restart/resume a live stream and is utilised in 20% of live streams.
- In December 2019, we were the first UK commercial broadcaster to launch the **Green Button** (**Broadcast Restart** capability) to the broadcast channel on Freeview, driving viewers straight to the Player.

Player + launched in February, allowing Apple users to have an ad-free experience for £3.99 a month, while also enjoying the added benefits of EU portability and off-line viewing.



OPERATING REVIEW – PRODUCTION

STV IS BACK IN HIGH END DRAMA PRODUCTION

FOR THE FIRST TIME IN OVER A DECADE

Elizabeth is Missing
Adaptation of Emma Healey's best-selling novel, starring two time Academy Award winner, Glenda Jackson. Commissioned by BBC One.

OPERATING REVIEW – PRODUCTION

Summary profit and loss

	2019	2018
Revenue	£13.7m	£16.3m
Operating Profit	£(0.1)m	£0.5m
Operating Margin	-1%	3%

David Mortimer
Managing Director

In 2019, STV Productions delivered:

17
shows

11
series

120
hours of television

STV Productions is Scotland's largest TV production business, with ambitious plans to grow into a world-class production company with a multi-genre slate of returning series.

2019 has been a year of creative and organisational change, putting the groundwork in place to begin delivery of a period of sustained growth. We began with the reinvigoration of our existing business, bringing in exceptional talent from the wider industry and establishing a new team structure focussed on delivering a newly commercialised approach to development and pitching.

We appointed three creative directors. Sarah Brown became Creative Director of Drama; Gary Chippington leads on Entertainment; and ex-BBC Commissioning Editor, Craig Hunter, was hired to head up Factual. Together we have radically overhauled the development slates and we go into 2020 with a promising production pipeline.

Strategic partnerships

In line with our strategic growth plan, we've invested in new creative and financial partnerships. Complementing our existing strong teams, these will create a route to accelerated growth in what is a highly competitive market. We've confirmed two partnerships involving companies that see STV Productions as an ideal partner to help them deliver creative success and significant commercial return. Our partners have much in common: big reputations, enviable expertise and international ambition. We now have:

- a majority stake in unscripted production company, Primal Media (*Bigheads*, ITV);
- an initial minority stake in high-end drama producer, Two Cities Television (*Patrick Melrose*, Sky), with a route to majority control.

Broadcasters' commitment to increase Nations and Regions production is gathering genuine momentum and presents a significant opportunity for us. With out-of-London targets confirmed and the new regional Channel 4 offices and commissioners in place, we plan to capitalise on this via both STV Productions in Glasgow and Two Cities Television's Northern Ireland base.

Achievements so far

Whilst still a year of transition, 2019 saw the team deliver 17 shows, including 11 series – equivalent to 120 hours of programming – for eight different channels.

2019 has been particularly significant for our drama team, who produced two of the most critically acclaimed dramas of the year, creating jobs in the production sector in Scotland and boosting our editorial reputation. Both were delivered for BBC One and filmed in Scotland: *The Victim* and *Elizabeth is Missing*. Looking ahead, we've invested in new creative talent, scripts and writer relationships as a strong springboard for the next three years.

Spotlight on drama:
Building momentum in drama

2019 has been a very productive year for STV Productions' drama team, with the delivery of two highly successful and critically acclaimed dramas.

The Victim transmitted in April on BBC One and delivered an impressive average audience across the series of 6 million, peaking at 7 million for episode one*. It won a BAFTA in the drama category and broke records, achieving the highest catch up figure (73%) since catch up TV records began in 2002. The series, starring Kelly Macdonald and John Hannah, also had the highest catch up on TVs, smartphone, tablet and PC since BARB 4-Screen was launched in 2018, at 82%, breaking all-time consolidated viewing records.

"Thanks to the ingenuity of the script and the quality of the performances, the more questions this drama asks, the more it draws us in."

Daily Telegraph, on *The Victim*

"The best thing on TV this week: pacy and gripping."

The Sunday Times, on *The Victim*

Our TV film, *Elizabeth is Missing*, was adapted from Emma Healey's best-selling novel and broadcast on BBC One in December. In a piece of inspired casting, the programme saw Glenda Jackson make her return to TV after a break of 27 years and deliver an outstanding performance as part of a widely acclaimed production. With a consolidated audience of 5.5 million, the drama received plaudits from viewers and commentators for its sensitive portrayal of dementia, winning a number of five star reviews.

"It is a harrowing, compelling, unsentimental, altogether magnificent performance."

The Guardian, on *Elizabeth is Missing*

"A powerful and unsentimental portrait of psychological decline."

The Independent, on *Elizabeth is Missing*

STV Productions also has an exclusive partnership with celebrated drama producer, Elaine Collins (*Vera*, ITV and *Shetland*, BBC One) with a number of paid development projects in place.

Further enhancing our drama credentials, in early 2020 we announced the acquisition of a minority stake in high-end drama production company, Two Cities Television – producers of the acclaimed hit, *Patrick Melrose*, for Sky. We have the ability to increase our initial 25% stake to a majority holding in the future. With two renowned TV professionals in Michael Jackson and Stephen Wright running a strong development slate for the business, we are excited by the significant potential this deal presents.

* Source: BARB 4-Screen Consolidated 2019

Spotlight on creative partnerships: Primal Media

In line with our growth strategy, we confirmed a strategic partnership with innovative unscripted producer, Primal Media, acquiring a majority stake in July 2019. The deal enables STV Productions to realise full value from Primal Media's current and future programming slate.

Primal was founded in 2016 by Adam Wood and Mat Steiner, two of the UK's most talented entertainment producers. We're excited to be working together, co-developing formats to target UK and international markets that complement our own entertainment offering.

The company is behind a range of successful formats including RTS Award winning *Release the Hounds* for ITV2, Rose D'Or winning *Bigheads* for ITV and *Carnage* for Sky One. They co-produced the MIPCOM Diversify TV Excellence Award winning series, *Jerk*, which was re-commissioned earlier this year by the BBC. Two part documentary series for Channel 4, *Home Free*, aired in November and was described as 'hugely life affirming and heartbreakingly honest' by the i newspaper.

The team was bolstered by the appointment of Ben Riley as Head of Development in the summer. Previously Head of Entertainment at Lime Productions and producer of *The Voice Australia*, *Big Brother* for Channel 5 and *Big Brother Australia*, Ben is a fantastic asset.

Primal are currently driving a slate of entertainment and factual entertainment formats in funded and advanced development for UK and US channels. A small business with strong prospects, we anticipate Primal will deliver some really ambitious projects to screen over the coming years.

Home Free
A two-part documentary about a group of young people with learning disabilities who leave home to try independent living.

Celebrity Antiques Road Trip
Long running ratings success produced for the BBC, it is a top 20 show for BBC2, with an average audience of over 1.5 million.

Returning series are critical for growth and we have a strong track record upon which to build. In entertainment, we produced a third and fourth series of *Celebrity Catchphrase*, with audiences for these episodes peaking at 5.5 million and reaching 21 million across 2019 – and replacing *X Factor Results* in the Sunday peak time schedule.

To date, we've delivered 20 series of *Antiques Road Trip* and nine of its celebrity sister series. The 2019 series reached 18 million people in the UK on BBC One, with series 19 delivering an audience that was 37% up on the slot average. The Celebrity version remains a top 20 show for BBC Two, with an average audience of over 1.4 million. In early 2020 we confirmed our biggest order yet for both series, a 140-episode two year deal, confirming the place of this key STV Productions title in the heart of the BBC daytime schedule and as a strong income generator for us.

This year, we utilised the STV broadcast window to pilot a new programme format, *The Cash Machine*, presented by Lorraine Kelly. Six episodes were produced as part of our strategy to invest in original new content with scope for the format to be distributed in UK and international markets. This strategy will continue into 2020, as the team continues its work in creating and testing exciting new, sellable formats.

International growth

We're maximising the commercial value of our own IP through a new international strategy, using our successful secondary sales business as a base to increase our international sales footprint. We achieved record secondary sales in 2019, delivering revenues of £3 million. This was very profitable and accounted for one fifth of our total revenues.

Departing from an existing distribution deal allows us to service some deals in house, substantially increasing our margins. Our distribution neutral status is an advantage as we can create a bespoke finance and sales plan for each project.

Last year we also concluded a deal to be represented internationally by the WME agency and this has increased our ability to present packaged ideas (presenting both a creative proposal and attaching talent) to the American market.

We have begun increasing our presence in the market for format options, as both buyers and sellers, and in November 2019 announced we had optioned international entertainment hit, *The Secret Song* and established format, *Wheel of Fortune*.

Looking ahead

2020 is a vitally important year for STV Productions, where we start to benefit from the creative and organisational changes put in place in 2019. We have established an ambitious plan for the next three years with stretching growth targets for revenue and profit. The only way we can achieve this is by delivering a stellar product – everything we develop will aim to be the best in its genre. Returning series will be critical to our success. We have some high performing series in daytime and entertainment – we need more and key targets are in place.

STV Productions and Primal Media shows in 2019**

Network shows produced for other channels and STV

	Average audience
The Victim (BBC1)	5.4m
Elizabeth Is Missing (BBC1)	4.8m
Celebrity Catchphrase (ITV)	3.6m
Catchphrase (ITV)	2.8m
Britain's Biggest Warship: Goes to Sea (BBC2)	2.2m
Antiques Road Trip Series 18 (BBC1)	2.1m
Celebrity Antiques Road Trip Series 8* (BBC2)	1.5m
Antiques Road Trip Series 19 (BBC1)	1.4m
Celebrity Antiques Road Trip Series 9 (BBC2)	1.4m
Sex Tape (Channel 4)	923k
Home Free (Channel 4)	373k
Sean's Very Scottish Hogmanay (STV)	301k
Robert Burns: Hidden Treasure (STV)	259k
STV Appeal: Scotland's Hidden Hardships (STV)	229k
An Evening With Lulu (STV)	228k
STV Appeal: Let's Make a Difference (STV)	217k
The Cash Machine (STV)	189k
Inside Central Station (BBC Scotland)	185k
STV Appeal: Live with Lorraine (STV)	175k
Inside Central Station at Christmas (BBC Scotland)	167k
STV Appeal: Smiles Across Scotland (STV)	159k
Yes/No: Inside the Indyref (BBC Scotland)	65k

* Whole series from Nov 2018-Sep 2019.
** Those listed are a mix of shows transmitted and delivered in 2019.

Source: BARB Jan-Dec 2019, Individuals

CORPORATE RESPONSIBILITY

People

As a creative business, our people are the most important factor in our success. Our aim is simple: for STV to be the home of the best creative talent and a creative and fun place to work.

Engaging our people

Providing an environment where everyone has the opportunity to express their views and have their opinion considered is essential to achieve the culture we strive to provide for our people. During 2019 we introduced additional channels both to share information and to obtain feedback and ideas.

Updates on company performance, results and direction are provided through a range of channels. These include monthly briefings with senior leaders, presentations which are simulcast across all locations; a daily email newsletter, the *Daily News*; monthly briefings with senior leaders; roundtables; site visits and webcasts. New communication channels introduced in 2019 include an employee suggestion plan, *iThink*, and an all staff gala-style awards event to build relationships across the business, recognise achievements and celebrate success.

Formal measurement of engagement was undertaken through our annual employee opinion survey, *Have Your Say*. Conducted in June 2019, this was open to all staff and freelancers. Over two-thirds of those surveyed responded providing ratings against statements covering four categories: 'In the know'; 'The way we work'; 'About me'; and 'Benefits', and also our internal communications channels.

Scores averaged over 70%, reflecting the positive levels of engagement across the business as new team structures have been established and individuals and teams have clear goals and an understanding of the contribution they make towards achievement of divisional and broader company goals. The survey feedback was used to prioritise and increase focus on specific activities and the *Have Your Say Action Plan* was communicated across the business through a town hall style presentation, and on a team by team basis.

Looking ahead to the 2020 annual engagement survey, the cross-business panel of employees who decide the content of the survey and the follow up action plan will include a non-executive director. This representation from the Board, a designated 'employee director', will provide a further opportunity for the Board to gain insight into engagement and activities relating to our people.

We also maintain a partnership agreement with two trade union partners, the NUJ and BECTU, and engage with full-time officials and local representatives regularly.

Learning and growth

Opportunities for development of functional skills are complemented with front line and future leader programmes, to prepare people for leadership roles and provide a deeper understanding of our industry.

The new divisional structure established in 2018 has created a number of opportunities for promotion for colleagues at a relatively early stage of their career. To support them in undertaking their new roles and to ensure they are positioned to develop in their careers in line with the opportunities arising from the growth of the business, we have introduced the *Pathway* programme. Twenty colleagues from each of STV News and the digital business embarked on this programme during 2019 providing them with practical insights into leadership styles, communication skills and a psychometric profile of their behavioural style to assist development planning.

Our annual succession planning process identified the need to increase leadership capability in key growth areas. In early 2020, a future leader programme will be introduced to a group of 35 senior managers, complementing functional skills with leadership skills.

Providing insight into different roles to increase understanding of our business and the wider industry is a key development aim. Over 70 colleagues have undertaken 'job drops' to understand how other areas of the business operate through short duration placements. Monthly masterclass sessions hosted by leaders provide an inside perspective of different areas of the business, and have covered the commissioning process and consumer trends in media consumption in 2019.

Apprenticeships have continued to provide a successful entry route direct from secondary education, contributing to diversity, into Finance, STV News and Digital in 2019.

Succession and resourcing for growth

A key part of our learning and development plan is an annual review of succession to senior and key operational roles. This leads to the identification of successors to these roles and an assessment of development needs to support succession and retention of high potential talent. The 2019 review also considered progress towards achievement of our target to achieve gender balance across senior roles by 2023.

The review identified immediate successors for 55 of the 80 roles considered, with succession plans to all other roles now implemented.

Spotlight on STV equality, diversity and inclusion:
STV at Pride Glasgow 2019

We value diversity in views and voices and strive to create an inclusive and collaborative culture that provides equality of opportunity for all, regardless of any personal characteristics.

Our activities are for all colleagues and extend outside the company to our audiences, underpinned by the STV Open Access Charter which sets out our 15 commitments to:

- **Our colleagues:** create an inclusive culture where creativity can flourish and ensure equality of opportunity for all through the recruitment, development and retention of our people;
- **Our consumers:** represent the cultures and voices that make Scotland the place it is, and to create content that is relevant and representation of our consumers;
- **Our partners:** work collaboratively to promote diversity within the company and across our sector.

Our network of five peer groups represents the areas we are focused on to improve inclusion: gender balance; BAME representation; (dis)ability; LGBTQ+; and supporting parents and carers. We will add to this network in 2020 with a sixth group focused on improving social mobility across the industry.

We have set a target to achieve a 50:50 gender profile across our top 25% of roles by 2023 and will deliver this through a range of measures including a career acceleration programme for female colleagues, *Getting On*.

On screen we are focused on ensuring we are relatable and representative of our audiences. STV News is participating in the 50:50 project. From a starting point of just over one third of female contributors in 2018, 40% of contributors were women last year. In 2020, this approach will be extended to sports programming within STV News.

Increasing opportunities for candidates from BAME backgrounds and diversifying our talent pool is being progressed through our commitment to provide work placements with our entertainment and drama teams in partnership with Creative Access.

In 2019 we signed up to the 'Purple Tuesday Pledge', committing to review the accessibility of our broadcast and on-demand services to ensure an inclusive consumer experience for all users. Our peer group focused on (dis)ability, Access All Areas, is co-ordinating this work across the company.

Our LBGTQ+ peer group and a team from across the business took part in Pride Glasgow to show our support for colleagues and our audience from this community.

CORPORATE RESPONSIBILITY

Future skills and talent

Increasing our opportunities to discover talent and ensuring we are able to meet the future growth of our business are the drivers behind our activities to build strong talent pipelines. Competition for the best talent in our key growth areas of digital and production is strong and we proactively take a long term view to identify future talent to meet our growth ambitions.

During 2019 we provided work experience, paid internships and industry insights to help students build an understanding about work in the creative industries.

We were proud to commit to a significant multi-year investment in future talent through the launch of an ambitious bursary scheme in February 2019, which has provided STV funded bursaries for ten students in its launch year. Delivered in partnership with the Royal Television Society's prestigious and highly successful bursary award scheme, each year a further ten students from Scottish universities and colleges will join the programme, with the ambition that in five years' time, 50 students will be beneficiaries of the STV investment. Aligned with our activities to increase diversity, students from lower income backgrounds studying journalism, television production and technology-related courses will be eligible to apply for funding for each year of their degree course. In addition to funding, students will receive a comprehensive programme of work placements and mentoring opportunities at STV and, through RTS Scotland, will have access to a wider programme of activities including networking opportunities and industry insight sessions.

We also maintain close relationships with the secondary education sector to raise awareness with young people of the opportunities for careers in the creative industries.

Wellbeing from STV

We recognise that the wellbeing of our people is a significant factor in the success of our business. *Wellbeing from STV* recognises the importance of positive physical and mental health and provides support and a programme of activities to ensure we have healthy people who are engaged and well positioned to fulfil their career potential with the Group.

In addition to providing everyone with access to an employee assistance programme and early access counselling services, a group of colleagues has volunteered to become certified Mental Health First Aiders. This network is providing highly effective peer to peer support across the business.

Manager training has continued during 2019 and our induction programme for newly appointed managers now incorporates training on mental health. We work closely with our team of occupational health professionals to ensure early intervention in addressing mental illness. In 2020 we will implement measures to assess our success in supporting colleagues with mental illness in returning to work, as is currently done with other illnesses impacting attendance.

Positive physical wellbeing is supported through a calendar of campaigns co-ordinated across the year. Additionally, elements of our reward and benefits offer supports wellbeing including a healthcare cash back plan, which reimburses the cost of a range of physical therapies and wellness treatments, a cycle to work scheme and subsidised gym membership.

The effectiveness of *Wellbeing from STV* was formally recognised with the achievement of a Gold Award under the Healthy Working Lives campaign and provides us with a benchmark to build on our performance and impact in this area.

Reward and benefits

Operating in a growing and highly competitive sector, we review and benchmark our reward and benefits offer regularly. Remuneration and reward of all roles is determined with reference to the largest UK-wide media sector remuneration survey. This structure provides transparency and ensures reward and benefits are market competitive, supporting recruitment and retention. Full details of executive remuneration is included in the Directors' Remuneration Report on pages 60 to 71.

Employee involvement in the company's performance is encouraged through the annual Save As You Earn scheme, which promotes employee share ownership and encourages saving. Currently 43% of colleagues are participating in a scheme.

We continue to review and enhance our range of benefits with the introduction of a technology purchase scheme and a car salary sacrifice plan (which incentivises environmentally friendly vehicles) in the last year.

Diversity and inclusion

We are committed to creating an environment where all our people can thrive and are treated with dignity, respect and fairness. All employees have participated in unconscious bias training and all managers are coached in inclusive leadership.

Each division has a diversity and inclusion action plan which identifies activities to contribute towards building an inclusive culture and achieving our diversity related targets specifically in relation to gender balance; ethnicity of our people; increasing the proportion of colleagues with a registered disability and increasing social mobility. Our performance against these targets is assessed annually by Ofcom.

A number of registered disabled persons are employed, all of whom have equivalent access to training and career development opportunities as their able-bodied colleagues. No employee became disabled in 2019 during the course of their employment.

STV has a target to achieve gender balance across the top 25% of roles by seniority by 2023.

Gender pay report
In line with legislative requirements, gender pay reporting is calculated as at 5th April 2019.

Our gender pay gap

21.0% 2019 mean
20.5% 2018 mean

The mean gender pay gap is the difference in average hourly rates of pay between men and women as at 5 April 2019, expressed as a percentage of male earnings.

11.9% 2019 median
18.5% 2018 median

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

Proportion of men and women awarded bonuses

13.2% men
16.6% women

Bonus gender pay gap

63.2% mean
35.8% median

Quartile pay bands

Mean gender pay gap and proportion of women and men in each pay quartile.

Lower pay quartile

46% Men
54% Women

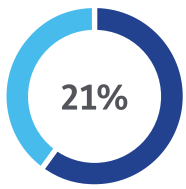
Lower middle pay quartile

46% Men
54% Women

Upper middle pay quartile

55% Men
45% Women

Upper pay quartile



1.4% excl. management

60% Men
40% Women

The overall mean gender pay gap increases to 21% due to a higher proportion of men than women in the most senior roles (top 25% of earnings). Removing the Management Board from the calculation significantly reduces the gap to 1.4%, hence our focus on delivering a 50/50 gender profile across our top 25% of earners by 2023.

CORPORATE RESPONSIBILITY

Understanding our profile

In common with many organisations, the mean gender pay gap arises as a result of a higher proportion of men than women in senior roles. This gap reduces from 21% in the top 25% of roles by earnings, to less than 4% in each of the remaining quartiles (by earnings).

As at April 2019 the gender profile of the top 25% most senior roles was 60% men and 40% women, in comparison across all other roles the gender profile is 48% men and 52% women and results in a mean gender pay gap of 6%.

Bonus

The Company's bonus gender pay profile is also influenced by a higher proportion of men than women holding senior roles. These roles, which attract higher levels of remuneration, have a higher bonus opportunity therefore as at April 2019 despite more women than men receiving a bonus payment the mean gender pay gap was 63%.

Open Access Charter

To support our target of gender balance across the top 25% of roles by seniority by 2023 a number of measures and activities are in place to support women to progress through the organisation into senior roles.

Developing a diverse talent pool	Talent acceleration	Achieving a work life balance	Our culture
• All role descriptions and adverts now have gender neutral language. • All recruitment selection panels are gender balanced. • Recruitment undertaken through an online application form, available in accessible formats, to enable all candidate profiles to be anonymised. • The STV/RTS Bursary Scheme supports emerging talent in Journalism, TV Production and Technology roles. • Our *Open Access Training Programme* launched in 2019 partners with Equate Scotland to provide STEM (Science, Technology, Engineering & Maths) placements in our Digital business encouraging women to consider a career in STEM. • New partnership with *Rise Up* an industry led schools outreach programme to educate children about engineering and technology opportunities in broadcasting.	• Target to achieve gender balance in the top 25% of roles by earnings by 2023. • Our career development programmes, including *Pathway News* & *Pathway Digital* support career progression towards senior roles within STV. • Our Leadership & Management Development programmes build leadership capability. • All development programmes now have a 50:50 gender profile of participants. • *Scotland Tonight* in partnership with the 50:50 project is achieving improved gender balance of contributors with almost 40% being women.	• Recently launched, our *Returners* programme which supports primary carers in achieving a smooth return to work from maternity, shared parental or adoption leave. • The *Returners* programme includes meetings with key stakeholders, the offer of a mentor and access to a peer support network. • Our family friendly policies support colleagues in balancing their career with parental or carer responsibilities. • All managers have been trained on their responsibilities to fulfil our commitments within our family friendly policies.	• All colleagues have undertaken unconscious bias training. • All managers have participated in inclusive leadership training. • Executive leader of each division regularly updates on progress and reinforces the role and responsibilities of all colleagues in ensuring an inclusive culture at STV. • All new entrants to the business receive Equality and Diversity training through our induction programme. • A network of peer groups has been created to increase support and activity across a range of personal characteristics: parents & carers; LGBTQ+; (dis)ability; BAME; gender balance. • Our *Balance* peer group's mission is to support our target to achieve gender balance in the top 25% of roles by earnings by 2023. • *Mentor Up*, our reverse mentoring programme, has been launched with all Executives paired with a colleague from across the business. This programme will provide an additional channel for feedback on the progress of our Inclusion strategy.

STV's Open Access Charter is designed to promote equality of opportunity for all.

Modern Slavery Act

The Company is committed to preventing human trafficking and slavery in its corporate activities and ensuring that it acts ethically and with integrity in all business relationships. Through the approach set out in the Company's anti-slavery statement, effective systems and controls are implemented and enforced to ensure to every extent possible human trafficking and slavery do not take place within the business or across any of its supply chains.

An annual assessment of the Company's operations and supply chains, which is incorporated into the risk assessment processes, is undertaken. This has not identified any activities that are deemed to represent a high level of potential for human trafficking or slavery.

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. During 2019, staff with responsibility for procurement undertook training designed to raise awareness of human trafficking and slavery risks.

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 is carried out on a rolling basis and we have a full complement of 39 first aiders located throughout STV sites. There are defibrillators on site at Pacific Quay in Glasgow and Craigshaw in Aberdeen and our First Aiders 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. 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 19 staff have completed the safety training in 2019. A further two staff have completed Hostile Environment Training.

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 2019, with modules including Manual Handling, Office Safety and Fire Wardens, being covered.

	2019	2018	2017	2016
Total vehicle accidents	**13**	14	16	14
Number attributable to driver error	**8**	10	10	7
Percentage attributable to driver error	**62%**	71%	62%	50%

Health and Safety performance in 2019

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 used to implement improvements, if and when required in working practices and procedures.

The Facilities Manager is the designated senior manager responsible for health and safety matters.

	2019	2018	2017	2016
Seven day reportable accidents	**0**	0	0	0
Total of all accidents	**6**	7	2	11

CORPORATE RESPONSIBILITY

We have eliminated all single-use plastics in the staff canteen.

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 integral to the culture of the business. The Company is committed to the continuous improvement of its environmental performance and the reduction of pollution.

Throughout 2019 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 land fill.

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 is operated, that matches up employees who live in the same area, and enables them to travel to work together. There are currently 25 members of staff taking part.

During 2019, STV continued to recycle old mobile phones via ICT Reverse and 46 handsets were recycled in this way. Any money raised from ICT Reverse is donated to the STV Children's Appeal.

The electric car charging bays have proven very successful and are used every day by approximately 10 staff. We continue to promote the 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 CO_2 emissions, for example we have installed LED lighting in our Aberdeen and Edinburgh offices and continue to replace lights within the Glasgow office.

We have reviewed STV pool vehicles/leased vehicles and new vehicles of a lower CO_2 rating were ordered to replace the older News vehicles. We have ordered 13 new hybrid cars to replace the older models.

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

	FY2019		FY2018		FY2017		FY2016	
Greenhouse gas emission source	(tCO_2e)	Intensity ratio	(tCO_2e)	Intensity ratio	(tCO_2e)	Intensity ratio	(tCO_2e)	Intensity ratio
Scope 1	**454.85**	**3.68**	437.27	3.47	433.89	3.71	501.46	4.16
Scope 2	**1,050.31**	**8.48**	1,251.94	9.94	2,055.77	17.57	2,039.95	16.94
Statutory total (Scope 1 & 2)	**1,505.16**	**12.16**	1,689.21	13.41	2,489.66	21.28	2,541.41	21.10

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 & Transport
There was a slight increase in the travel and transport emissions due to an increase in domestic travel as the organisation restructure has been executed in Production.

SCOPE 2 Energy
There was a decrease in this area due to increased use of LED lighting in our offices and temperature set points have been amended to reduce energy usage.

Waste

J&M Murdoch Ltd recycles 100% of our waste via RDF (refuse derived fuel), so no waste is going to land fill.

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:

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

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

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

GHG emissions are to be reported as a gross figure in tonnes of CO_2e and the intensity ratio we have chosen is CO_2e per million pounds of revenue.

FTSE Russell

FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that STV Group has been independently assessed according to the FTSE4Good criteria and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products.

Community

STV Children's Appeal in 2019

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. STV and the Hunter Foundation meet all overheads, meaning every penny of donations received goes directly to helping those in need. In 2013, The Wood Foundation pledged its support for projects in the North East of Scotland.

In just nine years the STV Children's Appeal has raised over £21 million. This has enabled the charity to make 1,344 large and small awards to charitable projects across all 32 local authority areas in Scotland, providing much-needed support and assistance to over 95,000 children and young people. The money raised is distributed to provide practical help like food and warm clothes, create opportunities for training and employability, and enable social and emotional support for those who need it most.

Connecting with communities

In 2019, 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 and many schools, businesses and sports teams across the country hosted their own Big Scottish Breakfast events to raise money and help give Scotland's children the best start in life.

The STV Children's Appeal is a fundraising partner for Kiltwalk with record breaking numbers of people donning their walking boots to take part to raise money. The funds raised at the Kiltwalk have supported four capital projects across Scotland, including a flat for families with children being treated for cancer, and a converted bus which uses music and arts as a way of connecting people who might not be comfortable engaging with traditional public services.

Employee engagement

STV employees continued to be great ambassadors for the Appeal in 2019 and met their target of 'making a million' – reaching a total of £1 million pounds raised by STV since the charity launched in 2011.

STV staff took part in various fundraising events across the year such as Kiltwalk, a dance competition, the Great Scottish Run as well as hosting Big Scottish Breakfast events across the business. 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.

Charitable partnerships

The Appeal continues to build on strong partnerships with high-profile corporate partners including Royal Bank of Scotland, Lidl, Optical Express and Tunnock's. With organisations such as Wholesale Domestic Bathrooms, Loganair and Asset Alliance extending their support for the Appeal, partners continue to raise hundreds of thousands of pounds and help raise the profile of an issue affecting so many people across Scotland.

CORPORATE RESPONSIBILITY

Since the Appeal was launched, the Scottish Government has match funded the first £1 million raised by the Appeal, and this continued in 2019.

Programming
STV uses its platform as Scotland's commercial public service broadcaster to shine a light on the issues faced by so many people across Scotland and produced a series of special TV programmes to support the work of the Appeal. The programming showcased the fundraisers and the causes the Appeal is responding to, with STV presenters visiting projects who receive funding and support. This year's thought-provoking and revealing half-hour documentary looked at the impact of in-work poverty on young people.

The year's fundraising efforts culminated in the annual televised STV Children's Appeal Live Show, hosted by Lorraine Kelly, who announced the total sum raised in 2019. The show featured a host of famous faces and a special Scottish version of hit quiz *Celebrity Catchphrase*. Not only was a total of £2.5 million raised, but the programme hit all the right showbiz notes drawing a higher audience than in the previous five years.

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

Since launch the Lottery has distributed almost £5 million in funding to support children and young people's charities working in all 32 local authorities across Scotland. In 2019, the Scottish Children's Lottery distributed £1.4 million to charities across Scotland.

The funds generated by the Scottish Children's Lottery 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.

Baroness Margaret Ford OBE
Chairman


RAISE
& SHINE


BeFriends


CHILDREN'S LOTTERY


CHILDREN'S LOTTERY
East Pollokshields Mobile Creche
Ten Thousand, Three Hundred
10,306.50
and Six Pounds & Fifty Pence


children's appeal


children's appeal

S.172 STAKEHOLDER STATEMENT

The Board and its individual Directors consider that, in the decisions taken during 2019, they have acted in the way most likely to promote the success of STV for the benefit of its members as a whole, having regard to the stakeholders and matters set out in S.172 of the Companies Act 2006.

Board meetings

The following offers some insight into how the Board uses its meetings as a mechanism for discharging its duties under S.172, including the breadth of matters it discussed and debated during the year and the key stakeholder groups that were central to those discussions.

Key stakeholder groups:

- shareholders
- colleagues
- customers
- suppliers
- community

Strategy and performance

Trading updates:

- regularly reviewed the trading performance of the Group and each business area noting reports from the divisional MDs
- discussed operational issues such as supplier relationships and general operations, including their impact upon colleagues
- considered wider market pressures and challenges, competitor performance and the implications of these on trading
- reviewed liquidity and discussed share trading and prominence in financial press

Strategy:

- reviewed the progress being made on the strategic plan, measuring this also on non-financial measures such as ESG
- discussed the results of a Communication Review presented by STV's financial and corporate communications advisors and agreed to hold a Capital Markets Day which shareholders attended
- agreed to acquire holdings in Primal Media Ltd and Two Cities Television Ltd
- reviewed and agreed a defence document designed to protect STV's value in the event of a takeover
- appointed new defined benefit pension consultants after a full market testing of providers
- discussed and reviewed considerable work carried out in the second half of the year in relation to the performance of the lottery

Financial updates

Budget:

- considered performance compared with last year and agreed the budget for 2019
- considered anticipated performance against the agreed budget for the coming year and colleagues perspective on this
- discussed capex requirements for the continued implementation of the strategy

Cash flow and dividend:

- reviewed cash flow, dividend cover and shareholder return, taking into consideration financial performance and bank covenants and agreed a dividend

Costs:

- reviewed cost management generally and the status of key contracts and margins
- agreed where investment would be made

Risk:

- reviewed the risk register and risk appetite which define the scope of the Board's oversight of the business and its various relationships
- agreed the process for a refresh of the risk register
- considered and discussed the internal audit reports carried out by Deloitte and ensured the recommendations were implemented

Governance and legal

Board evaluation:

- discussed the results of the externally facilitated evaluation following a report from Prism Boardroom and agreed actions on the points raised

Board succession and diversity:

- considered and reviewed the Board's composition, diversity and succession plans and agreed actions

Legal and regulatory:

- reviewed and approved the annual financial report and the full and half year results announcements
- monitored regulatory and legislative development and considered their potential implications for STV

AGM:

- reviewed specific issues raised by shareholders following voting at the AGM and agreed an action plan

Board updates

Brexit:

- reviewed and discussed a detailed paper from the CFO on downside planning

Culture and organisation:

- reviewed and discussed the responses to the annual Employee Opinion Survey and agreed an action plan with the HR Director
- approved STV's annual Gender Pay Report and reviewed progress being made towards achievement of the 2023 target to achieve gender balance across the top 25% of roles by seniority
- reviewed and discussed a Succession Planning paper assessing organisational resilience and succession strength to senior and other key operational roles
- discussed the activities being delivered to progress STV's Equality, Diversity and Inclusion Strategy
- reviewed and discussed STV's environmental activities including the introduction of electric charging spaces in the staff car park

Community:

- agreed to double the investment in the STV Growth Fund from £5 million to £10 million to make advertising on television easier for Scottish businesses
- agreed a multi-year investment in the future skills of the creative industries in Scotland through an ambitious bursary scheme, in partnership with the Royal Television Society

Engagement with stakeholders

Directors engage with stakeholders and gain an understanding of their issues through:

- the AGM when they meet informally with shareholders once the formal business has concluded
- Board meetings being held in different STV offices offering the opportunity to meet colleagues based around the business
- attendance at the Full and Half Year results presentations when they meet with brokers, shareholders and analysts
- their involvement with the STV Children's Appeal charity and at the various events held when they meet suppliers and customers
- Board reports and presentations from senior managers around the business on operational performance e.g. the strategy for STV News and on employee issues through the Employee Opinion Survey
- engagement from the Remuneration Committee Chairman on remuneration issues both before and after the AGM
- detailed discussions at each Board meeting of the relationship with ITV
- the appointment of Simon Miller as the nominated Employee Director

FINANCIAL REVIEW

For the year ended 31 December 2019

Lindsay Dixon

Results summary

	2019	2018
Adjusted results (pre exceptional items & IAS19)		
Revenue (£m)	**123.8**	125.9
Operating profit (£m)	**22.6**	20.1
Operating margin	**18.2%**	15.9%
Profit before tax (£m)	**21.0**	19.0
Earnings per share (pence)	**46.4**	41.1
Statutory results		
Revenue (£m)	**123.8**	125.9
Operating profit (£m)	**22.6**	9.0
Profit before tax (£m)	**19.0**	1.9
Profit after tax (£m)	**15.9**	1.6
Effective tax rate	**16.6%**	16.6%
Earnings per share (pence)	**42.2**	4.2
Dividend per share (pence)	**21.0**	20.0

2019 has been a year in which the Group has demonstrated clear, positive momentum in its strategic growth priorities. Regional and digital advertising performed strongly and a programme of change has been successfully executed in Production that sees a much stronger development pipeline now in place.

Against a national advertising market that fell 4% year on year, our total advertising revenue grew by 2% with gains in regional and digital more than offsetting the national decline. We disposed of our minority shareholding in deltaDNA in September 2019 which generated an exceptional cash inflow of £1.3 million during the year; this has subsequently been re-invested in Two Cities Television post year end. Net debt at £37.5 million is slightly higher than last year following the last cash payments in relation to the 2018 reorganisation being made and completion of the share buyback programme.

Financial summary

In 2019, we changed the basis of allocation of central/corporate costs to present divisional profit and margin metrics that better reflect the underlying trading of those businesses. In prior years, all such central costs were allocated to the divisions with none held centrally, but from the second half, those costs incurred centrally that relate specifically to an individual division are attributed on that basis, but those costs that relate to the Group's operation as a PLC, as well as the remuneration of the Directors, are held centrally as a Corporate segment. The narrative in this report references restated comparators and a reconciliation for 2018 is included in note 5 to the financial statements.

Total advertising revenue was £101.6 million, an increase of £1.6 million (2%) on the prior year. Group revenue at £123.8 million was lower than last year by £2.1 million, with the increase in total advertising revenue offset by lower revenues in Production (-£2.6 million) and lower revenue in the STV ELM (which represents the recharge of costs to the Scottish Children's Lottery ('SCL')).

Adjusted operating profit of £22.6 million was £2.5 million (13%) up on the prior year as a result of a strong performance in Digital (+£2.1 million). Broadcast operating profit was also up year on year (by £0.5 million) and savings were realised in Corporate (of £0.5 million). As previously discussed elsewhere in this Annual Report, 2019 was a year of creative and organisation transformation for the Production business and as a result the division made a small loss of £0.1 million. That said, recent commissions demonstrate that the changes executed and investments made are starting to bear fruit.

Operating cash flow generated of £20.9 million represented strong operating cash conversion of 92% although was down on 2018 which benefitted from a non-recurring working capital inflow in relation to ITV.

Operating profit was 13% up on prior year as a result of a strong performance in Digital.

Non-statutory measures

This Annual Report includes both statutory and non-statutory (or adjusted) performance measures, the latter intended to better reflect the underlying performance of the business and provide a more meaningful comparison of performance from one period to the next. The combination of these statutory and adjusted measures is useful to investors as it provides them with a basis for measuring our operational performance. The non-statutory measures should not be considered in isolation from, or as a substitute for, financial information in compliance with GAAP, and the non-statutory measures used in this Annual Report may not be directly comparable with similarly named amounts reported by other companies.

In calculating adjusted operating profit, profit before tax and EPS, the Group excludes exceptional items and amounts in relation to IAS19, as well as the tax charge or credit on those amounts.

Exceptional items are items of income or expense which, because of the nature, size and/or infrequency of the events giving rise to them, are considered to be one-off and do not necessarily directly relate to the underlying trading of the Group. These items are excluded to reflect performance in a consistent manner and in line with how the business is managed on a day-to-day basis. They are also shown separately on the face of the primary financial statements.

IAS19 related items, principally the net interest expense included in the income statement, are excluded from non-statutory measures as they are non-cash items that relate to historical defined benefit pension schemes.

Exceptional items

There are two notable operating exceptional items in the current year. The first of these is the gain on sale of the Group's 6.2% shareholding in deltaDNA, completed in September 2019, of £2.0 million. The total consideration receivable is £2.5 million, against a net book value of £0.5 million, with 62.5% payable in cash and 37.5% in shares in the new parent company. There is a 20% retention on both elements for 2 years from the completion date. The cash received during 2019 was £1.3 million.

Secondly, there is a write down of development costs of £1.9 million. A full review of the development costs previously capitalised was undertaken in the second half of the year by the new management team of STV Productions, and those creative ideas and investments which are not aligned with the new strategic direction of the division have been identified and written off.

Tax

Tax charge and effective tax rate ('ETR')

The total tax charge for the period was £3.1 million on a statutory basis, representing an ETR of 17%. This is slightly lower than the standard UK corporation tax rate of 19%, primarily due to the receipt of a tax refund in respect of a prior year and deductions on pension contributions. In 2018, the adjusted tax charge was £2.9 million, and the effect of exceptional items resulted in a statutory tax charge was £0.3 million. On a statutory basis, the ETR was 17%.

Cash tax

The corporation tax cashflow was a net receipt during the year of £0.1 million (2018: net outflow of £0.7 million), which is lower than current year tax charge, primarily due to the receipt of a tax refund of £1.0 million in respect of prior years.

Cash flow and net debt

The Group has in place a £60 million revolving credit and overdraft facility which expires in June 2022. The covenants under this agreement are in relation to leverage (net debt : EBITDA) and interest cover. At the end of the year, the Group's leverage was 1.29 times (2018: 1.36 times) and interest cover was 24.9 times (2018: 26.7 times), both metrics well within the covenant limits of 3 times (maximum) and 4 times (minimum) respectively. The leverage metric was also comfortably within the Group's self-imposed target of 1 to 1.5 times.

Reconciliation of net debt

	£m
31 December 2018	**(36.3)**
EBITDA	27.7
Working capital inc. leases	(2.2)
Capital expenditure	(4.5)
Interest & tax	(1.0)
Dividends	(7.6)
Defined benefit pensions	(10.3)
Share buyback	(2.1)
Reorganisation	(1.0)
Other	(0.2)
31 December 2019	**(37.5)**

FINANCIAL REVIEW

Earnings per share ('EPS')
Adjusted EPS at 46.4p was 13% up on the prior year, driven by the increased profit generation of the Group. On a statutory basis, EPS was up 38.0p to 42.2p due to the significantly lower level of net exceptional items in the current year. A reconciliation of the two measures is shown in note 10 to the financial statements.

Dividend
The Board is recommending a final dividend of 14.7p per share resulting in a total dividend of 21.0p for the year, an increase of 5% on 2018. Dividend cover (being the ratio of adjusted EPS to dividend per share) is 2.2 times. If approved at the Annual General Meeting on 21 April 2020, the final cash dividend will be paid on 29 May 2020 to shareholders on the register as at 14 April 2020.

Acquisition of majority stake in Primal Media
On 1 July 2019 the Group acquired a 52% shareholding in Primal Media Limited ('Primal'), an unscripted production company, for a nominal amount. The transaction will allow STV Productions to realise full value from Primal's current and future programming slate. The terms of the transaction are such that we can increase our shareholding in a phased way over the next 5 years, dependent upon success. For full details of the acquisition accounting refer to note 15 to the financial statements.

Pensions
The Group has two defined benefit pension schemes, both of which are closed to new entrants and only one of which has a small number of active employees. The IAS19 accounting deficit across both of these schemes was £64.0 million at the end of the year (2018: £78.5 million). The reduction on the prior year is a result of contributions invested and the return on scheme assets outweighing the impact of a reduction in discount rate.

The latest triennial valuation, as at 31 December 2017, was completed in April 2019 and the Schedule of Contributions agreed on the same basis as previously.

The STV External Lottery Manager ('ELM')
Throughout 2019, the Group has continued to provide external lottery management services via its wholly owned subsidiary, STV ELM Limited, to the Scottish Children's Lottery ('SCL'), a society lottery operating under four Scottish Charitable Incorporated Organisations. The ELM has continued to operate on a breakeven basis, the costs it incurs in operating the lottery being recharged in full to the SCL, at a nil mark-up.

Ticket sales exceeded £4 million during 2019. The roll-out of the retail proposition was progressed, reaching the target number of outlets by the end of the year, albeit at a slower rate than initially planned and end-loaded into Q4. As a result, the cash generation of the SCL did not cover its operating costs and so the amounts due from the lottery to the ELM increased from gross amounts of £11.4 million at the end of 2018, to £12.4 million at the end of 2019.

The provision of £5.0 million in place at the start of the year has reduced slightly to £4.7 million as a result of forgiveness of £0.3 million of debt agreed with the trustees of the SCL as part of an overall package of changes implemented at the start of the year to reduce the cost base of the ELM.

Notwithstanding the net cash consumption of the lottery during the year, the prospects for the lottery are one of cash generation and no increase to the provision has been recognised on that basis. The resultant net debtor due from the lottery to the ELM at the end of the year was £7.7 million (2018: £6.4 million).

Concurrently with the continued operation of the ELM, a strategic review of that operation was conducted during Q4 2019 to consider options for its future. This review concluded that STV is not the best long term owner of the lottery, and a process is therefore underway to investigate a partnership or divestment of the ELM to enable STV to focus fully on the execution of its growth strategy.

Lindsay Dixon
Chief Financial Officer

RISK MANAGEMENT

Risk management and internal control

Introduction

Risk is inherent in the Company's business and activities and the Board considers risk management to be a key business discipline, designed to balance risk and reward and to protect the Group against the potential impact of uncertainties that could threaten the achievement of its business objectives. The management of risk is considered to be of vital importance and Directors have overall responsibility for maintaining and reviewing the effectiveness of the risk management activities from a strategic, financial, and operational perspective.

Risk agenda

During the year, the Board has reviewed the effectiveness of the systems of risk management and internal control and conducted a robust assessment of the principal risks affecting the Group in line with its Risk Appetite Statement. These activities meet the Board's responsibilities in connection with Risk Management and Internal Control as set out in the UK Corporate Governance Code.

The aim of the Risk Appetite Statement is to highlight the risks that we should be willing to take, as well as those which we would not. The statement includes a series of risk assertions that are aligned to our strategy, together with the risk parameters within which we expect our people to work. Compliance with the Risk Appetite Statement is monitored through the Group's functional and front line controls including oversight and reporting mechanisms. The Board will continue to review and update the Risk Appetite Statement on an annual basis.

The Report from the Audit & Risk Committee includes further detail on the work undertaken during the year to review the internal control and risk management systems of the Group.

Risk management and internal control

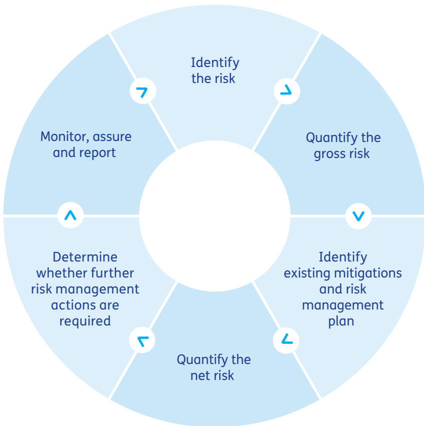
The Board has approved a formal risk management policy, which defines the objectives of and commitment to risk management. The policy sets out the Group's risk appetite together with how identified risks are managed and monitored as well as detailing how risk management is embedded within the Group.

The risk management process is designed to identify, assess, respond to, report on and monitor the risks that threaten the Company's ability to achieve its business strategy and objectives, within its agreed risk appetite. It is an important factor in the Company's financial soundness, performance, reputation and future success which is why the review of risk and risk management has been embedded throughout the Company.

While the Board has overall responsibility for risk management, each divisional managing director has day-to-day ownership of the risks relevant to their respective areas of responsibility.

In conjunction with their team, they ensure that identified mitigating actions and controls are being operated effectively, and they also continually assess the risk landscape to determine changes in likelihood or significance of identified risks, and the emergence of any new risks.

Risk management cycle



Risk register

A risk register formalises the consideration of risk and opportunities in a way that enables wider consideration and discussion within management and at a board level, and is the culmination of a bottom-up assessment of risk by operational management and a top-down assessment by the Board. It helps to ensure that all significant risks have been suitably identified and assessed and are being actively managed.

Although a risk register tends to focus on negative risks it can also address the opportunities that face the business and assists both management and the Board in ensuring that their risk policies are appropriate. Not all risks are controllable or foreseeable, for example natural disasters. Our response to such risks is having controls which lessen the impact to our business should they occur, including up to date business continuity and disaster recovery plans.

For each risk identified, we quantify the gross risk by considering the potential impact and likelihood of occurrence. Then, incorporating the impact of the existing mitigating actions and controls, the net risk is quantified. If the net risk is not acceptable and is not in line with our Risk Appetite, further mitigating actions and controls are identified as necessary. All risks are assigned to an appropriate risk owner and the registers are reviewed in detail by the Audit & Risk Committee annually to ensure that all risks have been captured and areas of emerging risk considered. The Board is provided with risk updates biannually as part of the normal process by which the Audit & Risk Committee provides reporting on its activities.

Significant progress was made during the year on a refresh of the Group's risk register, led by the Company Secretary and with involvement from the divisional managing directors and their leadership teams, the heads of corporate functions, and the Board.

RISK MANAGEMENT

A structure has been put in place that mirrors the divisional structure of the Group, such that each division, and the central functions, has its own individual risk register, owned by the divisional managing director (or the Chief Financial Officer in the case of the central functions). The review of these registers, and the consideration of risk and risk management plans, will be executed through the divisional board governance structure and updates thereon will be formally considered by the Board at least twice each year.

The Group risk register now comprises only those key risks considered by the Board to be the most significant and/or likely. A full review of this Group risk register will be undertaken at a Board meeting with a focus on risk and internal control at least once during the year.

A separate cyber risk register is also in place and this is also reviewed at least once each year.

Internal controls

The system of internal control is designed to manage rather than eliminate risk and can only provide reasonable and not absolute assurance against material misstatement or loss. By further developing and operating an annual and ongoing risk management process to identify, report and manage significant risks, the Board seeks to provide a reasonable assurance against material misstatement or loss.

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 divisional boards
- 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 with 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.

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

Roles and responsibilities

The key roles and responsibilities for risk management comprise three layers. Each role within the Company is well-defined with clear responsibilities and a transparent reporting structure.

The first line of defence is our divisional management who are responsible for managing their business to ensure divisional strategic objectives are achieved and there is compliance with Group policies and standards throughout their division. Issues are escalated to the Management Board as required.

Our second line of defence is the Management Board with overall responsibility for managing the Group to ensure it meets its strategic objectives. It is responsible for managing the risks that may have the potential to impact the delivery of the Group's strategic objectives, monitoring business performance, taking strategic decisions in accordance with the authority delegated to it by the Board, and escalating issues to the Board as required.

The third line of defence comprises the Audit & Risk Committee and then the Board. The Audit & Risk Committee has delegated authority from the Board to review the effectiveness of the Group's risk and internal control frameworks. It performs an annual assessment of the effectiveness of the risk management and internal control frameworks, reviews reports from the internal and external auditors, and reports to the Board on the outcome of the work performed.

The Board has overall responsibility for the Group's risk management and internal control frameworks, and strategic decisions within the Group. It undertakes an annual review and ongoing monitoring of the effectiveness of the risk management and internal control frameworks, as well as an annual review of the Risk Appetite Statement. Furthermore, twice each year it receives a report from the Audit & Risk Committee on the results of its work and for every meeting considers the principal risks as presented and discussed in the Executive Directors' board papers.

Risk appetite

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

	Unacceptable to take risks					Higher willingness to take risks				
Risk category	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Reputation	<	>								
Compliance and regulatory	< >									
Returns and profitability		<		>						
Technology	<		>							
Opportunities						<			>	
TV market			<		>					
Operational			<				>			
Pensions	<	>								
People and culture	< >									

Reputation
STV places great importance on upholding its high reputation and therefore has a low appetite for risk in conducting any activities that put 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 other 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.

Returns and profitability
STV aims to deliver strong growth through the strategic options it identifies, ensuring that these are for appropriate returns, with a focus on market median margins (as a minimum target), clear return on investment and good working capital management together with cash generation. While opportunities may be taken that result in some dilution to the operating margin in the short term, these would be expected to generate margin enhancing results within the plan period.

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, and mergers and acquisitions are periodically considered, as is technology innovation, if they are aligned with our strategic direction. These inevitably involve an 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 national airtime advertising revenue and the increasing number of SVoD services now in the market 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 funding deficits in STV's two defined benefit pension schemes and while the investment strategy is determined to reduce the impact of material market movement, various measures are being taken to reduce the deficit. STV has a low risk appetite in respect of its pension obligations.

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 no appetite for any deviation from its standards in these areas.

RISK MANAGEMENT

Principal risks and uncertainties

As in any business, there are risks and uncertainties that could have an impact on the Group's operating results, financial condition and prospects. The Group's risk management and assurance framework is designed to make this less likely by clearly identifying and seeking to mitigate key risks.

The Directors confirm they have carried out a robust assessment of the principal risks facing the Company and all of the risks identified have been fully evaluated and taken into account in preparing the budgets and forecasts which support going concern, the viability statement and impairment assessments. The principal risks and uncertainties set out below are those believed to have the greatest potential to impact our ability to achieve the Group's strategic objectives, or which have the greatest potential impact on the Group's solvency or liquidity.

Operational risks

Risk area: Regulatory environment

Potential impact	Mitigation
STV's television business is operated under licences that 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. 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.	As licensee, it is STV's responsibility to ensure that the terms of these licences are adhered to and measures have been put in place internally to ensure this happens. There is a dedicated compliance function and a compliance mentality has been embedded within all relevant areas of the business. There is frequent contact with the regulator to ensure awareness and understanding of any updates or changes to the codes/rules and that appropriate changes to internal processes are implemented as required. Furthermore, there is regular staff training.

Risk area: Market volatility and advertising spend

Potential impact	Mitigation
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 STV or its 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.	STV's national advertising is sold by ITV and the contract requires ITV, as an agent of STV, to maximise revenue through 'best endeavours'. ITV send a weekly performance report to STV. STV's London-based marketing team is responsible for monitoring the digital advertising market and selling STV as part of the UK market. STV aims to create greater value for advertisers through focusing on targeted opportunities and new ways to engage with consumers. STV's local Scottish advertising is also sold by a dedicated team who pursue a range of initiatives designed to ensure the effectiveness of our sell including promotion of the STV Growth Fund.

Risk area: Brexit

Potential impact	Mitigation
The general macroeconomic uncertainty associated with the Brexit process and the ultimate conclusion of trade deals is considered to be a risk to STV, to the extent it affects the UK advertising market, upon which STV is dependent.	To the extent that this involves a decline in national advertising revenues, then the Group receives a partial offset to this impact through its arrangements with ITV in the Network Affiliate Agreement and Airtime Sales Agreement.

Operational risks (continued)

Risk area: Performance of the ITV Network

Potential impact	Mitigation
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 through STV's Commercial Director who has responsibility for the sales relationship with ITV. The combination of the Network Affiliate Agreement and the Airtime Sales Agreement means that the Group's broadcast business is partly protected from adverse national performance.

Risk area: Cyber

Potential impact	Mitigation
Cyber risk commonly refers to any risk of financial loss, disruption or damage to a company's reputation resulting from the failure of its information technology systems. STV is dependent on technology for the smooth running of its business and a cyber-security incident could lead to a loss of commercially sensitive data, a loss of data integrity within our systems or loss of financial assets through fraud.	There are cyber risk policies in place covering information security, data retention and data incident reporting. The IT infrastructure is protected by firewalls and software restricting use to authorised persons only. Regular internal and external network penetration tests are performed by a third-party specialist to ensure the level of protection is maintained. Cyber risk has been subject to increased focus by the Audit & Risk Committee over the past few years and Deloitte has carried out several internal audits of the Company's arrangements with all recommendations now implemented. A disaster recovery simulation exercise was carried out in January 2020.

Financial risks

Risk area: Defined benefit pension scheme shortfalls

Potential impact	Mitigation
The STV defined benefit pension schemes' investment strategy is aimed at reducing 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 and the ability to invest in key growth areas.	This position is kept under regular review by the Board. The trustees appointed River & Mercantile Solutions as investment manager for the schemes' assets and this is intended to increase returns and meet the schemes' long-term funding objectives.

Risk area: Reputational and financial risk of lottery operation

Potential impact	Mitigation
There is a risk that the Scottish Children's Lottery does not reach a position of cash positive quickly enough or else in a sustained way and is not able to repay the monies due to STV ELM Limited. This would impact the funding of the Group and could also impact the Group's reputation.	Internal controls have been put in place to ensure that the terms of the operating licence are adhered to and STV has a strong track record of internal control in the areas of compliance and regulatory dealings. Tight controls are in place with regard to approval of new initiatives and commitment to operating costs, with regular reporting in support of both. The Lottery is a standing agenda item at Board meetings.

Risk area: Group funding

Potential impact	Mitigation
The overall financial position of STV may be constrained by the Group's leverage and other debt arrangements in particular in relation to its ability to invest in strategic growth areas.	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. There are 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.

Baroness Margaret Ford OBE
Chairman

RISK MANAGEMENT

Long term viability statement

In accordance with the UK Corporate Governance Code 2016, the Directors are required to perform an assessment of the Group's viability over a period longer than the twelve months required for the going concern statement.

This year's viability assessment covers a three-year period, which has not changed since the requirement for reporting was introduced. The Directors consider that three years continues to be the most appropriate time frame for assessing the Group's longer-term viability, after consideration of the following factors:

- Visibility over the broadcast advertising business is relatively short term. Advertising remains cyclical and closely linked to UK economic growth
- The programme development lifecycle for programmes tends to be more medium term, however over time there is less visibility due to changes in viewer demand
- The speed of innovation in the digital landscape continues to drive changing viewer and consumer habits, with limited visibility beyond the short-term
- One of the Group's key funding obligations is payment of contributions to its defined benefit pension schemes, which are dependent on independent valuations undertaken every three years; and
- Capital expenditure requirements do not require consideration over a period beyond three years.

This year's assessment covers the period from 1 January 2020 to 31 December 2022.

The viability assessment evaluates the potential financial impact of the principal risks and uncertainties that are faced by the Group, to assess its ability to withstand them. The analysis takes as its starting point the Group's 2020-2022 Strategic Plan which was completed in November 2019. These plans are the result of detailed consideration of all areas of the business including the business model, opportunities, potential risks and uncertainties faced over that timeframe and include profit and loss and cash flow forecasts.

In assessing the viability of the business, the Board considered a number of factors that may have a material impact on long-term viability. These factors principally fall under the risk of 'Market volatility and advertising spend':

a) The performance of the national and regional advertising markets is significantly adverse to forecast;
b) The projected growth in digital advertising is significantly adverse to forecast; and
c) The projected growth in programme commissions and therefore revenue in our STV Productions business is significantly adverse to forecasts.

The Board does not consider any of these factors to individually threaten the viability of the business and therefore the viability assessment focused on a number of scenarios in which there was a compound impact from all factors crystallising simultaneously.

Four models in particular were considered, ranging from a plausible downside scenario, to more extreme scenarios in which the Group would breach borrowing and/or covenant levels.

In evaluating these models, the Directors took into account a number of the available mitigating actions that the business would reasonably take to manage the impact, specifically in relation to cost reduction, management of working capital, capital investment and returns to shareholders.

Having conducted the above exercise and taken into account the business model, strategic aims, risk appetite, and principal risks and uncertainties along with the Group's current financial position, the Directors are satisfied that the Group will be able to continue in operation and meet its liabilities as they fall due over the 3 year period under review.

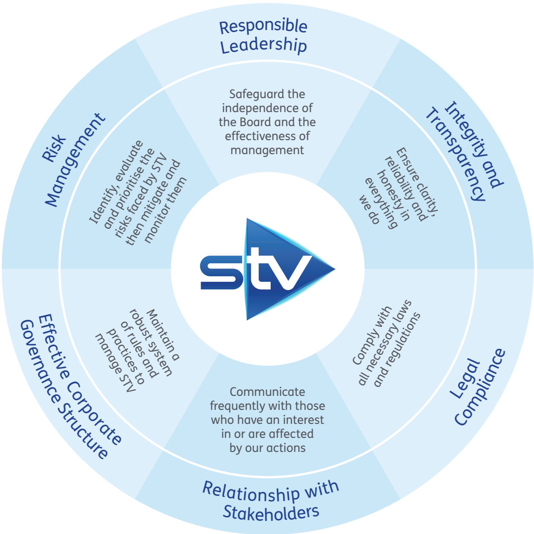
INTRODUCTION TO GOVERNANCE

Corporate governance at STV

As a Board, we continue to believe that good corporate governance underpins good business performance. We are accountable to our shareholders for ensuring that governance processes are in place and are effective, and we are fully committed to maintaining the highest standards of corporate governance based on openness, fairness, professionalism and accountability. Our governance practices are designed to build confidence in stakeholders, thereby paving the way for the Company's long-term success.

As Directors, we are also mindful of our statutory duty to act in the way each of us considers, in good faith, would be most likely to promote the success of STV for the benefit of its members as a whole, as set out in S.172 of the Companies Act 2006 and further details of how we have achieved this can be found on pages 36 and 37.

STV's corporate governance



Board effectiveness

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

During the year, an external review of the Board and its Committees was facilitated by Prism Boardroom, further details of which can be found on pages 57 and 58. Based on this review and my experience as Chairman, I am satisfied that the Board and its Committees are performing efficiently and that there is an appropriate balance of skills, experience, knowledge and independence to enable the Board to discharge its duties effectively.

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 54.

Stakeholder engagement

Engagement with our stakeholders is essential to how we run our business and it is vital that we develop strong relationships with them so we can successfully deliver our strategic plan. We have a wide range of stakeholders with whom we work including investors, customers, colleagues, suppliers and regulators and we are committed to maintaining regular open dialogue and effective communication with them all. In order to engage effectively with our colleagues, our Senior Independent Director, Simon Miller, will attend meetings of the STV Advisory Group and be the conduit for Board engagement.

There has been significant engagement by the Chairman of the Remuneration Committee, Anne Marie Cannon with several large institutional shareholders following the results of voting at the AGM and further details can be found on page 59.

The Board welcomes engagement and dialogue with its shareholders and we look forward to seeing you at the forthcoming AGM to be held on 21 April 2020.

Compliance with the UK Corporate Governance Code

The Board considers that, in respect of the financial year ended 31 December 2019, the Company has complied fully with the UK Corporate Governance Code 2018 (the Code) and this section, together with the Directors' Remuneration Report, set out on pages 60 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.

Baroness Margaret Ford OBE
Chairman

BOARD OF DIRECTORS

At 14 March 2020








left to right by row, from top left

Baroness Margaret Ford OBE
Simon Pitts
Lindsay Dixon
Simon Miller
Christian Woolfenden
Anne Marie Cannon
Ian Steele
David Bergg

Baroness Margaret Ford OBE
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 Chairman of NewRiver REIT plc and was previously a non-executive director of Taylor Wimpey plc and Segro plc and the former chairman of Grainger plc, May Gurney plc and Barchester Healthcare Limited. Margaret is a trustee of the British Olympic Association and National President of the British Epilepsy Association. From 2009 to 2012, she was a member of the Olympic Board and Chairman of the Olympic Park Legacy Company. She was appointed to the House of Lords in 2006 and sits as an Independent Peer. Margaret is Chairman of the STV Children's Appeal and in March 2015, was elected a Fellow of the Royal Society of Edinburgh.

Simon Pitts
Chief Executive

Appointed: January 2018

Previously, Simon was 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 and, as Director of Strategy, was one of the main architects of the company's transformation under Archie Norman and Adam Crozier and also oversaw strong growth in ITV's digital businesses. Simon was also on the board of news provider ITN for 8 years and prior to ITV, worked in the European Parliament. He is Vice Chair of the trustees of the Royal Television Society and a trustee of the STV Children's Appeal and literary charity Oscar's Book Prize.

Lindsay Dixon
Chief Financial Officer

Appointed: May 2019

Appointed to the Board in May 2019, Lindsay is a Chartered Accountant with extensive commercial experience gained across a range of sectors covering the FTSE 100, 250 and large private companies. Previously, Lindsay held the role of Group Financial Controller at William Grant & Sons Limited. Prior to this, she was Group Financial Controller of The Weir Group plc. In addition to her core financial responsibilities she has wide ranging M&A, investor relations and international experience. In her early stage career after qualifying at Deloitte, she held senior finance roles with Johnston Press plc.

Simon Miller
Senior Independent Director

Appointed: December 2016
Committees: Nomination

Simon is an experienced director and chair with exposure to a wide range of financial, commercial and manufacturing businesses, holding both executive and non-executive roles. He is currently chairman of Brewin Dolphin Holdings PLC; chairman of Blackrock North American Income Trust plc and was formerly a non-executive director of Scottish Friendly Assurance Limited. Simon read Law at Cambridge and is a Barrister at Law.

Christian Woolfenden*
Non-Executive Director

Appointed: June 2014
Committees: Audit & Risk

Christian has extensive operational, consumer marketing and digital experience. Christian was formerly CEO of Photobox Group. Previously, he was CMO for Lyst.com and Managing Director of Paddy Power and prior to that has held both finance and marketing roles across key European businesses.

Anne Marie Cannon
Non-Executive Director

Appointed: November 2014
Committees: Remuneration (Chair); Audit & Risk

Anne Marie has over 35 years' experience in the energy industry and investment banking and is an experienced director, holding executive and non-executive roles. She is currently Deputy Chair at Aker BP ASA, Senior Independent Director at Premier Oil plc and a non-executive director at Aker Energy AS. In addition, she is a Senior Advisor in the Strategic Advisory business at PJT Partners. Anne Marie was previously a Senior Advisor at Morgan Stanley focused on M&A and has also held financial and commercial roles at Shell UK, Schroder Wagg and Thomson North Sea, as well as executive director positions on the boards of Hardy Oil and Gas and British Borneo.

Ian Steele
Non-Executive Director

Appointed: November 2015
Committees: Audit & Risk (Chair); Remuneration; Nomination

Ian qualified as a CA in 1980 with Arthur Young McClelland Moores. His subsequent career involved time with The British Linen Bank, Touche Ross, Rutherford Manson Dowds and Deloitte. Ian retired as Senior Partner for Deloitte in Scotland and Northern Ireland in 2015 and prior to retiring, had been on the UK Board of Deloitte LLP for over eight years. Ian was a Corporate Finance Advisory Partner with Deloitte and was Head of Global Advisory for some three years. He is on the Advisory Board of Visible Capital and is Chairman of Iomart Group plc.

David Bergg
Non-Executive Director

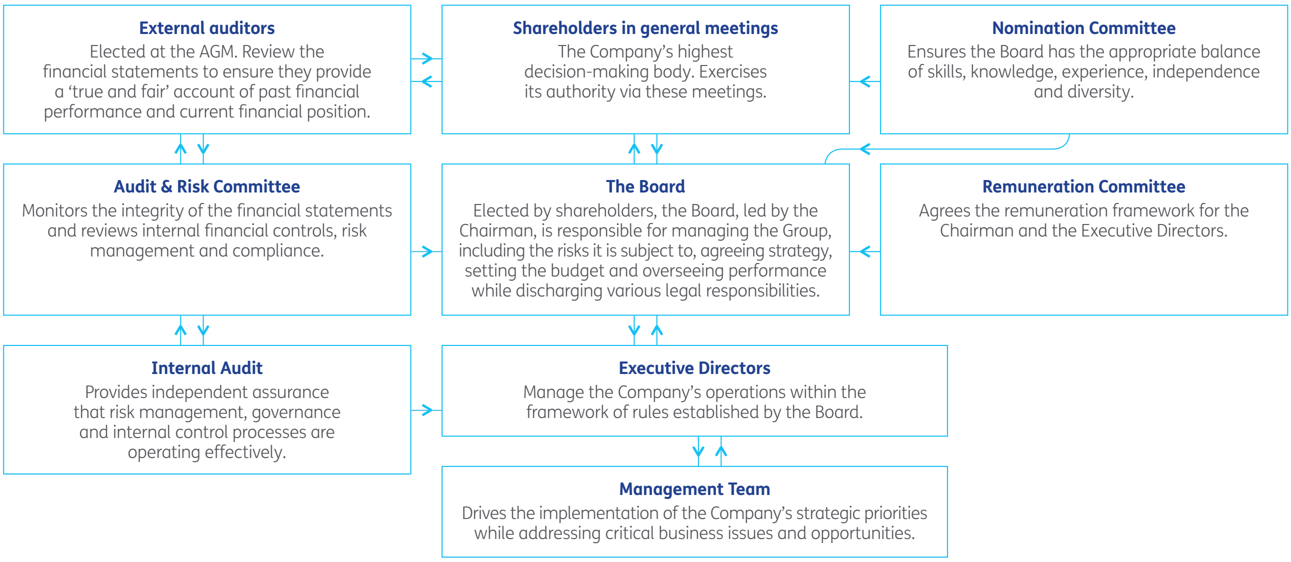
Appointed: May 2018
Committees: Remuneration; Audit & Risk

David has worked in the broadcasting industry for over 30 years – at ITV, the BBC, Sky, TV-am and Channel Five. David started his broadcasting career in a number of ITV regional audience research teams (including Grampian Television in the late 1980s), before moving into marketing and programme acquisition roles and then embarking on a succession of senior scheduling positions. David was Director of Programme Strategy at ITV for 20 years from 1997 to 2017. He retains extensive contacts at senior levels in the broadcasting and programme production sectors in the UK and USA.

* Resigned 9 March 2020.

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 ended 31 December 2019, the Company was subject to the provisions of the UK Corporate Governance Code (2018 Code), available at https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code, and the Board considers that it has complied with all relevant provisions of the 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
Chief Financial Officer	George Watt (resigned 23 April 2019) Lindsay Dixon (appointed 21 May 2019)
Non-Executive Directors	Simon Miller (Senior Independent Director) Christian Woolfenden (resigned 9 March 2020) Anne Marie Cannon Ian Steele David Bergg

Christian Woolfenden resigned on 9 March 2020 but has been included in the gender balance reporting in the Strategic Report and the Nomination Committee report.

The powers of the Directors (including in relation to the issue or buy back of shares) are exercisable in accordance with the Companies Act 2006 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

12.5% Chairman
25% Executive Directors
62.5% Non-Executive Directors

Board appointment, balance and independence

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

The Non-Executive Directors' mix of skills and wide-ranging business experience is a major contributing factor towards 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 from across a variety of sectors means they can constructively challenge management in relation 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 the Non-Executive Directors.

Board responsibilities

The roles of Chairman and Chief Executive are separate with a clear division of responsibility that 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 the constructive challenge to management that 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 that 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 implemented effectively in accordance with the approved operating plan and within a sound system of internal controls to achieve the agreed objectives. He creates a framework of strategy, values, organisation and objectives to ensure the successful delivery of results, and allocates decision making and responsibilities accordingly. Compliance with policies and achievement against objectives is monitored by the Board through monthly performance reporting and budget updates.

S.172 of the Companies Act 2006 states that it is the duty of all Directors to promote the success of the Company for the benefit of its members as a whole, and in doing so, to have regard, amongst other matters, to the:

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

Pages 36 and 37 of the Strategic Report reports upon how Directors have implemented S.172, taking the above factors into account.

The Senior Independent Director is available to shareholders should they request a meeting or have concerns that 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-Executive Directors' discussion on the Chairman's performance in the annual performance review. The Senior Independent Director is STV's employee Director.

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. Each Director is able to devote the time necessary to discharge their respective responsibilities effectively.

	Board	Audit & Risk Committee	Remuneration Committee	Nomination Committee
Number of meetings held:	**8**	**3**	**3**	**2**
Attendance:				
Baroness Margaret Ford OBE	8	3*	2*	2
Simon Pitts	8	3*	2*	–
George Watt (resigned 23 April 2019)	3	1*	–	–
Lindsay Dixon** (appointed 21 May 2019)	5	2*	–	–
Simon Miller	8	–	–	0
Anne Marie Cannon	8	3	3	–
Christian Woolfenden (resigned 9 March 2020)	7	1	–	–
Ian Steele	7	3	3	2
David Bergg	8	2	3	–

* Attended at the invitation of the respective Chairman. ** Attended all meetings since appointment.

CORPORATE GOVERNANCE REPORT

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 policy, internal control policies and corporate governance arrangements.

The Board's strategy day is a significant event within the annual calendar and provides the Board with the opportunity to come together and discuss in detail STV's strategy and implementation plans. This year the annual strategy day took place in the London office and was attended by all directors. Holding the strategy day there enabled the Board to meet with the London-based employees, particularly those new to STV, and to hear from those in Production and Commercial as to their plans for the future.

The agenda for the Strategy Day focused on three key topics to ensure there was sufficient time for the directors to deliberate each fully. The three topics discussed were the Lottery, which included an independent report by an industry expert, the Group's three year plan (presented by the executive directors), and a presentation on the latest viewing trends given by STV's Director of Broadcast Services & Insight and Non-Executive Director, David Bergg.

The Directors agreed that STV continued to make good progress against its strategic growth plan, and with solid foundations laid for the future the Company was well positioned to continue to deliver value to shareholders.

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 2019 included:

Operational and financial performance, including monitoring

- operational and financial updates at each Board meeting
- monthly finance reports, including details of performance against budget and the Company's financial position
- approval of the Annual Report & Accounts
- approval and declaration of dividends
- approval of the 2020 Budget
- approval of the Viability Statement
- monitoring of share trading and liquidity

Strategy

- presentations on initiatives to grow revenue, including those from business areas on individual growth plans
- approval for investment in Primal Media
- consideration of acquisition opportunities
- approval of the Company's strategy
- discussion on various regulatory issues
- approval of the three year plan
- discussion around the operation of the lottery

Governance and risk

- consideration of the appropriateness of the financial statements being prepared on a going concern basis
- review and approval of the Risk Register
- approval of the internal audit plan for 2020
- approval of the 2020 AGM Resolutions
- externally facilitated performance evaluation
- consideration of the Group's risk appetite and risk management processes
- update on shareholder meetings with the Remuneration Committee chairman following shareholders votes against the Remuneration Report resolution at the AGM
- approval of the Senior Independent Director job description
- approval for the Chairman to continue for another three year term
- presentation from the HR & Communications Director on succession planning

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 2019

Board committees

The Board is supported by the Audit & Risk, Remuneration and Nomination Committees. The Audit & Risk Committee was known as the Audit Committee prior to 14 January 2020 when the Board agreed the name should be changed to better reflect its duties.

Leadership

Board of Directors

- determines long-term direction and strategic aims
- sets framework of appropriate and robust controls
- ensures efficient and effective operation of the business
- engages with shareholders and stakeholders

Audit & Risk Committee

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

Page 55
Audit & Risk Committee Report

Remuneration Committee

- determines and agrees with the Board the framework for the remuneration policy
- reviews the ongoing appropriateness and relevance of the remuneration policy
- approves the design of, targets for, and payments from any performance related pay schemes
- reviews the design of all share incentive plans
- determines the remuneration packages for Executive Directors and other senior executives
- reviews and notes annually the remuneration trends across the Company
- reviews workforce remuneration and related policies, including alignment with the Company's culture

Page 60
Remuneration Committee Report

Nomination Committee

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

Page 54
Nomination Committee Report

Remuneration Committee

The members of the Committee during the year were:

Anne Marie Cannon (Chairman)
Ian Steele
David Bergg

The activities of the Remuneration Committee are described within the Directors' Remuneration Report which can be found on pages 60 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. The Committee also reviews workforce remuneration and policies and ensures that these are aligned with the Company's culture. Copies of the Committee's terms of reference are available on request and on the Company's website www.stvplc.tv.

CORPORATE GOVERNANCE REPORT

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

Baroness Margaret Ford OBE (Chairman)
Simon Miller
Ian Steele

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

The Committee met twice during 2019 and at its February meeting agreed that, following the appointments in May 2018 of David Bergg as a non-executive director and of Simon Pitts as Chief Executive Officer in January 2018, the Board had an appropriate balance of skills and experience. The Committee will continue to monitor any need to make further changes to the composition of the Board in the context of the Company's strategy.

In its review of the diversity of the Board, the Committee noted that the appointment of Lindsay Dixon as Chief Financial Officer would increase the percentage of females on the Board from 25% to 33.3%. However, it was conscious that diversity of social and ethnic backgrounds as well as of cognitive and personal strengths was as important as gender diversity and would keep under review the need for broader diversity on the STV Board in its succession planning.

Later in the year, the Committee looked in detail at succession planning and discussed a comprehensive report prepared by STV's HR and Communications Director, the purpose of which was to:

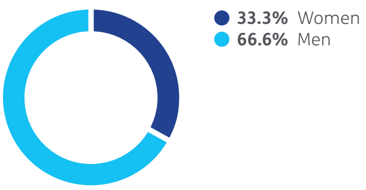
- assess organisational resilience and succession strength to senior roles and other key operational roles;
- identify successors to senior and key operational roles;
- assess development needs of Directors and other senior executives; and
- review progress towards achievement of the 2023 target to achieve gender balance across senior roles.

The report included input from divisional managing directors and considered readiness to progress on different time horizons. Development plans were to be put in place for the strong performers and high potential individuals who were considered to be a possible flight risk would be handled carefully.

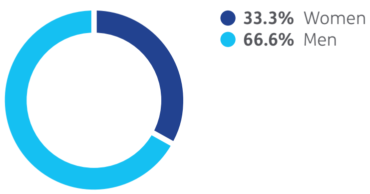
In terms of the gender profile of the top 25% of roles by earnings by division, the business areas where action was required were Broadcast (technical and engineering roles) and Digital. Within Broadcast, a number of the holders of these roles were due to retire in the next five years and while the pool of female successors to the engineering roles was not strong, there was a developing pool of female successors to the technical positions. It was anticipated that the gender profile within Broadcast would be close to 50:50 by the target date.

Achieving balance within Digital was more challenging due to the limited number of female applicants for the majority of roles. STV was, however, continuing to address this through its activities in encouraging women to pursue STEM-related careers.

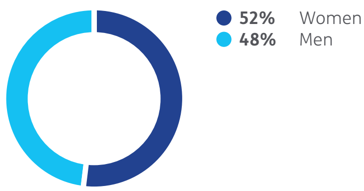
Board



Management Team



Staff



The Committee is cognisant that its succession planning must focus on STV's three strategic objectives namely to maximise the value of the broadcast business by delivering high quality, cost-effective news and entertainment; to drive digital growth by creating an 'STV for everyone'; and to build a world class independent production business. This was borne out by the appointments of Steven Ladurantaye as Head of News and Current Affairs, Richard Williams as Digital MD and David Mortimer as Production MD, in October and November 2018.

Report from the Audit & Risk Committee
The members of the Committee, all of whom were independent, during the year were:

Ian Steele (Chairman)
Christian Woolfenden (resigned 9 March 2020)
Anne Marie Cannon
David Bergg

The Audit & Risk Committee is chaired by Ian Steele who has recent and relevant financial experience. The Committee members have, through their other business activities, significant experience in financial and risk management matters. They have been selected with the aim of providing the wide range of financial and commercial expertise necessary to fulfil the Committee's responsibilities.

At the invitation of the Committee, meetings are attended by the Chairman, Chief Executive, Chief Financial Officer and, from time to time, the Group and Corporate Finance Manager. Representatives from both the external and the internal auditors also attend each meeting and the Committee meets separately with senior management and the external and internal auditors at least once each during the year. These separate meetings with the internal and external auditors provide the Committee with the opportunity for any issues to be raised by, or with, the auditors.

The Committee met three times during the year and once since the year end. Each meeting normally takes place immediately before a Board meeting, at which the Chairman of the Committee provides a report on the Committee's activities. The Board receives a copy of the minutes of each meeting, and the papers considered by the Committee are available to any Director who is not a member, should they wish to receive them.

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 & Risk Committee has written terms of reference and these are available on request and on the Company's website www.stvplc.tv.

The Committee's effectiveness is reviewed annually as part of the Board evaluation process.

The work of the Audit & Risk Committee focuses on the four areas of (i) financial reporting; (ii) internal control and risk management; (iii) internal audit; and (iv) external audit.

(i) Financial reporting
The Committee's principal responsibility in this area is the review and challenge of the actions and judgements of management in relation to the interim and annual financial statements before submission to the Board. The Committee has a particular focus on:

- critical accounting policies and practices (including any changes);
- decisions requiring significant judgements, areas of significant estimate, or where there has been discussion with the external auditor;
- the existence of any errors, adjusted or unadjusted, resulting from the audit;
- the clarity and compliance of disclosures with accounting standards and relevant reporting requirements;
- assessment of the going concern basis of preparation and review of the process and financial modelling underpinning the Viability Statement; and
- the processes surrounding compilation of the Annual Report and Accounts from the perspective of presenting a fair, balanced and understandable assessment of the Group's position and prospects.

Formal reports were received from the Chief Financial Officer and the external auditor summarising the main discussion points for both the interim report at the August 2019 meeting, and Annual Report in the February 2020 meeting. The significant financial reporting matters discussed during the current year, in addition to recurring agenda items, were as follows:

Deferred production stock: Deferred production stock forms part of inventory and is stated in the financial statements at the lower of cost and net realisable value. The assessment of net realisable value is based on projections of future secondary sales which is an area of judgement by management. The Audit & Risk Committee received reports from management on the basis of assumptions underpinning the projections as at the end of the year, and a reconciliation of the deferred production stock balance from the previous to the current balance sheet date. The Committee challenged management on the basis of the assumptions and whether the approach was consistent year on year. The Committee also received PwC's report on the work they had carried out in this area and their conclusions (which are set out in their report on page 75). On this basis, the Committee was satisfied that the balance was recoverable and no provision was required.

Accounting for defined benefit pension schemes: The valuation of pension liabilities can be materially affected by the assumptions used by management on areas such as discount and inflation rates. We challenged management on the key assumptions underpinning the valuation, with specific focus on the discount rate, RPI and mortality. We took assurance from the fact that external advice had been taken by the company. The Committee received PwC's report on the work they carried out in respect of pension liabilities and their conclusions (which are set out in their report on page 75). On this basis, the Audit & Risk Committee was satisfied with the assumptions and related pension disclosures.

Recoverability of the debtor due from the Scottish Children's Lottery (SCL): The recoverability of the debtor due from the SCL is dependent on the identification of a range of reasonably possible scenarios and the modelling of discounted cash flows. The inputs to these models, specifically in relation to ticket sales, subscriber attrition rates, and operating costs involve management judgement and estimate. We received detailed reporting from management that explained the assumptions underpinning the four scenarios identified and the discount rate used. On the basis of those calculations, the existing provision of £4.7m was considered appropriate. We also considered and challenged sensitivity analysis prepared by management, and this also indicated that the current level of provision was adequate. PwC audited the modelling prepared by management. The Committee also received PwC's report on the work they had carried out in respect of the recoverability of the debtor and their conclusions (which are set out in their report on page 75). Taking all these matters into consideration, the Committee was satisfied that the provision was appropriate.

(ii) Internal control and risk management
Overall responsibility for the Group's risk management and internal control frameworks rests with the Board. The Committee's role with regard to risk management has been delegated by the Board and is to review the effectiveness of the Group's risk and internal control frameworks. This work is supported by reporting from internal audit on the results of the programme of internal audits

CORPORATE GOVERNANCE REPORT

completed, the overall assessment of the internal control environment and any reporting, either verbal or written, from senior management covering any investigations into known or suspected fraudulent activities.

The Audit & Risk Committee also receives reporting on the process conducted to ensure that the Group financial statements are prepared having taken into account the internal control procedures and risk management strategies of the Group. The purpose of these processes 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, and are free from material misstatement.

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 are investigated and reported to the Audit & Risk Committee.

(iii) Internal audit

Deloitte LLP (Deloitte) are the Company's internal auditors. The primary focus of their internal audit programme is to provide assurance over key revenue streams and operating costs. Their 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 undertake their work via a programme of audits that is agreed in advance with the Audit & Risk Committee, and which seeks to provide assurance over key financial processes on a rotational basis as well as give assurance over other areas, at the request of the Committee.

During 2019, Deloitte completed internal audit procedures in the following areas: (i) Accounts Receivable; (ii) Cyber Risk – Follow Up; and (iii) Payroll. The internal audit plan also included a review of financial controls in the ELM however that was paused and the Board was undertaking a review of that operation. Another two audits were deferred to 2020 in anticipation of a review of the Internal Audit service to be completed in H1 2020. All points raised by the internal auditors following completion of these audits have been addressed and Group management believes that the control environment has been strengthened further by the actions taken.

Deloitte attend all meetings of the Audit & Risk Committee and provide update reports on which specific areas have been audited in terms of the plan for the year, together with an evaluation of the current controls and the key findings and recommendations. Their full report is shared with the Audit & Risk Committee with discussion in the meetings focused on high priority findings, recurring items and management responses to address these areas.

These reports and discussions give the Committee a broad coverage of the activities of Internal Audit and a good sense of the control environment. They also allow the Committee to ensure the function is effective.

(iv) External audit

The Audit & Risk 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 on 20 June 2013 following a tender process and KPMG has carried out tax work for the Company since 2016. No non-audit fees were paid to PwC in 2019.

The audit partner and senior manager attend all Audit & Risk 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.

Auditor effectiveness

With regard to the requirement for the Audit & Risk Committee to assess the effectiveness of the external audit process, feedback is sought from the members of the Audit & Risk Committee, the Chief Financial Officer as well as STV's finance team and the wider management team as required. 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 & Risk Committee and relayed to the auditors and to management. Following completion of this assessment for the 2019 year end, the Audit & Risk Committee concluded that the external audit process operated effectively and efficiently.

Independence policy and non-audit services

The Audit & Risk Committee is responsible for approving, in advance, any non-audit work undertaken by the external auditor. 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 & Risk 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 & Risk Committee. It is felt that this process ensures shareholders receive value for money and the Audit & Risk 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 for the purpose of compliance with the Group's bank facility agreement, and the Audit & Risk 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.

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 a 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.

Committee activities

The principal activities undertaken by the Board Committees during 2019 included:

Month	Committee	Activity
February	Audit & Risk	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
February	Nomination	Consideration of Diversity on the Board Request to HR & Communications Director to conduct a talent review of senior staff Agree SID confirm that Non-Executive Directors content for Chairman to be put forward for re-election at the AGM
February	Remuneration	Approval of Remuneration Report
April	Remuneration	Consideration of CEO personal objectives Consideration of vesting targets for LTIP
August	Audit & Risk	Review of Half Year Results Review of Auditor report on Half Year Results Internal Audit update Review of internal controls/risk management
August	Remuneration	Review of AGM votes against Remuneration Report Agreement to change to Non-Executive Director shareholding requirement
October	Nomination	Decision to have annual performance evaluation externally facilitated
November	Audit & Risk	Annual Business Risk Review Consideration of CFO report on Financial Controls and Risk Management Internal Audit Update
December	Remuneration	Review of Remuneration Policy and Non-Executive Director fees

Management team

The Management team comprises the Executive Directors; Divisional Managing Directors; Commercial Director; Director of Operations and Delivery; HR & Communications Director; and the Head of Legal and Regulatory Affairs. The purpose of the team is to drive the implementation of the Company's strategic priorities while addressing critical business issues and opportunities. The team meets weekly and is focused on Group-wide performance with the emphasis on collaboration and teamwork, whilst ensuring clear lines of accountability.

Training and development

All Directors are given a comprehensive introduction to the Company's business. Continuing development is provided through briefing sessions in the normal course of regular Board meetings covering business specific and broader regulatory issues and including presentations from members of senior management. Directors are also provided with, and encouraged to take up, opportunities to meet major shareholders.

Development and training of Directors is an ongoing process. Throughout their period in office the Directors are regularly updated on the Company's business, legal matters concerning their role and duties, the competitive environments in which the Company operates, and any other significant changes affecting the Company and the market sector of which it is a part. In addition, the Board regularly receives presentations from senior managers within the Company to ensure that Directors' knowledge, skills and familiarity with the Company's businesses 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.

The 2019 evaluation process was facilitated by Prism Boardroom, a third party, and was carried out in December. The evaluation consisted of a review of Board and Committee papers and minutes by the external facilitator who then prepared a questionnaire which was completed independently by each Board member and returned direct to Prism Boardroom. This was followed by a separate telephone interview with each Director. Thereafter a report was prepared and provided to the Board with recommendations made.

CORPORATE GOVERNANCE REPORT

The questionnaire specifically focused on the undernoted six areas as well as the Board's interactions with each of the Audit & Risk, Nomination and Remuneration Committees:

- the Board's engagement with strategy
- the priorities for Board discussions during 2019
- the Board's overview of risk and internal controls
- succession and composition
- stakeholder engagement
- Board process

Feedback was also obtained on the Chairman's performance which was then discussed with the Senior Independent Director.

The recommendations, together with points arising from the evaluation were discussed at the January 2020 Board meeting which Chris Stamp of Prism Boardroom attended. Overall, the results were positive, reflecting a strong and effective performance by the Board and its Committees. The evaluation process demonstrated that following the adoption of the strategy in 2018, the Board was clear about the direction in which the Group was going and satisfied with the strategic progress being made. There were healthy levels of respect and appreciation permeating the relationships within the Boardroom with the Non-Executive Directors having a high regard for the Executive Directors and the work they and their teams were doing to implement the strategy. There were sound processes in place which enabled both the Board and Committees to function efficiently.

It concluded that the Board was a cohesive group with strong and robust relationships which was dealing with the big issues facing both the industry and the Company in an open, constructive and challenging way and each Director was considered to have contributed effectively.

A number of recommendations were considered by the Board and the most significant resultant actions are outlined in the table below and will be actioned during 2020.

Focus area	Recommendation	Actions
Risk and Internal Control	Consider whether the discussion of risk should be rebalanced to give more time to it in Board meetings as well as Audit & Risk Committee meetings	Although the Audit Chair provides a comprehensive update to the Board following each meeting, risk shall be added as a stand-alone agenda item for two of the Board meetings rather than be included within the CEO report to ensure that risks are fully discussed by the Board as a whole
Succession and Composition	Agree an approach to Non-Executive Director succession over the medium term to ensure that the right skills and experience or the future needs of the Board are identified and agreed and the diversity of the Board optimised	During 2020 the Nomination Committee will put in place a formal plan for Non-Executive Director succession
Stakeholders	Confirm the operating details of the mechanism by which the Board will engage with the workforce and agree how the Board will monitor culture and values on a regular basis	STV has already established the STV Advisory Group, comprising a cross section of colleagues from across the business and meetings will now be held at least quarterly with reports to the Board made twice a year. Simon Miller, as the designated Non-Executive Director will attend at least one meeting each year, and will also be available for staff to contact with any issues
Board Process	Formally schedule a meeting of the Chairman and Non-Executive Directors at least once a year	While this is conducted informally, the Company Secretary will arrange a formal meeting to ensure that the opportunity for the Chairman to speak with Non-Executive Directors without management present is optimised

In accordance with the 2018 Code, an externally facilitated evaluation will be carried out every three years and the 2020 evaluation will be carried out internally, facilitated by the Company Secretary.

Re-election

All Directors are subject to election by shareholders at the first Annual General Meeting following their appointment, and annual re-election at each subsequent AGM. Copies of the Non-Executive Directors' terms and conditions of appointment are available for inspection at the Company's registered office and will be available at the Annual General Meeting.

The biographies and experience of all Board members can be found on pages 48 and 49, enabling shareholders to make an informed decision regarding Directors' elections and re-elections. Following the formal evaluation, the Chairman confirms that each director continues to contribute effectively and is important to the Company's long-term sustainable success.

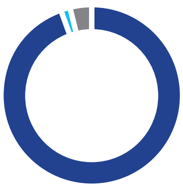
Tenure of Non-Executive Directors and Chairman

Relations with shareholders

STV believes that open and regular dialogue with investors is the basis of 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 convenient for them.

The Board recognises the importance of having continual engagement with its shareholders and fully supports the principles of the Code that 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 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, research analysts and the financial press throughout the year and the Board is kept fully informed of feedback given to the Chief Executive and Chief Financial Officer over the course of those 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. 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.

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 fair, balanced and understandable assessment of the Company's position and prospects. Such communication is designed to establish a mutual understanding of objectives.

Minority voting

At the 2019 Annual General Meeting, a minority of shareholders opposed resolution 2 which dealt with approval of the Directors' Remuneration Report. Of the votes cast, 70.46% of shareholders voted in favour of this resolution, and in accordance with guidelines a letter was sent to the Investment Association for inclusion in its Public Register.

Following the vote, the Company sought to engage with the three major shareholders who had voted against the resolution to understand their concerns. The Chair of the Remuneration Committee, Anne Marie Cannon, met with two of these shareholders, and one common theme that emerged was the level of disclosure for the personal element of the executives' annual bonus. Despite ongoing and pro-active efforts to engage, one of the major shareholders who voted against the Report has provided no response or feedback.

Regarding the stretch of the 2018 bonus targets, the Remuneration Committee remains unanimous in its opinion that bonus targets were appropriately stretching. 2018 was a unique year of significant and transformative change across the business, initiated by the appointment of a new Chief Executive, and the targets were set in this context.

However, the Board fully respects the views of its shareholders and welcomes the engagement and feedback it has received. It is aware of the continued focus from many stakeholders on the area of executive remuneration and remains dedicated to ongoing engagement with shareholders on this matter. As a result, there is increased disclosure of the personal element of the annual bonus in this year's Directors' Remuneration Report.

The Company looks forward to consulting with major shareholders and investor bodies as part of the next Remuneration Policy review which it expects to undertake during 2020, ahead of seeking shareholder approval at the 2021 Annual General Meeting.

REMUNERATION REPORT

Annual Statement

I am pleased to introduce the Directors' Remuneration Report for 2019.

This was a significant year for the Company as delivery of the strategic growth plan, announced in May 2018, was progressed by the newly formed executive team. The team continued to evolve during the year with the appointment of Lindsay Dixon as Chief Financial Officer in May 2019.

During 2019 we operated under the Remuneration Policy approved by shareholders at the 2018 AGM. The Remuneration Committee remains satisfied that the current executive remuneration framework is aligned with delivery of the strategic priorities of the growth plan and creation of long-term shareholder value. We do, however, continue to review our approach, particularly in view of changing governance requirements and shareholder feedback and we will undertake a full review of our Remuneration Policy in 2020, in accordance with the UK remuneration reporting regulations.

Shareholder engagement

We recognise that a minority of shareholders did not support our remuneration report at the 2019 AGM. We were naturally disappointed with this result, and, following that vote, I engaged with these shareholders to further understand their concerns. While a range of views were expressed, one common theme which emerged was concern around the level of disclosure for the personal objectives element of the performance bonus plan. As a result, we have significantly enhanced this area of our reporting in this year's report.

We have also looked to improve our disclosures more generally in the interests of transparency and to aid understanding of our executive remuneration arrangements. This remuneration report includes a new section summarising our Remuneration Policy, its alignment to the Group's overall strategy, and performance outcomes in respect of executive remuneration in 2019.

We remain dedicated to ongoing engagement with shareholders on the issue of executive remuneration. I would like to thank those shareholders who took the time during 2019 to speak with us; your feedback was of great value to the Committee and will inform future decisions. We look forward to consulting with major shareholders and investor bodies again as part of our Remuneration Policy review to be undertaken in the second half of this year.

In the meantime, we continue to closely monitor developments in shareholder guidance to ensure that our approach will meet shareholders' expectations.

2019 performance and incentive outcomes

Overall, financial performance of the business in 2019 was strong against a backdrop of considerable economic uncertainty arising from the political climate that prevailed throughout the year. This market uncertainty impacted on our principal revenue source, the national television advertising market, which accounts for 60% of our revenue, and which was down 4% on the previous year and in decline for the fourth consecutive year. However, despite this reduction in headline revenue, which reflected the wider advertising market and was consistent with trading of most companies across the sector, the overall financial performance of the business was strong. Margins increased and we achieved a double-digit increase in operating profit, up 13% year on year, and maintained our decade-long high in viewing share demonstrating resilience in a tough market.

The increased profitability of the business supports the strategic decisions taken in 2018 and demonstrates progress in delivery of the strategic plan. The plan was designed to reposition the company for profitable growth by focusing on the strength of the STV brand and its unrivalled position in the Scottish market and the exciting potential for the digital and production businesses.

The annual performance bonus for 2019 was based on a balanced set of financial targets (operating profit and cash generation) as well as personal objectives linked to our strategic delivery. In addition to the strong operating profit position, our cash generation of £25.6 million was significantly above target, driven by the flow through to cashflow of strong operating profit. Both financial targets within the bonus plan were exceeded.

Both Executive Directors also performed well individually achieving significant progress towards fulfilment of the strategic objectives to deliver profitable growth as set out in the strategic plan, specifically:

- Maximising the value of the broadcast business through delivery of high quality, cost effective news and entertainment;
- Driving digital growth by creating an 'STV for everyone' through the STV Player;
- Establishing STV Productions as a world class production business;
- Securing STV's position as the home of creative talent through the implementation of a refocused and reinvigorated organisation and executive team with clear goals and priorities to deliver the strategic growth plan and increased returns to shareholders.

This strong overall performance resulted in an outcome of 87% of maximum for the annual performance bonus for 2019. In line with the Remuneration Policy, 20% of bonus awards will be deferred into shares, payable in three years. Further detail on the bonus targets and outcomes, where we have significantly expanded on our level of disclosure, is set out on pages 65 and 66.

The 2017 Long Term Incentive Plan (LTIP) award vested by reference to performance over the three year period to 31 December 2019. This award was based on EPS growth, non-broadcast earnings and total shareholder return (TSR) performance.

Due of the success of the strategy to diversify the business, with strong digital growth in particular, 61% of the element relating to non-broadcast earnings was attained. Despite a significant increase in adjusted EPS of 13% in 2019, reflecting the stronger financial performance of the business driven by the strategic growth plan, the threshold target for EPS was not achieved due to performance in the early years of incentive plan. Similarly, despite improved share price performance in 2019, the threshold target for TSR was not met due to performance in the early years of the plan. Therefore, overall, this award vested at 18% of the maximum.

The Committee believes these incentive outcomes appropriately reflect the performance delivered for our shareholders over the respective periods.

Board succession

During the year, our long-serving Chief Financial Officer, George Watt, retired and was succeeded by Lindsay Dixon in May 2019.

George Watt served his full contractual notice period, continuing to support Simon Pitts in implementing the strategic growth plan during this period, and did not receive any payments in connection with his cessation of employment. In recognition of his significant long-term contribution to the Group, George received 'good leaver' status for his unvested LTIP awards, which were reduced pro-rata and will continue to be assessed using the original performance targets and delivered on the original release dates.

Lindsay Dixon took up her role on a market competitive remuneration package as described in last year's report. She did not receive any buy-out awards in respect of joining STV.

Corporate governance

The Committee is mindful of the latest governance developments, and continues to monitor closely evolving investor expectations.

On appointment, Lindsay Dixon was provided with a pension provision of 7% of salary, consistent with the pension benefits provided to employees across the business. Our executive remuneration framework also includes a number of features which align the interests of our Executive Directors' with those of our shareholders. Existing leaver provisions under the Deferred Bonus Plan and LTIP ensure that this alignment continues post-employment. The Committee is therefore not proposing to introduce a more formal post-employment shareholding requirement at this stage, but will review this position later this year as we look to renew our Remuneration Policy.

Looking forward to 2020

The Committee is not proposing any material changes to the application of the Remuneration Policy for 2020. Executive Directors will receive an increase to base salary levels of 2% in line with the increase applied across all employees, effective from 1 January 2020. Executive Directors will also continue to participate in the annual performance bonus and LTIP on a similar basis as for 2019.

The performance measures applying to both incentive schemes relate to continued delivery of the strategic growth plan and are aligned with shareholders' interests. The target ranges for payment have been set with reference to the three-year plan (2020 to 2022) approved by the Board in late 2019. This is underpinned by the strategy to continue to increase shareholder value and grow the proportion of earnings delivered by the digital and production businesses.

Later this year, the Committee will undertake a thorough review of our executive remuneration framework in accordance with the normal three-year cycle under the UK remuneration reporting regulations. This review will focus on the alignment of our Remuneration Policy with our ongoing strategy, while also considering the latest market developments.

This report is subject to an advisory vote at our 2020 AGM, and I look forward to your support. I will be in attendance at the meeting to answer any questions you may have with regards to our executive remuneration arrangements.

Anne Marie Cannon
Chairman of the Remuneration Committee
9 March 2020

REMUNERATION REPORT

Summary of the Directors' Remuneration Policy

The Directors' Remuneration Policy ('the Policy'), determined by the Company's Remuneration Committee ('the Committee'), was approved by shareholders at the 2018 Annual General Meeting and is available in full on the Company's website: www.stvplc.tv or from the Company Secretary. When developing the Policy, the Committee reconfirmed the key principles it believed should underpin the remuneration framework. These are 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.

The section below provides a summary of the key elements of our executive remuneration framework.

Base salary – the Committee sets salaries as a retainer for the Executive Directors to recognise status and responsibility to deliver the strategy
- Set taking into consideration a number of factors including skills and experience of the individual, scope and responsibilities of the role and other external and internal reference points.
- Normally reviewed on an annual basis.
- In general, any increase for Executive Directors will be in line with other employees in the Group.

Benefits – to provide competitive levels of employment benefits consistent with role
- Executives are entitled to receive a taxable cash allowance in lieu of benefits in kind, including car and private medical insurance, currently £15,500 per annum.
- Executive Directors are eligible to participate in the Company's all employee share plans on the same terms as all employees.

Pension – to provide competitive levels of retirement benefit
- The Group operates a number of different arrangements. Currently, in accordance with policy at date of appointment, the CEO receives a taxable cash allowance in lieu of pension.
- The maximum pension contribution or taxable cash allowance in lieu of pension is 20% of salary for Executive Directors appointed prior to 2018.
- Since April 2018, pension allowance will be capped at 7% of base salary (this includes our recently appointed Chief Financial Officer) which is aligned with the pension contribution for the majority of staff.

Annual bonus – aligns reward to the delivery of financial and strategic performance measures, deferral creates long-term alignment with shareholders
- Maximum annual opportunity of 125% of salary.
- Payment is determined by reference to performance assessed over one financial year based on a range of financial and strategic measures which appropriately support the business strategy and objectives for the relevant year.
- A proportion of any bonus (20%) is deferred, and normally vests over three years.
- Recovery provisions apply.

Long Term Incentive Plan – aligns reward to the delivery of long-term financial performance and value creation for shareholders
- Maximum award in respect of a financial year is normally 100% of salary.
- 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.
- A post-vesting holding period of two years applies.
- Recovery provisions apply.

Shareholding requirement – to strengthen long-term alignment with shareholders
- Executive Directors are required to hold shares equivalent to 150% of their annual salary, by the third anniversary of their appointment.

The Committee considers that the current Policy and its implementation appropriately addresses the following factors, as set out in the 2018 UK Corporate Governance Code.

Clarity and simplicity	The Committee is committed to providing open and transparent disclosures with regards to executive remuneration arrangements. This year we have significantly enhanced disclosures throughout the Directors' Remuneration Report, in particular in respect of the personal objectives under the annual bonus, in order to more clearly illustrate how our executive remuneration framework is structured and how pay aligns to performance.
Risk	The Committee considers that the structure of incentive arrangements does not encourage inappropriate risk-taking. Annual bonus deferral, the LTIP holding period and shareholding requirements ensure that Executive Directors are exposed to the long-term performance of the Company and therefore incentivised to deliver our strategic ambitions within the Company's risk-appetite. Recovery provisions also apply for both the annual bonus and LTIP.
Predictability	For each component of pay, the Policy outlines the maximum opportunity levels for Executive Directors. Actual incentive outcomes will vary depending on the level of performance achieved against specific measures.
Proportionality	Our remuneration framework does not reward poor performance. Payment of the annual bonus and LTIP are subject to the achievement of stretching performance targets. Performance targets are determined by the Committee annually to take account of business expectations and strategic priorities at the time.
Alignment to culture	The metrics used to measure both short- and long-term performance at STV are closely aligned to delivery of the strategic growth plan.

2019 remuneration 'at a glance'

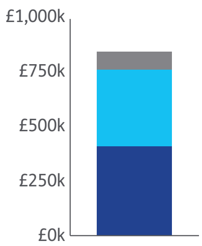
Performance highlights

Overall business performance in 2019 was strong, despite market uncertainty. Key highlights include:

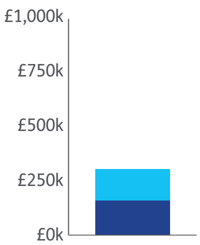
- Increase of 13% in operating profit on prior year.
- Cash generation of £25.6 million was significantly above target.
- All-time viewing share on STV at 10 year high.
- Investment in STV Productions' creative pipeline has set a strong foundation for growth.
- Successful digital growth strategy driving increase in revenue of 37%.
- Double digit regional revenue growth (11%) for the second year in succession.

Summary of remuneration outcomes

CEO



CFO*



Fixed pay
Annual bonus
LTIP

* Actual remuneration is pro-rated from date of appointment.

Incentive outcomes – annual bonus

The annual bonus paid out at **87%** of maximum.

84% Operating profit
100% Cash flow
80% Personal objectives

Incentive outcomes – 2017 LTIP

The 2017 LTIP paid out at **18%** of maximum.

0% EPS
61% Non-broadcast
0% Relative TSR

Summary of our how our Policy will be implemented in 2020

Pay element		Approach	Implementation in 2020	
			Simon Pitts, CEO	**Lindsay Dixon, CFO**
Fixed pay	Base salary	Fixed pay levels set at competitive levels with role-appropriate benefits arrangements	£419,000	£235,000
	Pension		20% of salary	7% of salary
	Benefits		Benefit allowance of £15,500 (includes life assurance and private medical insurance)	
Pay linked to performance	Bonus	Incentive linked to short-term targets, with a portion of awards deferred	Maximum opportunity – 125% of salary	
	LTIP	Incentive linked to long-term priorities	Maximum opportunity – 100% of salary	
	Shareholding requirements	To align the interests of executives with shareholders	150% of salary (by third anniversary of appointment)	

How we measure performance and link to strategy

The table below illustrates how the current performance measures align to our strategy.

Measure	Bonus	LTIP	Rationale and link to strategy
Cash Flow	✔		Measures operational gearing
EPS		✔	Measures earnings growth driven by continued operational excellence
Non-Broadcast earnings		✔	Aligns to the strategic objective to diversify earnings
Operating Profit	✔		Measures profitability of our operating activity
Personal Objectives	✔		Focuses executives on the delivery of strategic goals linked to key business priorities
Relative TSR		✔	Measures the delivery of long-term sustainable value growth for shareholders

REMUNERATION REPORT

Annual Report on Remuneration

This section of the report sets out how the Policy will be implemented in 2020 and how it was implemented during 2019. Some sections of this report, where indicated, have been audited.

Statement of implementation of remuneration policy for 2020

Executive Directors

The salaries for 2020 are set out below:

Executive Director	2020 salary £000	2019 salary £000	% increase
S Pitts	419	411	2%
L Dixon	235	230	2%

The increase awarded to Executive Directors was in line with the average increase of 2% for all employees throughout the Company.

Benefits and pension will be in line with the Remuneration Policy and the service agreements of the Executive Directors.

The annual bonus will operate in line with the Remuneration Policy. The maximum bonus opportunity for Executive Directors is 125% of base salary. The bonus will be based on stretching targets set for the performance measures in the table below.

Performance measure	Weighting (% of max)
Operating profit*	50%
Cash flow**	25%
Personal objectives	25%

* Operating profit pre exceptional items
** Cash generated by operations

Personal objectives will relate to key success factors in progressing and delivering the strategic growth plan, including:

- Identification of strategies to accelerate the growth of the digital and production businesses;
- Management of relationships with key stakeholders to achieve renewal of PSB licences;
- Achievement of growth in total advertising revenues despite anticipated decline in the national advertising market.

The Committee is of the opinion that annual bonus performance targets are commercially sensitive, and that it would be detrimental to the interests of the Company and its shareholders to disclose them in full at this time. However, it is the Committee's intention to disclose the targets after the end of the financial year if the Committee is satisfied the targets are no longer sensitive.

In 2020, Simon Pitts and Lindsay Dixon will receive awards under the LTIP at the level of 100% of salary. These will vest after three years and will be subject to a two-year holding period post vesting. The performance targets for this award are as follows:

Performance measure	Calibration of targets	Weighting	Threshold vesting (25% of maximum)	Maximum vesting (100% of maximum)
EPS	Annualised growth in adjusted EPS from FY19 to FY22	50%	5%	9%
Non-broadcast operating profit	Operating profit for non-broadcast activities in FY22	30%	£8.5m	£12.5m
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.

Performance targets have been set in the context of the Group's long-term business strategy. The target range for EPS, which is the same as applied for the 2019 LTIP award, has been set taking account of the decline in the national television advertising market, the Group's principal revenue source.

The most significant indicator of the success of the Group's strategic growth plan is the proportion of earnings delivered by non-broadcast operations. By the end of 2019, 28% of earnings were derived from the digital and production businesses, up from 18% in 2017, with a target to achieve 33% by the end of 2020. The target range for non-broadcast earnings has therefore been further increased as the Group pushes towards a much more balanced and diversified profit base to ensure its long term stability and prosperity.

The Committee considers these targets to be stretching, particularly in the current external climate, whilst at the same time feasible in the context of the Group's ambitious long-term strategic growth plan.

Non-Executive Directors

The fees payable in 2020 are set out below. Fees were increased by 2% in line with the increase applied to employees across the Company:

Non-Executive Director	£000
Chairman fee	131
Basic Non-Executive Director fee	40
Additional fees: Senior Independent Director	13
Chairing the Audit & Risk or Remuneration Committee	5

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 2018 and 2019 financial years.

Executive Director		Salary £000	Taxable benefits £000	Annual bonus £000	Long-term incentives £000	Pension £000	Sub total (excl. buy-out) £000	Other (buy-out) £000	Total £000
S Pitts	**2019**	**411**	**16**	**447**	**See 'Other' column**	**82**	**956**	**147**	**1,103**
	2018	400	16	359	–	80	855	857	1,712
L Dixon	**2019**	**143**	**10**	**146**	**–**	**5**	**304**	**–**	**304**
	2018	–	–	–	–	–	–	–	–
G Watt	**2019**	**79**	**5**	**–**	**35**	**16**	**135**	**–**	**135**
	2018	230	16	207	42	45	540	–	540

Notes

George Watt stood down from the Board on 23 April 2019 and Lindsay Dixon was appointed to the Board on 21 May 2019. The amounts shown above reflect their respective periods in office during the financial year.

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

Annual Bonus – This includes the value of bonus earned in respect of the relevant financial year. For 2019, 20% of this will be deferred for three years and paid in shares.

Long-term Incentives – For 2019, the LTIP has been valued based on the average share price during the three-month period to 31 December 2019 of 387 pence. Of the vested amount for George Watt, 6% relates to share price appreciation over the performance period. The LTIP value for George Watt in 2018 has been re-stated to reflect the share price at the date of vesting of 355p. There was no appreciation in share price over the vesting period for this award.

Pension – Simon Pitts receives a taxable cash allowance in lieu of pension and life assurance. Lindsay Dixon joined the Company's defined contribution scheme on 1 August 2019. The scheme has an employer contribution of 7% up to the pension cap (£160,800).

Other – The value shown in this column for Simon Pitts reflects his buy-out package paid to compensate for forfeited remuneration from his previous employer, in line with the Remuneration Policy, and as first disclosed in the 2017 Directors' Remuneration Report. The value in 2019 relates to the vesting of an award under the 2017 LTIP. The LTIP has been valued based on the average share price during the three month period to 31 December 2019 of 387 pence. Of the vested amount, 20% relates to share appreciation over the performance period. The value shown for 2018 constituted an immediate cash payment of £187,000, an award of 9,589 shares on appointment, and awards of STV Group plc deferred shares during the year (129,796 shares granted on appointment and 65,649 shares granted in December 2018) which vest in phases over the period to 2021 (see share award tables on page 69). The share awards were valued based on the closing share price on the day prior to the date of grant. Note that the value shown for 2018 has been re-stated from last year's report to correct for the omission in last year's report of the deferred award granted in December 2018.

The Committee considers that the Remuneration Policy operated as intended during 2019 and that remuneration outcomes appropriately reflect performance delivered for our shareholders over the respective periods. There has therefore been no discretion exercised in the award of directors' remuneration in 2019.

Annual bonus (audited)

The maximum annual bonus for 2019 was 125% of salary (pro-rated for Lindsay Dixon to reflect her period in employment during the year). Due to George Watt being under notice, he was not eligible to participate in the annual bonus in 2019.

The bonus is based predominantly on financial performance (50% Operating Profit and 25% Cash flow) with the remainder (25%) on personal targets linked to strategic delivery. The performance targets for the 2019 bonus were set by the Committee by reference to the annual budget, which itself is set in the context of the Board's long-term strategic plan. The target ranges are set to be appropriately stretching by requiring significant out-performance of expectations for maximum pay-out, whilst at the same time being considered feasible in the context of the budget and strategic plan.

While the implementation of the strategic growth plan and its positive impact on business performance led to a strong performance outturn in 2018, the budget and strategic plan for 2019 took into account the prospect of a weaker national advertising market. As a result, level of achievement in 2018 was greater than the threshold targets for 2019. In recognition of the need to deliver improved financial performance and increased shareholder value, the Remuneration Committee decided that no annual bonus payments would be triggered for 2019 in the event the actual performance outcome for operating profit was less than £20.1 million (i.e. less than prior year performance).

The table below sets out the targets and performance achieved against these for the year ended 31 December 2019. For the 2019 bonus, 20% will be deferred for three years and paid in shares for both Simon Pitts and Lindsay Dixon.

		Performance targets			Actual performance		Outcomes	
Performance condition	Weighting	Threshold (10% of max)	Target (50% of max)	Maximum (100%)	(£m)	(% max)	S Pitts	L Dixon
Operating profit*	50%	£18.5m	£20.5m	£23.6m	£22.6m	84%	£216,151	£70,560
Cash flow**	25%	£17.5m	£19.4m	£22.3m	£25.6m	100%	£128,438	£41,927
Personal objectives	25%	See below				80%	£102,750	£33,542
Total	100%	–				87%	£447,338	£146,029

* Operating profit pre exceptional items. ** Cash generated by operations

REMUNERATION REPORT

An assessment of performance against personal objectives is set out below for both Simon Pitts and Lindsay Dixon.

Simon Pitts, Chief Executive Officer
Simon Pitts' personal objectives for 2019 related to the progress of the strategic growth plan and delivery of shareholder value.

Broadcast: Maximise the value of the core broadcast business	• Strong performance for STV with all-time viewing share of 17.7%, the highest level in 10 years and up 3% on the Channel 3 Network • Additionally, STV achieved position as best watched peak time channel in Scotland • Growth in regional advertising market, up 11% on prior year, despite overall decline in television advertising market with national market down 4% on the prior year • Successful development of the STV Growth Fund introduced over 160 new advertisers to STV • Completion of the transformation of STV News to ensure broadcasting of high-quality programming and the fulfilment of STV's public service obligations. Progress reflected in *STV News at Six* now the best watched news programme in Scotland with average share of 30%, reaching 390,000 viewers each day and over 200 million video views for STV News online
Digital: Drive digital growth by repositioning and growing the STV Player	• STV Player achieved position as most popular commercial BVoD player in Scotland and stretching engagement and usage targets for STV Player exceeded, including: – Increased number of users (up 0.5 million) – Increase in VoD streams (up 37%) – Increase in time spent on player (up 23%) • Over 1,000 hours of additional acquired content representing 15-20% of viewing • Range of new and innovative product features introduced including live restart, recommendations and picture in picture driving total time spent viewing • Distribution of the STV Player successfully expanded across 13 platforms, including key distribution deals with Virgin Media and Sky successfully secured and launched • Overall increase in digital revenues of 37%
Production: Creative renewal of STV Productions	• Significant progress against key strategic priority to build a world-class production business through formation of new leadership team • Increase in number of returning series secured and new commissions arising from increased opportunities in Nations and Regions • Launch of format piloting strategy with first series commissioned by STV, *The Cash Machine* • Progression of partnership strategy through successful acquisition of majority holding in Primal Media and minority stake in Two Cities Television
Culture and team	• New organisation structures and key appointments, including CFO succession, embedded and operating effectively • Increased engagement across the organisation as measured through 'Have Your Say' employee opinion survey conducted May 2019 • Strong pipeline of talent developed during the year as identified through annual succession review and supported through future talent strategy, including launch of STV/RTS Bursary Scheme • Significant progress in delivery of diversity and inclusion agenda. On track to achieve key targets as agreed with Ofcom (including gender, BAME, disability)
Wider strategic objectives	• Engagement with key political and commercial stakeholders throughout the year to maintain effective working relationships • Improved investor relations communications to attract new institutional shareholders and increase retail trading

Based on the above assessment of performance, the Committee determined for the personal element an award of 80% of maximum for Simon Pitts.

Lindsay Dixon, Chief Financial Officer
Given Lindsay Dixon's appointment in May 2019, her personal objectives for 2019 primarily relate to the development of the Finance function, establishing effective relationships with key stakeholders, supporting the delivery of the Group's key strategic objectives and the delivery of specific projects.

Investor relations	• Engagement programme to establish effective working relationship with key shareholders, brokers and analysts successfully undertaken
Organisation, culture and team to maximise the value of the business	• Increased focus on maximising performance of divisions to support delivery of strategic growth plan • Completion of full review of the Group's cost base and identification of cost reduction opportunities • In conjunction with the CEO, supported implementation of the growth strategy and secured Board approval of three-year plan (FY20-FY22)
Projects to maximise financial flexibility to enable delivery of growth plan	• Pension – completed tender process leading to appointment of new corporate advisors for defined benefit pension schemes with progress made on assessment of an investment strategy to maximise asset return and reduce liabilities • Scottish Children's Lottery – undertook full financial and operational evaluation of the Lottery with options reviewed by the Board in early 2020

Based on the above assessment of performance, the Committee determined for the personal element an award of 80% of maximum for Lindsay Dixon.

Long-term Incentive Plan (audited)

The table below sets out the performance achieved for the 2017 LTIP award, which was subject to performance over the three-year period from 1 January 2017 to 31 December 2019.

	Weighting	Threshold vesting (25% of maximum)	Maximum vesting (100% of maximum)	Actual outcome	Percentage vesting
EPS	50%	7%	12%	5.4%	Nil
Non-broadcast earnings	30%	£4.0m	£9.0m	£6.4m	61%
Relative TSR vs. FTSE Small Cap	20%	Median	Upper quartile	Below median	Nil
	100%			Overall vesting	18%

Simon Pitts and George Watt hold LTIP awards which vest based on the outcome of the performance conditions above. These awards will vest at 18% of the maximum in March 2020.

For Simon Pitts, this award was granted as a component of his buy-out package on appointment to reflect the form and time horizons of awards forfeited at his previous employer, in line with the provisions of the Remuneration Policy. For George Watt, the number of shares vesting will be pro-rated to reflect his time in the role.

Scheme interests awarded in 2019 financial year (audited)

The table below shows awards made to the Executive Directors during 2019 under the LTIP.

Executive Director	Award type	Date of grant	Basis of award	Number of shares awarded	Face value of award	Threshold vesting	Performance period
S Pitts	LTIP	29/05/2019	100% of salary	113,223	£411k	25% of maximum	1/1/19-31/12/21
L Dixon	LTIP	29/05/2019	100% of salary	63,567	£230k	25% of maximum	1/1/19-31/12/21

Calculated using the closing share price of 363 pence on the date prior to the date of award.

These awards will vest after three years subject to the performance targets set out in the table below. An additional two-year holding period will apply to any shares vesting.

Performance measure	Calibration of targets	Weighting	Threshold vesting (25% of maximum)	Maximum vesting (100% of maximum)
EPS	Annualised growth in adjusted EPS from FY18 to FY21	50%	5%	9%
Non-broadcast earnings	Adjusted operating profit for non-broadcast activities in FY21	30%	£8.0m	£12.0m
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.

The performance measures reflect a balanced set of metrics which reflect profitable growth (EPS), the strategic objective to diversify earnings' streams (non-broadcast earnings) and the delivery of shareholder value (TSR). The performance targets for this award were set by the Committee in the context of the Group's long-term business plans which support the execution of the strategic plan. The targets are set to be appropriately stretching whilst at the same time feasible in the context of the strategic plan. The EPS target range was reduced for this award compared to awards in the prior year to better reflect profit growth expectations at that time in light of the challenging national advertising market. The non-broadcast earnings target range was increased compared to the 2018 award, aligned to the three-year plan expectations for growth in the digital and production businesses.

Transition of Chief Financial Officer

During the year, long-serving Chief Financial Officer, George Watt, retired and was succeeded by Lindsay Dixon in May 2019.

George served his full contractual notice period, and as reported last year, he continued to receive contractual benefits of base salary, benefits allowance and pension allowance until the date of termination of employment. Details of the remuneration paid to George Watt in respect of his services as an Executive Director in 2019 are set out in the single figure table and accompanying notes.

In recognition of his significant long-term contribution to the Group, the Committee determined that George Watt would receive 'good leaver' status for the purposes of outstanding incentive arrangements, in line with the rules of the relevant scheme. The Committee determined that all outstanding deferred awards would continue as normal, and vest in full on the normal vesting date. For outstanding LTIP awards, the Committee decided that subject to the assessment of performance, these awards would be delivered on the original release dates pro-rated for the period of employment.

No other payments were made in connection with George Watt's cessation of office.

Lindsay Dixon was appointed on a competitive package, and details of remuneration paid to her during the year are covered in this report.

REMUNERATION REPORT

Payments for loss of office (audited)
No payments for loss of office were made during the year.

Payments to past Directors (audited)
No payments were made to past Directors during the year.

External appointments
Neither of the Executive Directors held any external appointments during the year.

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

Non-Executive Director	Financial year	Basic fees £	Additional fees £	Total fees £
Baroness Ford	**2019**	**128,400**	**–**	**128,400**
	2018	125,000	–	125,000
C Woolfenden	**2019**	**39,300**	**–**	**39,300**
	2018	38,250	–	38,250
A M Cannon	**2019**	**39,300**	**5,100**	**44,400**
	2018	38,250	5,000	43,250
I Steele	**2019**	**39,300**	**5,100**	**44,400**
	2018	38,250	5,000	43,250
S Miller	**2019**	**39,300**	**13,100**	**52,400**
	2018	38,250	12,750	51,000
D Bergg	**2019**	**39,300**	**–**	**39,300**
	2018	25,500	–	25,500

Statement of Directors' shareholding and share interests (audited)
Under the current policy, Executive Directors are required to build up a shareholding over a three-year period from date of appointment equal to 150% of salary. Previously, non-Executive Directors were required to build up a shareholding equivalent to their basic fee over a three-year period. However, the Remuneration Committee considered that while most non-Executive Directors had acquired an amount equal to their basic fee several years ago, share price movements meant that their holdings may fall below this level. Accordingly, the Committee agreed that the shareholding requirement for non-executive directors be set at the level of 20,000 shares for the Chairman and 5,000 shares for other non-executive directors. All non-Executive Directors have attained these levels.

Director	Number of beneficially owned shares*	Number of unvested deferred awards**	Number of SAYE options subject to conditions	Number of unvested LTIP awards at 31/12/19	Shareholding requirements (% salary)	Current shareholding (% salary/ basic fee)	Requirement met
Executive							
S Pitts	39,184	138,425	–	447,724	150	40	n/a***
L Dixon	–	–	–	63,567	150	–	n/a***
G Watt****	271,321	–	–	62,057	150	477	yes
Non-Executive							
Baroness Ford	25,958	n/a			100	84	n/a
C Woolfenden	9,092	n/a			100	97	n/a
A M Cannon	9,042	n/a			100	86	n/a
I Steele	8,000	n/a			100	74	n/a
S Miller	5,000	n/a			100	40	n/a
D Bergg	10,390	n/a			100	109	n/a

* Beneficial interests include shares held directly or indirectly by connected persons.
** Simon Pitts and George Watt also have a right to receive a certain number of shares in respect of their deferred portion of previous annual bonuses. For Simon Pitts this relates to the deferred portion of his 2018 annual bonus, and for George Watt the deferred portion of his 2016 and 2017 annual bonus.
*** Due to their recent appointments, both Simon Pitts and Lindsay Dixon have not yet met their shareholding requirement which is expected. to be acquired over a three-year period from date of appointment.
**** Data shown as at date of cessation and is calculated on an annualised basis.

The following table provides further detail on the share awards held by the current Executive Directors.

Executive	Award	Granted	Held at 31/12/18	Granted in year	Released in year	Held at 31/12/19	Vesting dates
S Pitts*	Buy-out – deferred shares	25/01/18	129,796	–	24,196	105,600	24,196 in March 2019 75,228 in March 2020 30,372 in March 2021
	Buy-out – deferred shares	11/12/18	65,649	–	32,824	32,825	50% in March 2019 50% in March 2020
	Buy-out – LTIP**	25/01/18	210,662	–	–	210,662	March 2020
	2018 LTIP	11/12/18	123,839	–	–	123,839	11/12/21***
	2019 LTIP	29/05/19	–	113,223	–	113,223	29/05/22***
L Dixon	2019 LTIP	29/05/19	–	63,567	–	63,567	29/05/22***

* Simon Pitts also has a right to receive a certain number of shares in respect of the deferred portion of his 2018 annual bonus.
** As described on page 65, this award was subject to the performance conditions of the 2017 STV LTIP award and will vest at 18% of the maximum.
*** Subject to an additional two year holding period following vesting.

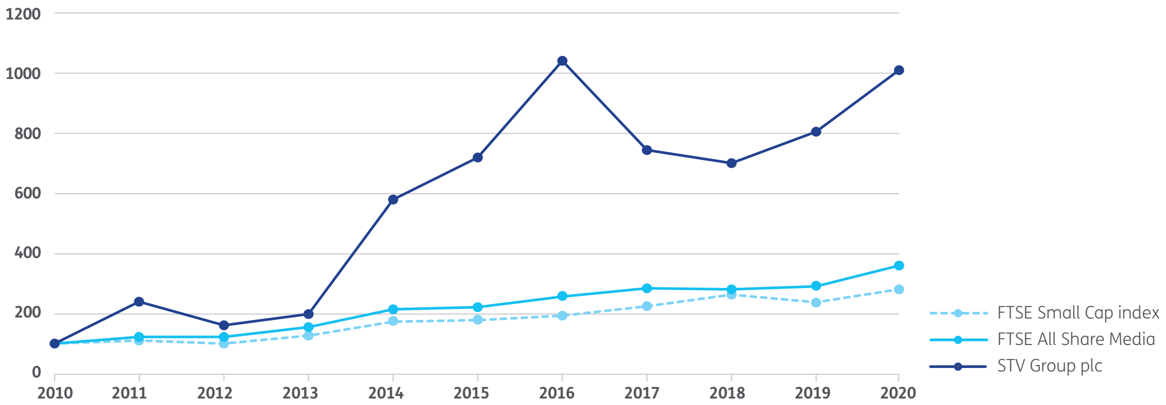
Dilution

The following table sets out the current level of dilution against the limits in the bonus and long-term incentive 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	6.19	(2.97)
5% dilution in ten years	0.84	(3.56)

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 is used as a performance measure under the LTIP and 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 remuneration of Simon Pitts and the former Chief Executive Officer.

Year	Chief Executive Officer	Single figure of total remuneration (£000)	Bonus pay-out (as % maximum opportunity)	Long-term incentive vesting rates (as % maximum opportunity)
2019	S Pitts	1,103	87	18
2018	S Pitts	1,712*	72	–
2017	R Woodward	697	32	13.8
2016	R Woodward	807	29	–
2015	R Woodward	2,269	49	100
2014	R Woodward	661	46	–
2013	R Woodward	601	54	–
2012	R Woodward	696	31	100
2011	R Woodward	958	15	–
2010	R Woodward	614	75	–

* Simon Pitts' single figure for 2018 includes an amount of £857,000 in respect of his buy-out package paid to compensate for forfeited remuneration from his previous employer. His single figure excluding this amount would have been £855,000.

REMUNERATION REPORT

Percentage change in Chief Executive Officer's remuneration

The table below shows the percentage change in the salary, benefits and annual bonus of the Chief Executive Officer and all employees (on a per capita basis) between 2018 and 2019.

	Salary	Taxable benefits	Bonus
Chief Executive Officer	2.8%	0.0%	24.5%
All employees	2.8%	n/a*	n/a*

* These benefits are not available to all employees.

Chief Executive Officer pay ratio

The table below discloses the ratio of the Chief Executive Officer's pay for 2019, using the single total figure of remuneration (as disclosed on page 69) to the comparable earnings of employees at the 25th, 50th & 75th percentiles.

Year	Method	25th percentile (P25) pay ratio	Median (P50) pay ratio	75th percentile (P75) pay ratio
2019	Option B	41:1	30:1	22:1

The ratios are calculated using Option B in the disclosure regulations. The employees at the lower quartile, median and upper quartile (P25, P50, and P75, respectively) were determined based on the Group's gender pay data. Total remuneration for 2019 for these employees was then calculated using a valuation methodology consistent with that used for the Chief Executive Officer in the single figure table on page 69. Whilst the gender pay gap legislation and CEO pay ratio legislation employ different calculations, the Committee considers that the three identified employees are reasonably representative of the respective percentiles. The calculation is undertaken on a full-time equivalent basis.

The total remuneration in respect of 2019 for the employees identified at P25, P50 and P75 is £27,000, £37,000, and £50,000, respectively. The base salary in respect of 2019 for the employees identified at P25, P50 and P75 is £26,000, £34,000, and £47,000, respectively.

The Committee considers pay ratios as one of many reference points when considering remuneration. Throughout the Company, pay is positioned to be fair and market competitive in the context of the relevant talent market, fairly reflecting market data and other relevant benchmarks for the role. The Company participates in the largest annual pay survey undertaken across the UK media sector: Willis Towers Watson's 'Media Compensation Survey'. The Committee does, however, note the limited comparability of pay ratios across companies and sectors, given the diverse range of business models and employee population profiles which exist across the market. A significant proportion of the Chief Executive Officer's total remuneration is delivered in variable remuneration, and particularly via long-term share awards. In order to drive alignment with investors, the value ultimately received from these share awards is linked to stretching company performance targets and long-term share price movement. As a result, the pay ratio is likely to be driven largely by the Chief Executive Officer's LTIP outcome and may therefore fluctuate significantly on a year-to-year basis.

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
L Dixon	4 December 2018	Rolling contract	12 months/6 months

Director	Date of contract/ letter of appointment	Date(s) of (re) appointment	Unexpired as at March 2020
Non-Executive			
Baroness Ford	1 June 2013	26 April 2018	1 year 1 month
S Miller	2 December 2016	23 April 2019	2 years 1 month
C Woolfenden*	1 June 2014	23 April 2019	2 years 1 month
A M Cannon	1 November 2014	23 April 2019	2 years 1 month
I Steele	1 November 2015	26 April 2018	1 year 1 month
D Bergg	1 May 2018	23 April 2019	2 years 1 month

* Resigned 9 March 2020.

Relative importance of spend on pay

The table below sets out the relative importance of spend on pay in the 2019 and 2018 financial years. These were the most significant outgoings for the Company in the last financial year.

Significant distributions	2019	2018	% change
Overall spend on pay	**£22.2m**	£23.5m	(5.5%)
Dividend or share buy back	**£7.7m**	£7.5m	2.7%

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); Ian Steele; and David Bergg. The Committee met four times during the year.

The Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and the senior management board 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 describe its full remit and 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 connection 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 confidential. Deloitte LLP was appointed as remuneration advisers in late 2014. 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 £9,250.

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.

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 voting outcomes on the most recent Remuneration Policy (2018 AGM) and Remuneration Report (2019 AGM).

	Votes for	%	Votes against	%	Total votes cast	Votes withheld*
2018 Remuneration Report (2019 AGM)	23,054,031	70.46	9,665,261	29.54	32,719,292	528
Remuneration Policy (2018 AGM)	23,755,066	80.15	5,884,715	19.85	29,639,781	1,411

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

We recognise that a minority of shareholders did not support the remuneration report at the 2019 AGM. Following the vote, the Remuneration Committee Chair engaged with a number of major shareholders to understand their concerns, and while a range of views were expressed, one common theme which emerged was concern around the level of disclosure for the personal element of the annual bonus. As a result, this report significantly enhances this area of reporting.

Anne Marie Cannon
Chairman of the Remuneration Committee
9 March 2020

DIRECTORS' REPORT

The Directors present their report for the year ended 31 December 2019. The Directors' report comprises pages 72 and 73 and the sections of the annual report incorporated by reference, as set out below:

Directors during 2019 financial year – See page **50**
Risk management – See pages **41 to 43**
Greenhouse gas emissions – See pages **32 and 33**
Corporate governance report – See pages **47 to 59**
Employee diversity and inclusion – See page **28**
Employee involvement and engagement – See pages **26 to 28 and 33**
Principal risks and uncertainties – See pages **44 and 45**
Disability reporting – See page **28**
Post balance sheet events – See page **107**

This Annual Report has been prepared for, and only for, the members of the Company, as a body, and for no other persons. The Company, its Directors, employees, agents and advisers, do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

Management Report

The Directors' Report, together with the Strategic Report, set out on pages 4 to 46, form part of the Management Report for the purposes of DTR 4.1.5R.

Company number

STV Group plc is registered in Scotland under company number SC203873.

Dividends

A final dividend of 14.7p per share has been declared for 2019 which, subject to approval at the AGM in April, will be paid on 29 May 2020, to shareholders on the register at 14 April 2020. The proposed total dividend for 2019 is 21.0p per share, an increase of 5% on 2018 (20.0p). During 2019 the final 2018 dividend of 14.0p per share was paid together with the interim dividend for 2019 of 6.3p per share.

Share capital and substantial shareholders

On 9 March 2020 there were 39,192,137 ordinary shares of 50p each in issue, each with one vote attached. There were no shares 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 68.

As at 9 March 2020, the following information had been received, in accordance with DTRS, from holders of notifiable interests in STV's issued share capital:

Shareholders	Shares held	%
Slater Investments	3,838,558	9.79
Columbia Threadneedle Investments	3,673,438	9.37
Canaccord Genuity Wealth Mgt	3,653,923	9.32
AXA Investment Mgrs	2,610,595	6.66
Aberforth Partners	2,404,042	6.13
UBS Global Asset Mgt	2,288,739	5.84
Chelverton Asset Mgt	2,200,000	5.61
Schroder Investment Mgt	2,065,693	5.27
Majedie Asset Mgt	1,646,691	4.20
Cavendish Asset Mgt	1,160,053	2.96

Annual General Meeting (AGM)

Details of the 2020 AGM, together with the Notice of AGM can be found on pages 111 to 116.

Directors

The Directors of the Company and their profiles are detailed on pages 48 and 49. All of these Directors served throughout the year under review with the exception of Lindsay Dixon who took up the role of Chief Financial Officer on 21 May 2019.

In accordance with the Code, at the 2020 AGM each Director will stand for election or re-election.

Directors' indemnities

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 from the assets of the Company against any liability he or she incurs in defending any proceedings brought against them in connection with the execution of their powers, duties and responsibilities as Directors (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 ended 31 December 2019.

Donations

The Group made no political donations or any contributions to a non-EU political party during the year (2018: £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. These include 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 receive dividends on those shares it holds that 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 licence holder, to notify Ofcom on a change of control. Ofcom would thereafter require to determine that any proposed new licence 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.

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.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group and parent 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 affairs of the group and of the profit or loss of the group and parent company for that period. In preparing the financial statements, the Directors are required to:

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

The Directors are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company 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.

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

Directors' confirmations

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and parent company's position and performance, business model and strategy.

Directors' Statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed on pages 48 and 49 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

Baroness Margaret Ford OBE
Chairman
9 March 2020

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 2019 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 International Financial Reporting Standards (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, which comprise: the consolidated and parent company balance sheets as at 31 December 2019; 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 & Risk 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 6 to the financial statements, we have provided no non-audit services to the group or the parent company in the period from 1 January 2019 to 31 December 2019.

Our audit approach: Overview

Materiality

- Overall group materiality: £945,000 (2018: £857,000), based on 5% of profit before tax and exceptional items.
- Overall parent company materiality: £420,000 (2018: £420,000), based on 1% of Total Assets (capped to an allocation of overall group materiality).

Audit scope

- Taken together, the entities where we performed our audit work accounted for 100% of Group revenue and 96% of Group profit before tax.

Key audit matters

- Retirement benefit obligations (Group and parent).
- Deferred programme production stock carrying value (Group).
- Recoverability of External Lottery Management's ('ELM') other receivable (Group).

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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group, we identified that the principal risks of non-compliance with laws and regulations relate to those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, the Listing Rules and UK tax legislation. We also considered compliance with industry regulation (OFCOM). We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to management bias in accounting estimates and posting inappropriate journal entries to increase revenue or profit. Audit procedures performed included:

- Discussions with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud or matters reported on the Group's whistleblowing helpline;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Review of Board minutes;
- Challenging assumptions and judgements made by management in its significant accounting estimates;
- Identifying and testing journal entries, in particular any journal entries posted by senior management and unusual account combinations.

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. Also, 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.

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
Retirement benefit obligations: Group and parent (Refer to page 87 (Significant accounting policies) and note 26 (Retirement benefit schemes)). The Group has a net retirement benefit obligation of £64.0m (2018: £78.5m) and the Parent company an obligation of £32.1m (2018: £40.5m). 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.	We engaged our actuarial experts to consider the reasonableness of the key assumptions used in the actuarial valuation, being the discount rate, inflation rate and mortality, assessing if they were within our observable range. All actuarial assumptions fell within our observable range based on the nature of the schemes and scheme experience, albeit, mortality continues to be at the lower end of that range. As a result of our audit work, we were able to conclude that the net retirement benefit obligation taken as a whole was not materially misstated and the associated disclosures are appropriate.
Deferred programme production stock carrying value: Group (Refer to page 86 (Significant accounting policies) and note 17 (Inventories)). Production inventory of £10.3m (2018: £10.3m) 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 stock, and hence the charge to the income statement, are based on judgements made by management in respect of associated future revenue.	We analysed management's assessment of each significant production in the catalogue to determine, based on the past history of sales, forecasting accuracy and contracted revenues, the appropriateness of their projected future revenues for each production selected. We performed sensitivities on the key assumptions for future associated sales to satisfy ourselves that no material impairment of inventory was required. There were no material issues arising from the work performed.
Recoverability of ELM Other receivable: Group (Refer to page 87 (Significant accounting policies) and note 18 (Trade and other receivables)). The net receivable from ELM of £7.7m (2018: £6.4m) relates to start up and running costs recoverable from the Scottish Children's Lottery in accordance with the contract between the ELM and the Lottery. The total amount recoverable as at the year-end was £12.4m against which an expected credit loss provision of £4.7m has been recorded. The recoverability of these costs is dependent on the future performance of the lottery and its ability to generate positive cash flows.	The key assumptions in determining the appropriate level of provision relate to future growth of lottery ticket sales. We challenged management's assumptions through comparing forecasts with current sales and costs, reviewing reports received from external advisors and plans to extend sales to new channels. Whilst we concluded that the assumptions were not unreasonable, we developed our own set of projections through adjusting those assumptions to which the value was most sensitive. We then applied a discount rate developed by our valuation experts. We concluded as a result that the provision of £4.7m was within an acceptable range. In addition, we enquired as to the status of the process that is currently underway to identify a partner to understand whether there were any facts and circumstances arising which we should take into consideration. No such matters were identified.

STV GROUP PLC CONSOLIDATED FINANCIAL STATEMENTS

Independent auditors' report to the members of STV Group plc

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the 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.

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	£945,000 (2018: £857,000).	£420,000 (2018: £420,000).
How we determined it	5% of profit before tax and exceptional items.	1% of total assets (capped to an allocation of overall group materiality).
Rationale for benchmark applied	Consistent with last year, we have applied this benchmark, a 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 exceptionals 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 all audit work was performed using 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 £97,000-£900,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit & Risk Committee that we would report to them misstatements identified during our audit above £47,000 (Group audit) (2018: £43,000) and £21,000 (Parent company audit) (2018: £21,000) 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. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.
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 2019 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)*

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 50 to 59) 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 50 to 59) 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 44 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 46 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 73, 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 pages 55 and 56 describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk 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)*

STV GROUP PLC CONSOLIDATED FINANCIAL STATEMENTS

Independent auditors' report to the members of STV Group plc

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 73, 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 & Risk 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 16 years, covering the years ended 31 December 2004 to 31 December 2019.

Michael Timar (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
9 March 2020

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2019

	Note	2019 Before exceptional items £m	2019 Exceptional items (note 8) £m	2019 Results for year £m	2018 Before exceptional items £m	2018 Exceptional items (note 8) £m	2018 Results for year £m
Revenue	5	**123.8**	**–**	**123.8**	125.9	–	125.9
Net operating expenses	6	**(101.2)**	**(2.0)**	**(103.2)**	(105.8)	(11.1)	(116.9)
Other income		**–**	**2.0**	**2.0**	–	–	–
Operating profit		**22.6**	**–**	**22.6**	20.1	(11.1)	9.0
Finance costs							
– borrowings		**(1.3)**	**–**	**(1.3)**	(1.1)	–	(1.1)
– defined benefit pension schemes		**(2.0)**	**–**	**(2.0)**	(1.8)	–	(1.8)
– lease interest		**(0.3)**	**–**	**(0.3)**	–	–	–
Provision for impairment losses – ELM debtor		**–**	**–**	**–**	–	(4.2)	(4.2)
		(3.6)	**–**	**(3.6)**	(2.9)	(4.2)	(7.1)
Profit before tax		**19.0**	**–**	**19.0**	17.2	(15.3)	1.9
Tax charge	9	**(3.2)**	**0.1**	**(3.1)**	(2.9)	2.6	(0.3)
Profit for the year		**15.8**	**0.1**	**15.9**	14.3	(12.7)	1.6
Attributable to:							
Equity holders of the company		**15.9**	**0.1**	**16.0**	14.3	(12.7)	1.6
Non-controlling interests		**(0.1)**	**–**	**(0.1)**	–	–	–
		15.8	**0.1**	**15.9**	14.3	(12.7)	1.6
Earnings per share	10						
Basic		**42.0p**		**42.2p**	37.2p		4.2p
Diluted		**40.6p**		**40.8p**	36.5p		4.1p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	Note	2019 £m	2018 £m
Profit for the year		**15.9**	1.6
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit pension schemes	26	**6.2**	(13.3)
Deferred tax (charge)/credit	21	**(0.9)**	2.0
Write down of listed investment to market value		**–**	(0.5)
Other comprehensive income/(expense) – net of tax		**5.3**	(11.8)
Total comprehensive income/(expense)		**21.2**	(10.2)
Attributable to:			
Owners of the parent		**21.3**	(10.2)
Non-controlling interests		**(0.1)**	–
		21.2	(10.2)

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 2019

		Group		Company	
	Note	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Non-current assets					
Intangible assets	12	**2.6**	1.9	**–**	–
Property, plant and equipment	13	**10.7**	9.8	**–**	–
Right-of-use assets	14	**12.2**	–	**–**	–
Investments	16	**0.9**	0.7	**48.2**	48.0
Deferred tax asset	21	**16.1**	19.5	**5.5**	6.7
Trade and other receivables	18	**9.5**	8.2	**199.5**	182.6
		52.0	40.1	**253.2**	237.3
Current assets					
Inventories	17	**13.2**	14.4	**–**	–
Trade and other receivables	18	**21.6**	22.7	**84.7**	76.2
Cash and cash equivalents		**6.2**	6.3	**–**	–
		41.0	43.4	**84.7**	76.2
Total assets		**93.0**	83.5	**337.9**	313.5
Equity					
Ordinary shares	23	**19.6**	19.6	**19.6**	19.6
Share premium	23	**102.0**	101.9	**102.0**	101.9
Capital redemption reserve		**0.2**	0.2	**0.2**	0.2
Merger reserve		**173.4**	173.4	**–**	–
Other reserve		**0.9**	0.8	**0.9**	0.8
Accumulated (losses)/profit		**(343.2)**	(355.0)	**88.0**	77.7
Shareholders' equity		**(47.1)**	(59.1)	**210.7**	200.2
Non-controlling interests		**(0.2)**	–	**–**	–
Total equity		**(47.3)**	(59.1)	**210.7**	200.2
Non-current liabilities					
Borrowings	20	**43.7**	42.6	**–**	–
Lease liabilities	14	**10.6**	–	**–**	–
Retirement benefit obligations	26	**64.0**	78.5	**32.1**	40.5
		118.3	121.1	**32.1**	40.5
Current liabilities					
Trade and other payables	19	**19.9**	20.4	**95.1**	72.8
Lease liabilities	14	**1.8**	–	**–**	–
Current tax liabilities		**0.3**	–	**–**	–
Provisions	22	**–**	1.1	**–**	–
		22.0	21.5	**95.1**	72.8
Total liabilities		**140.3**	142.6	**127.2**	113.3
Total equity and liabilities		**93.0**	83.5	**337.9**	313.5

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 £16.1m (2018: £12.3m).

The consolidated financial statements on pages 79 to 108 were approved by the Board on 9 March 2020 and were signed on its behalf by:

Simon Pitts
Chief Executive Officer

Lindsay Dixon
Chief Financial Officer

CONSOLIDATED AND PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2019

	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Other reserve £m	Accumulated (losses)/profit £m	Attributable to owners of the parent £m	Non-controlling interest £m	Total equity £m
Group									
At 31 December 2018	19.6	101.9	0.2	173.4	0.8	(355.0)	(59.1)	–	(59.1)
Implementation of IFRS 16 (note 14)	–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
At 1 January 2019	19.6	101.9	0.2	173.4	0.8	(355.1)	(59.2)	–	(59.2)
Profit/(loss) for the year	–	–	–	–	–	16.0	16.0	(0.1)	15.9
Other comprehensive expense	–	–	–	–	–	5.3	5.3	–	5.3
Total comprehensive income/(expense) for the year	–	–	–	–	–	21.3	21.3	(0.1)	21.2
Acquisition of subsidiary	–	–	–	–	–	–	–	(0.1)	(0.1)
Share based compensation	–	–	–	–	0.3	–	0.3	–	0.3
Acquisition of treasury shares	–	0.1	–	–	(0.2)	(2.0)	(2.1)	–	(2.1)
Tax credit on share based compensation	–	–	–	–	–	0.2	0.2	–	0.2
Dividends paid	–	–	–	–	–	(7.7)	(7.7)	–	(7.7)
Unclaimed dividends received	–	–	–	–	–	0.1	0.1	–	0.1
Balance at 31 December 2019	**19.6**	**102.0**	**0.2**	**173.4**	**0.9**	**(343.2)**	**(47.1)**	**(0.2)**	**(47.3)**
Balance at 1 January 2018	19.7	101.9	0.1	173.4	0.7	(334.1)	(38.3)	–	(38.3)
Profit for the year	–	–	–	–	–	1.6	1.6	–	1.6
Other comprehensive income	–	–	–	–	–	(11.8)	(11.8)	–	(11.8)
Total comprehensive expense for the year	–	–	–	–	–	(10.2)	(10.2)	–	(10.2)
Shares bought back on-market and cancelled	(0.1)	–	0.1	–	–	(0.2)	(0.2)	–	(0.2)
Acquisition of treasury shares	–	–	–	–	(0.2)	(3.4)	(3.6)	–	(3.6)
Share based compensation	–	–	–	–	0.3	–	0.3	–	0.3
Tax charge on share based compensation	–	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Dividends	–	–	–	–	–	(6.9)	(6.9)	–	(6.9)
Balance at 31 December 2018	**19.6**	**101.9**	**0.2**	**173.4**	**0.8**	**(355.0)**	**(59.1)**	**–**	**(59.1)**
Company									
Balance at 1 January 2019	19.6	101.9	0.2	–	0.8	77.7	200.2		
Profit for the year	–	–	–	–	–	16.1	16.1		
Other comprehensive income	–	–	–	–	–	3.8	3.8		
Total comprehensive income for the year	–	–	–	–	–	19.9	19.9		
Share based compensation	–	–	–	–	0.3	–	0.3		
Acquisition of treasury shares	–	0.1	–	–	(0.2)	(2.0)	(2.1)		
Dividends paid	–	–	–	–	–	(7.7)	(7.7)		
Unclaimed dividends received	–	–	–	–	–	0.1	0.1		
Balance at 31 December 2019	**19.6**	**102.0**	**0.2**	**–**	**0.9**	**88.0**	**210.7**		
Balance at 1 January 2018	19.7	101.9	0.1	–	0.7	86.5	208.9		
Profit for the year	–	–	–	–	–	12.3	12.3		
Other comprehensive expense	–	–	–	–	–	(10.7)	(10.7)		
Total comprehensive income for the year	–	–	–	–	–	1.6	1.6		
Shares bought back on-market and cancelled	(0.1)	–	0.1	–	–	(0.2)	(0.2)		
Acquisition of treasury shares	–	–	–	–	(0.2)	(3.3)	(3.5)		
Share based compensation	–	–	–	–	0.3	–	0.3		
Dividends paid	–	–	–	–	–	(6.9)	(6.9)		
Balance at 31 December 2018	**19.6**	**101.9**	**0.2**	**–**	**0.8**	**77.7**	**200.2**		

CONSOLIDATED AND PARENT COMPANY STATEMENTS OF CASH FLOWS

Year ended 31 December 2019

	Note	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Operating activities					
Cash generated by operations	24	**25.6**	26.1	**12.8**	14.8
Interest paid		**(1.1)**	(0.9)	**–**	–
Refinancing fees paid		**–**	(0.2)	**–**	–
Net taxes received/(paid)		**0.1**	(0.7)	**–**	–
Exceptional reorganisation cash costs		**(1.0)**	(2.4)	**–**	–
Pension deficit funding – recovery plan payment		**(10.3)**	(8.8)	**(4.9)**	(4.2)
Net cash generated by operating activities		**13.3**	13.1	**7.9**	10.6
Investing activities					
Proceeds from sale of investment		**1.3**	0.2	**1.3**	0.1
Cash acquired on purchase of subsidiary		**0.4**	–	**–**	–
Proceeds from sale of STV2		**–**	0.3	**–**	–
Purchase of intangible assets		**(1.6)**	(0.4)	**–**	–
Purchase of property, plant and equipment		**(2.9)**	(3.0)	**–**	–
Net cash (used in)/generated by investing activities		**(2.8)**	(2.9)	**1.3**	0.1
Financing activities					
Acquisition of treasury shares		**(2.1)**	(3.5)	**(2.1)**	(3.5)
Payment of obligations under leases		**(1.9)**	–	**–**	–
Share buyback		**–**	(0.6)	**–**	(0.6)
Borrowings drawn		**20.0**	14.0	**–**	–
Borrowings repaid		**(19.0)**	(13.0)	**–**	–
Dividends paid		**(7.6)**	(6.9)	**(7.6)**	(6.9)
Net cash used in financing activities		**(10.6)**	(10.0)	**(9.7)**	(11.0)
Net (decrease)/increase in cash and cash equivalents		**(0.1)**	0.2	**(0.5)**	(0.3)
Cash and cash equivalents at beginning of year		**6.3**	6.1	**(4.4)**	(4.1)
Cash and cash equivalents at end of year		**6.2**	6.3	**(4.9)**	(4.4)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. General information

The consolidated financial statements of STV Group plc (the 'Company') and its subsidiaries (together the 'Group') for the year ended 31 December 2019 were approved and authorised for issue in accordance with a resolution of the Directors on 9 March 2020. The comparative information is presented for the year ended 31 December 2018.

STV Group plc is a public limited company incorporated in Scotland and is listed on the London Stock Exchange.

The principal activities of the Group are the production and broadcasting of television programmes, provision of internet services and the sale of advertising airtime and space in these media. Outside the core business, the Group also operates an external lottery management company.

2. Adoption of new and revised standards

New and amended standards adopted in the year

New standards, amendments and interpretations effective for the financial year beginning 1 January 2019 are as follows:

- IFRS 16 – Leases
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments

The Group has changed its accounting policy for leases on adoption of IFRS 16, the impact of which is disclosed in note 14. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods or on foreseeable future transactions.

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, with the exception of IFRS 16 which applies for the first time in 2019.

Basis of preparation

These financial statements are presented in Sterling. All values are rounded to the nearest 0.1 million pounds (£m) except where otherwise indicated.

The consolidated and parent company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006.

At 31 December 2019, the Group was in a financial net debt position with a positive gross cash balance. The Group is in a net current asset position and generates cash from operations that enables the Group to meet its liabilities as they fall due, and other obligations.

As part of the going concern review, the Group considers forecasts of the total advertising market to determine the impact on liquidity. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current available funding and covenant levels.

As set out in the Group's strategy in 2018, the Group continues to focus on diversification of operations to drive a greater proportion of the Group's results from non-broadcast earnings.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for at least 12 months from the date of this report. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

The preparation of the consolidated and Company financial statements, in conformity with IFRS, requires management to make judgements that affect the application of accounting policies and estimates that impact the reported amounts of assets, liabilities, income and expense.

Management bases these judgements on a combination of past experience, professional expert advice and other evidence that is relevant to each individual circumstance. Actual results may differ from these judgements and the resulting estimates which are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised.

Areas requiring significant judgement in the current year and on a recurring basis are presented to the Audit & Risk Committee, as summarised on page 55 and details included in note 4.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. Significant accounting policies continued

Basis of consolidation

The Group financial statements incorporate the financial statements of STV Group plc and all its subsidiaries up to 31 December each year, using consistent accounting policies.

Subsidiaries are entities over which the Company has control. Control is achieved when the Company has the power over the subsidiary, is exposed, or has rights to, variable returns from its involvement with the subsidiary, and has the ability to use its power to affect its returns. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Subsidiary undertakings acquired during the year are recorded using the acquisition method of accounting and their results are included from the date of acquisition.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Non-controlling interests represent the portion of profit or loss and net assets/(liabilities) in subsidiaries that are not held by the Group and are presented within equity in the consolidated balance sheet, separately from the Company shareholders' equity.

Business combinations

Business combinations are accounted for using the acquisition method of accounting. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred.

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in the income statement as a bargain purchase gain (or loss if the liabilities assumed exceed the identifiable assets).

Goodwill in respect of an acquired business is recognised as an intangible asset. Goodwill is carried at cost less any recognised impairment losses and is tested at least annually or where there are indicators of impairment.

Revenue recognition

Under IFRS 15, the performance obligations promised in contracts with customers are identified and revenue recognition is based on an assessment of when control of the good or service promised in the contract is transferred to the customer. Revenue is recognised when the performance obligation in the contract is satisfied which is either at a 'point in time' or 'over time' depending on when or as control of the good or service is transferred to the customer.

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 at the point of transmission of the advertisement. Revenue from sponsorship of the Group's programmes is recognised on a straight-line basis over the period of 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 performance obligations are delivered and control passes 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 licence commencement date 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 note 4).

iii) Lottery service revenues

Revenue is recognised for ongoing lottery costs rebilled to the Scottish Children's Lottery at a point when the lottery draw to which the service relates has taken place.

Dividend income

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

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 the amount of tax payable or recoverable in respect of the taxable profit or loss for the year, 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 substantively enacted at the balance sheet date and are expected to apply when the related deferred 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 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 tax 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.

Exceptional items
In order to provide the users of the consolidated financial statements with a more relevant presentation of the Group's underlying performance, on a like-for-like basis, profit for each year has been analysed between:

(i) profit before exceptional items; and
(ii) the effect of 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.

Exceptional items may include, but are not restricted to: profits or losses arising on disposal or closure of a business; the cost of significant business restructuring; significant impairments of intangible or tangible assets; significant gains or losses on sale of investments, intangible or tangible assets; adjustments to the fair value of acquisition-related items; other items deemed exceptional due to their significance, size or nature; and the related exceptional taxation.

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. Currency translation differences are recognised in the consolidated income statement.

Intangible assets
Intangible assets, other than goodwill, 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 intangible assets, less residual value, on a straight line basis from the date they are brought into use:

Web development and branding	between 10% and 25%

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 the assets, less estimated residual values, in equal annual instalments as follows:

Leasehold improvements	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, from the date of addition or to the date of disposal.

Any impairment in value is charged to the income statement.

Leases
Until 31 December 2018, all of the Group's leases were defined, and accounted for, as operating leases. The costs in respect of these operating leases were 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) was recognised as deferred income and was released over the life of the lease.

From 1 January 2019, under IFRS 16, the Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. Significant accounting policies continued

Lease liability

The lease liability is initially measured as the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease.

Lease payments included in the measurement of the lease liability comprise:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of purchase options, if the Group is reasonably certain to exercise those options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the Group's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost element is charged to the income statement over the lease period in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets

Right-of-use assets comprise the initial measurement of the corresponding lease liability, any lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the underlying asset. If the lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

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).

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

Programme production work in progress for programmes being made for third parties is recorded at cost less any provision for impairment. When the programme production has been completed, and at the point of delivery to the commissioner, the inventory value is charged to the income statement to match the cost of production with the revenue recognised.

ii) Deferred programme production

Deferred production costs represent original costs of production that are deferred and recognised against future revenue streams expected to be generated in the secondary sales markets together with advertising generated on the STV Player. 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 deferred programme production inventory is referred to in the critical accounting estimates section (note 4).

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 charged to the income statement after the first transmission or sale.

Provisions

Reorganisation costs

Provisions for reorganisation costs are recognised when the Group has a legal obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be estimated reliably.

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. Financial assets are recorded at amortised cost with the exception of investments which are recognised at fair value through other comprehensive income (FVOCI) and derivative financial instruments which are recognised at fair value through profit and loss (FVPL). Financial liabilities are measured at amortised cost.

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. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

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 trade.

The debtor due from the Scottish Children's Lottery, included in non-current assets, is reviewed at each reporting period. Management perform a whole of life probability weighted impairment review when there is a significant increase in credit risk. 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 income statement.

ii) Investments
Investments are classified as fair value through other comprehensive income (FVOCI). There is no subsequent reclassification of fair value gains and losses to profit and loss following the derecognition of the investment.

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 equity
Financial liabilities and equity instruments are classified according to 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. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for using an effective interest rate method 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.

The Group does not qualify for hedge accounting under IFRS 9 therefore any gains or losses arising from the movement in fair value are taken to the income statement.

The fair value of the interest rate swap contracts are calculated every six months on a discounted cash flow basis using market forward rates.

Pensions
For defined benefit pension schemes, the annual service cost is calculated using the projected unit credit method and is recognised over the future service lives of participating employees, in accordance with the advice of qualified actuaries. Current service cost and administration expenses are recognised in operating costs and net interest on the net pension liability is recognised in finance costs.

The finance cost recognised in the consolidated income statement in the year reflects the net interest on the net pension liability. This represents the change in the net pension liability resulting from the passage of time, and is determined by applying the discount rate to the opening net liability, taking into account employer contributions paid in to the scheme, and hence reducing the net liability during the year.

Past service costs resulting from enhanced benefits are recognised immediately in the consolidated income statement. Actuarial gains and losses, which represent the difference between interest on scheme assets, experience on the defined benefit obligation and the effect of changes in actuarial assumptions, are recognised in full in the consolidated statement of comprehensive income in the year in which they occur.

The retirement benefit obligation recognised in the consolidated balance sheet comprises the net total for each scheme of the present value of the benefit obligation, using a discount rate based on yields at the balance sheet date on appropriate high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and are denominated in sterling, minus the fair value of the scheme assets at the balance sheet date.

Payments to defined contribution pension schemes are charged to the income statement as an expense as they fall due.

Share-based payments
The Group issues equity-settled share-based payments to certain employees. A fair value for the equity-settled share awards is measured at the date of grant. The Group measures the fair value of each award using an appropriate option pricing model.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. Significant accounting policies continued

The fair value of each award is recognised as an expense over the vesting period on a straight-line basis, after allowing for an estimate of the share awards that will eventually vest. The level of vesting is reviewed at each reporting period and the charge is adjusted, where appropriate, to reflect actual and estimated levels of vesting.

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.

4. Critical accounting estimates and judgements

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. These 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.

The Group determines the appropriate discount rate at the end of each year. This is the 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.

With regard to mortality, the base tables used are updated every 3 years (to coincide with triennial valuations) or more frequently when there is evidence of a change in experience. The CMI tables relating to future improvements in mortality are updated when new information is available, usually annually.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information, along with details of sensitivities, is disclosed in note 26.

Inventory

Deferred production stock forms part of inventory and is stated in the financial statements at the lower of cost or net realisable value. Programme costs are expensed in line with expected future revenues which is an area involving significant management judgement and estimate. A detailed forecast of future secondary sales is prepared by management based on historic experience and expected future trends. £1.7m was expensed through the income statement in the year (2018: £4.9m – including £4.6m exceptional write offs). Additional information is disclosed in note 17.

Lottery recoverability

An amount of £7.7m (2018: £6.4m) included within non-current assets, relates to debt due to the ELM (the external lottery management company) from the Scottish Children's Lottery. This debtor is net of an expected credit loss impairment of £4.7m (2018: £5.0m).

In line with IFRS 9, management have performed a whole of life probability weighted impairment review resulting in no change to the provision being required.

Company

Carrying value of parent company investments

The company's policy is to carry out annual reviews of the carrying value of 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.

5. Business segments

Information reported to the Group's Chief Executive for the purposes of resource allocation and assessment of segment performance is by product. The Group's operating segments, which remain the same as the prior year, are Broadcast, Digital, Production, and the STV ELM.

During 2019, a review of reportable segments was undertaken, which concluded that the reportable segments of the Group are Broadcast, Digital and Production. The STV ELM, previously reported separately, doesn't meet the criteria for separate disclosure under any of the revenue, profit or asset tests (in 2019 or 2018) and will no longer be disclosed as such.

Also in 2019, the Group has changed the method of allocation of central/corporate costs to the reportable segments. Previously the entirety of this cost was allocated across the segments (excluding the STV ELM). Going forward, those costs that relate directly to the running of the Board and the Group's responsibilities as a listed company will be held centrally as 'unallocated corporate expenses'. This will ensure that the results of the reportable segments are more directly comparable to other businesses operating in their sector.

There is no change to the disclosure of segmental revenues year on year, other than the column in the table below headed 'other' would previously have been reported as 'STV ELM'. With regard to the disclosure of segment result, the 2018 comparators have been restated to reflect the new method of allocation. A separate reconciliation of the impact of this change on the 2018 reported results is also provided.

	Broadcast		Digital		Production		Other		Total	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Revenue										
Sales	**105.7**	104.7	**13.0**	9.9	**14.6**	16.7	**4.8**	5.5	**138.1**	136.8
Inter-segment sales	**(13.4)**	(10.2)	**–**	(0.3)	**(0.9)**	(0.4)	**–**	–	**(14.3)**	(10.9)
Segment revenue	**92.3**	94.5	**13.0**	9.6	**13.7**	16.3	**4.8**	5.5	**123.8**	125.9
Segment result										
Operating profit	**19.9**	19.4	**7.3**	5.2	**(0.1)**	0.5	**–**	–	**27.1**	25.1
Unallocated corporate expenses									**(4.5)**	(5.0)
Adjusted operating profit									**22.6**	20.1
Exceptional items									**–**	(15.3)
Finance costs									**(3.6)**	(2.9)
Profit before tax									**19.0**	1.9
Tax charge									**(3.1)**	(0.3)
Profit attributable to owners of the parent									**15.9**	1.6

Reconciliation of 2018 segment result	As reported 2018 £m	Reallocation £m	Restated 2018 £m	2019 £m
Broadcast	15.3	4.1	19.4	19.9
Digital	4.7	0.5	5.2	7.3
Production	0.1	0.4	0.5	(0.1)
Unallocated corporate expenses	–	(5.0)	(5.0)	(4.5)
Adjusted operating profit	20.1	–	20.1	22.6

Revenue includes £1.0m from sources outside the UK (2018: £0.5m). Operating profit includes £0.6m arising outside the UK (2018: £0.3m).

	Broadcast		Digital		Production		Other		Total	
Segment assets and liabilities	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Assets	33.6	31.5	2.9	1.3	19.2	23.6	8.2	6.7	63.9	63.1
Liabilities	(13.3)	(13.5)	(0.7)	(0.3)	(3.6)	(4.4)	–	(0.4)	(17.6)	(18.6)
Segment total	20.3	18.0	2.2	1.0	15.6	19.2	8.2	6.3	46.3	44.5
Unallocated corporate assets									29.1	20.4
Unallocated corporate liabilities									(122.7)	(124.0)
Consolidated									(47.3)	(59.1)

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

Segment liabilities comprise operating liabilities including trade and other payables and provisions and certain lease liabilities. They exclude Group borrowings, retirement benefit obligations, tax liabilities and other non-current liabilities, including the remaining lease liabilities.

All the net assets in 2018 and 2019 were held in the UK and therefore operate in a single geographical segment.

	Broadcast		Digital		Production		Other		Total	
Other segment information	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Capital additions	**1.9**	3.1	**2.3**	0.3	**–**	–	**0.6**	–	**4.8**	3.4
Depreciation and amortisation	**1.8**	2.0	**0.6**	0.4	**–**	–	**2.4**	–	**4.8**	2.4

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. Net operating expenses

	2019 £m	2018 £m
Programming and production costs	**52.0**	57.1
Staff costs	**29.4**	30.6
Other operational costs	**15.0**	13.9
Depreciation and amortisation	**4.8**	2.4
Operating lease charges	**–**	1.8
	101.2	105.8
Exceptional items	**2.0**	11.1
	103.2	116.9

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

	2019 £000	2018 £000
Group		
Fees payable to Company auditors for the audit of the parent company and consolidated financial statements	**157**	115
Fees payable to the Company's auditors and their associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	**24**	24
– Audit-related assurance services	**4**	27
	185	166

Included in the audit fees payable is £5,000 (2018: £5,000) paid in respect of the parent company.

Fees in respect of STV Group plc pension schemes	2019 £000	2018 £000
Audit	**25**	25

7. Staff

Group

Aggregate remuneration	2019 £m	2018 £m
Wages and salaries	**22.2**	23.5
Social security costs	**2.3**	2.1
Other pension costs	**4.9**	5.0
Total aggregate remuneration	**29.4**	30.6

Average monthly number of employees (including executive directors)	2019 Number	2018 Number
Broadcast, Digital, Production, ELM and Corporate:		
Established	**434**	457
Contract	**22**	26
Total average number of employees	**456**	483

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

Details of directors' remuneration is provided in the Remuneration Report on pages 60 to 71.

Company
The company had no employees during the current or preceding year.

No director received remuneration from the company during the year (2018: £nil). The emoluments of the directors are paid by another group company which makes no recharge to the parent company.

A charge of £0.3m (2018: £0.3m) for share based compensation was included in the Company's profit for the year.

8. Exceptional items

	2019 £m	2018 £m
Recognised in arriving at operating profit:		
Gain on sale of investment	**2.0**	–
Acquisition costs	**(0.1)**	–
Development costs written off	**(1.9)**	–
Reorganisation cost	**–**	(8.7)
Loss on disposal of STV2	**–**	(0.8)
Pension scheme past service cost (GMP equalisation)	**–**	(1.6)
	–	(11.1)
Recognised in finance costs:		
Provision for impairment losses – ELM debtor	**–**	(4.2)

Gain on sale of investment
The disposal of the deltaDNA investment to Unity Technologies Inc in September 2019 resulted in a gain on sale of £2.0m. See note 16 for more information.

Acquisition costs
Costs of £0.1m were incurred in the acquisition of Primal Media Limited on 1 July 2019. See note 15 for more information.

Development costs written off
A write off of development costs of £1.9m has been recognised during the year. A full review of the development costs previously capitalised was undertaken in the second half of the year by the new management team of STV Productions, and those costs relating to creative ideas and investments that are not aligned to the new strategic direction of the division have been written off.

2018 exceptionals
A provision of £8.7m was recognised in relation to restructuring within the business, mainly as a result of the closure of STV2. The £8.7m included a £6.0m non-cash writedown (stock of £5.0m including a £4.6m impairment of deferred production stock, and other assets of £0.1m).

The disposal of the STV2 companies to That's Media Limited on 30 June 2018 resulted in a loss on sale of £0.8m, which included a non-cash writedown of stock and assets of £0.4m.

Following a High Court ruling in October 2018, an allowance of £1.6m in relation to expected future costs of equalising guaranteed minimum pensions was included in the defined benefit obligations on the balance sheet at 31 December 2018 and recognised as a past service cost under exceptional items in the income statement for that year.

The provision in respect of the ELM debtor was increased by £4.2m in 2018.

The tax effect on exceptional items during the year was a credit of £0.1m (2018: £2.6m credit).

9. Tax charge

	2019 £m	2018 £m
Corporation tax		
Current year	**1.4**	–
Adjustments in respect of prior years	**(0.8)**	(0.4)
	0.6	(0.4)
Deferred tax (see note 21)	**2.5**	0.7
Tax charge for the year	**3.1**	0.3

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. Tax charge continued

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

	2019 £m	2018 £m
Profit before tax	19.0	1.9
Tax at the UK corporation tax rate of 19% (2018: 19%)	3.6	0.4
Tax effects of:		
Exceptional costs	(0.1)	0.3
Other expenses not deductible for tax purposes	0.1	–
Impact of changes in tax rates	(0.2)	(0.2)
Changes in estimates related to prior years	(0.3)	(0.2)
Tax charge for the year	3.1	0.3

10. Earnings per share

The calculation of earnings per share is based on earnings after tax and the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one type of dilutive potential ordinary shares namely share options granted to employees.

The adjusted earnings per share figures have also been calculated based on earnings before adjusting items that are significant in nature and/or quantum and are considered to be distortive. The adjusting items include the impact of operating and non-operating exceptional items and the IAS 19 net financing cost; as well as the tax adjustments relating to these items. Adjusted earnings per share have been presented to provide shareholders with an additional measure of the Group's year-on-year performance.

Earnings per share	2019 pence	2018 pence
Basic earnings per share	42.2p	4.2p
Diluted earnings per share	40.8p	4.1p
Earnings per ordinary share (before exceptional items)	42.0p	37.2p
Diluted earnings per ordinary share (before exceptional items)	40.6p	36.5p
Adjusted basic earnings per share	46.4p	41.1p
Adjusted diluted earnings per share	44.9p	40.3p

The following reflects the earnings and share data used in the calculation of earnings per share:

Earnings	Ref	2019 £m	2018 £m
Profit for the year attributable to equity shareholders		16.0	1.6
Exceptional items (net of tax)	(a)	(0.1)	9.2
Exceptional impairment losses (net of tax)	(b)	–	3.5
Profit for the year before exceptional items		15.9	14.3
Adjustment for IAS 19 financing cost (net of tax)	(c)	1.7	1.5
Adjusted profit		17.6	15.8

Number of shares	2019 million	2018 million
Weighted average number of ordinary shares for the purposes of basic earnings per share	37.9	38.4
Dilution due to share options	1.3	0.8
Weighted average number of ordinary shares for the purposes of diluted earnings per share	39.2	39.2

Details of the adjustments to earnings are as follows:

(a) Exceptional items (net of tax) £0.1m credit (2018: £9.2m)
Exceptional items of £nil (2018: £11.1m), net of related tax credit of £0.1m (2018: £1.9m). See note 8 for more details.

(b) Exceptional impairment losses (net of tax) £nil (2018: £3.5m)
Exceptional impairment losses of £nil (2018: £4.2m), net of related tax credit of £nil (2018: £0.7m). See note 8 for more details.

(c) Adjustment for IAS 19 financing cost (net of tax) £1.7m (2018: £1.5m)
An adjustment for the IAS 19 financing cost of £2.0m (2018: £1.8m), net of a related tax credit of £0.3m (2018: £0.3m). The IAS 19 financing cost is adjusted as it is a non-cash item that relates to historical defined benefit pension schemes.

11. Dividends

	2019 per share	2018 per share	2019 £m	2018 £m
Dividends on equity ordinary shares				
Paid final dividend	14.0p	12.0p	5.3	4.6
Paid interim dividend	6.3p	6.0p	2.4	2.3
Dividends paid	**20.3p**	18.0p	**7.7**	6.9

A final dividend of 14.7p per share (2018: 14.0p per share) has been proposed and is subject to approval by the Board of Directors. It is payable on 29 May 2020 to shareholders who are on the register at 14 April 2020. The ex-dividend date is 9 April 2020. This final dividend, amounting to £5.6m has not been recognised as a liability in these financial statements.

12. Intangible assets

	Web development and branding £m
Cost	
At 1 January 2018	3.7
Additions	0.4
Write-offs	(0.7)
At 1 January 2019	3.4
Additions	1.6
At 31 December 2019	**5.0**
Accumulated amortisation and impairment	
At 1 January 2018	1.1
Amortisation	0.7
Disposals	(0.3)
At 1 January 2019	1.5
Amortisation	0.9
At 31 December 2019	**2.4**
Net book value at 31 December 2019	**2.6**
Net book value at 31 December 2018	1.9

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For the year ended 31 December 2019

13. Property, plant and equipment

	Leasehold buildings £m	Plant, technical equipment and other £m	Assets under construction £m	Total £m
Cost				
At 1 January 2018	0.4	24.1	0.9	25.4
Additions	–	–	3.0	3.0
Transfers	–	1.8	(1.8)	–
Disposals	–	(0.2)	–	(0.2)
At 1 January 2019	0.4	25.7	2.1	28.2
Additions	–	–	2.9	2.9
Transfers	–	4.7	(4.7)	–
At 31 December 2019	**0.4**	**30.4**	**0.3**	**31.1**
Accumulated depreciation and impairment				
At 1 January 2018	0.1	16.7	–	16.8
Charge for year	–	1.7	–	1.7
Disposals	–	(0.1)	–	(0.1)
At 1 January 2019	0.1	18.3	–	18.4
Charge for year	–	2.0	–	2.0
At 31 December 2019	**0.1**	**20.3**	**–**	**20.4**
Net book value at 31 December 2019	**0.3**	**10.1**	**0.3**	**10.7**
Net book value at 31 December 2018	0.3	7.4	2.1	9.8

14. Leases

The Group adopted IFRS16 on 1 January 2019. The standard has resulted in many current operating leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. The Group has applied the modified retrospective transition method, and consequently comparative information is not restated.

Within opening balances as at 1 January 2019, the Group has recognised £13.7m of right-of-use assets and an equal, corresponding IFRS 16 lease liability, the latter representing the obligation to make lease payments. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 January 2019, which was 2.3%. In addition on transition, a property lease accrual of £0.1m has been written off and adjusted through retained earnings.

For each lease, the lease term has been calculated as the non-cancellable period of the lease contract, except where the Group is reasonably certain that it will exercise contractual extension options.

In adopting IFRS 16, the Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases or low-value assets. The amounts relating to these leases are not material.

The balance sheet transition impact by line item on the closing 2018 consolidated balance sheet is shown in the table below:

	Impact of IFRS 16 £m
Balance sheet:	
Right-of-use assets	13.7
Lease liability	(13.7)
Accumulated losses	(0.1)
Accruals	0.1

The reconciliation from operating commitments disclosed under IAS 17 to the lease liability recognised on the balance sheet at 1 January 2019 is as follows:

	1 January 2019 £m
Operating lease commitment at 31 December as disclosed in the Group's consolidated financial statements	13.8
Impact of IFRS 16 data review*	1.1
Operating lease commitments at 31 December 2018	**14.9**
Sub-lease property rentals netted against commitment	0.4
Discounted using the incremental borrowing rate at 1 January 2019	(1.6)
Lease liabilities reported at 1 January 2019	**13.7**
Of which are:	
Current lease liabilities	3.0
Non-current lease liabilities	10.7
	13.7

* As part of the transition to IFRS 16, a detailed review of leases identified a small number of commitments not included in the 2018 Annual Report operating lease commitment disclosure.

There is also a change in presentation of cash flows for leases previously accounted for as operating leases, which are now presented as cash flows from financing activities rather than cash flows from operating activities.

The balance sheet shows the following amounts relating to leases:

	2019 £m	2018 £m
Right-of-use assets		
Property	12.0	–
Vehicles	0.2	–
	12.2	–
Lease liabilities		
Current	1.8	–
Non-current	10.6	–
	12.4	–

Additions to right-of-use assets in 2019 were £0.3m.

The income statement shows the following amounts relating to leases:

	2019 £m	2018 £m
Depreciation on right-of-use assets		
Property	1.8	–
Vehicles	0.1	–
	1.9	–
Interest expense (included in finance costs)	0.3	–

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For the year ended 31 December 2019

15. Acquisition of subsidiary

On 1 July 2019, the Group acquired 52% of the issued share capital of Primal Media Limited ('Primal'), an award winning unscripted producer, for a nominal consideration.

The provisional fair values of the assets and liabilities of Primal as at the date of acquisition are as follows:

	Fair value £m
Cash and cash equivalents	0.4
Deferred production costs	0.5
Deferred production income	(0.6)
Accruals	(0.1)
Loan liabilities	(0.3)
Fair value of net liabilities acquired	(0.1)
Less : Non-controlling interests	0.1
	–
Net cash	
Cash consideration	–
Cash and cash equivalents acquired	0.4
Loan liabilities*	(0.3)
	0.1

Acquisition related costs of £0.1m are included in exceptional items in the income statement.

* Post acquisition, and in line with the terms of the Sale and Purchase agreement, the Group repaid half of the loan.

16. Investments

	2019 £m	2018 £m
Group		
Listed	**0.1**	0.1
Other	**0.8**	0.6
	0.9	0.7

The Group holds an investment in Mirriad Limited, a listed company. The movement in other investments during the year relates to the sale of the Group's minority shareholding in deltaDNA and subsequent investment in Unity Technologies Inc, described in more detail below.

All these investments are categorised as equity investments and are measured at fair value through the Consolidated Statement of Other Comprehensive Income.

On 18 September 2019, the Group (along with all other shareholders) sold its investment in deltaDNA Ltd to Unity Technologies Inc for a net consideration of £2.5m (total consideration £2.6m less transaction costs of £0.1m), which resulted in a gain on sale of £2.0m (net book value of investment at completion was £0.5m).

The net consideration comprised an element payable in cash (62.5%) and the balance in shares in Unity (37.5%). Consideration of £0.5m (£0.2m in shares and £0.3m in cash) has been deferred for 2 years and has been recognised as deferred consideration within other receivables in non-current assets.

	2019 £m	2018 £m
Company		
Share in group undertakings	**47.3**	47.3
Other investments		
Listed	**0.2**	0.2
Other	**0.7**	0.5
	48.2	48.0

Impairment of investments in subsidiary undertakings
The Company tests the carrying value of the investment in subsidiary undertakings annually for 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 November 2019 which supported moderate growth in the Group through the period from 2020 to 2022 and a terminal value thereafter based on 3% growth. The resulting valuation 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 2020 of 10% followed by flat growth. Both scenarios still left the Group with significant headroom. The discount rate applied was 7.39% (2018: 7.85%).

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 2019 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	
STV Drama Productions 2 Limited	Programme production	
Primal Media Limited (52%)	Programme production	(1)
Ginger Television Productions Limited	Programme production	(1)
SKA Ginger Productions Limited (50%)	Programme production	(1)
Altissimo Music Limited	Music rights	
stv.tv Limited	Dormant	
Solutions.tv Limited	Dormant	
Grampian Television Limited	Dormant	
STV Services Limited*	Group services undertaking	
Scottish News Network Limited	Dormant	
Rise & Shine (Television) Limited*	Investment holding undertaking	
Peopleschampion Limited	Dormant	
Scottish Media Group (Jersey) Limited	Dormant	(2)
The Ginger Media Group Limited	Dormant	(1)
STV Elm Limited*	Group services undertaking	

* directly held

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

(1) 9 Savoy Street, London, WC2E 7EG
(2) IFC, St Helier, Jersey, Channel Islands, JE1 1ST

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 except where stated.

17. Inventories

	Group	
	2019 £m	2018 £m
Deferred programme production	**10.3**	10.3
Programme production work in progress	**2.4**	3.9
Recorded programmes	**0.5**	0.2
	13.2	14.4

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17. Inventories continued

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. This asset is classified as current, even though it will be realised into cash over several years, due to the homogeneous nature of the inventory which would result in an arbitrary split between the current and non-current categories, and to be consistent with normal industry practice. It is anticipated that £0.7m (2018: £1.0m) is likely to be realised within 12 months.

At 31 December 2019, 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 £15.8m (2018: £14.0m), with the net book value of £10.3m representing 55% (2018: 46%) of the future sales gross of discounting. A discount rate of 5.4% (2018: 6.0%) was applied. Revenues in 2020 are expected to be £1.2m.

The sensitivities regarding the principal assumptions used to support the carrying value of the deferred programme production stock are set out below:

Assumption	Change in assumption	Impact on NPV
Discount rate	Increase/decrease by 0.25%	Decrease/increase by £0.2m
Rate of price inflation (RPI)	Increase/decrease by 0.25%	Increase/decrease by £0.2m
Sales	Increase/decrease by 10.0%	Increase/decrease by £1.6m

18. Trade and other receivables

	Group				Company			
	Current		Non-current		Current		Non-current	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Trade receivables	**12.7**	11.9	**–**	–	**–**	–	**–**	–
Amounts owed by group undertakings	**–**	–	**–**	–	**83.7**	75.2	**199.0**	182.6
Prepayments	**3.4**	2.0	**–**	–	**–**	–	**–**	–
Contract assets	**5.5**	8.4	**–**	–	**–**	–	**–**	–
Other receivables	**–**	0.2	**9.5**	8.2	**1.0**	1.0	**0.5**	–
Corporation tax debtor	**–**	0.2	**–**	–	**–**	–	**–**	–
	21.6	22.7	**9.5**	8.2	**84.7**	76.2	**199.5**	182.6

Group

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:

	2019		2018	
	Gross receivable £m	**Provision £m**	Gross receivable £m	Provision £m
Less than 30 days	**12.6**	**–**	11.4	–
Past due	**0.1**	**–**	0.5	0.1
	12.7	**–**	11.9	0.1

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

Contract assets (accrued income) primarily relate to the Group's right to consideration for work completed but not billed at the reporting date.

Non-current other receivables of £9.5m (2018: £8.2m) relate primarily to amounts due to the STV ELM (the external lottery management company) from the Scottish Children's Lottery of £7.7m (2018: £6.4m). This debtor has been presented net of an expected credit loss impairment of £4.7m (2018: £5.0m). In line with IFRS 9, management have performed a whole of life probability weighted impairment review resulting in no change to the provision being required.

Deferred consideration of £0.5m (2018: £nil) is also included in other receivables within non-current assets of the Group and the Company, and relates to the sale of the Group's investment in deltaDNA (note 16).

Company

Amounts owed by group undertakings are considered to have low credit risk and the loss allowance recognised during the year was therefore limited to 12 months expected credit losses. The amounts were not material.

A loan to a subsidiary undertaking of £80.0m (2018: £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. Trade and other payables

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Current				
Trade payables	**5.3**	6.1	**–**	–
Accrued expenses	**11.4**	9.8	**0.1**	0.1
Contract liabilities	**0.4**	1.9	**–**	–
Amounts owed to group undertakings	**–**	–	**90.1**	68.3
Bank overdraft	**–**	–	**4.9**	4.4
Social security and other taxes	**2.8**	2.6	**–**	–
	19.9	20.4	**95.1**	72.8

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

Contract liabilities (deferred income) primarily relate to the consideration received from customers in advance of transferring a good or service.

20. Borrowings

	Group	
	2019 £m	2018 £m
Bank loans	**43.7**	42.6

At 31 December 2019, the Group had revolving credit and overdraft facilities in place totalling £60.0m (2018: £60.0m), of which £44.0m was drawn down (2018: £43.0m). The balance sheet value of £43.7m (2018: £42.6m), reported as non-current and expiring within 2 to 5 years from the balance sheet date at the end of both the current and prior periods, is presented net of £0.3m of unamortised borrowing costs (2018: £0.4m).

The bank facilities have a maturity date of June 2022 and security is provided to the lenders by way of cross guarantees and a share pledge.

The effective interest rates were as follows:

	2019 %	2018 %
Bank loans (floating)	**2.3**	2.2

The Group has hedged its exposure to fluctuations in interest rates with interest rate swaps, the notional principal outstanding being £15.0m (2018: £15.0m). A fair value on the interest rate swaps of £nil (2018: £nil) has been recognised at 31 December 2019.

21. Deferred tax asset

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

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Deferred tax asset to be recovered after more than one year	**(16.1)**	(19.5)	**(5.5)**	(6.7)

A deferred tax asset has been recognised in respect of certain 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.

A deferred tax asset of £1.8m (2018: £1.8m) has not been recognised and relates to a combination of trading tax losses and non-trade debits.

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21. Deferred tax asset continued

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 2018	(3.9)	(0.9)	(1.6)	(12.0)	(18.4)
Charge/(credit) to income	–	0.2	(0.3)	0.8	0.7
Charge/(credit) to equity/OCI	–	0.2	–	(2.0)	(1.8)
At 1 January 2019	(3.9)	(0.5)	(1.9)	(13.2)	(19.5)
Charge to income	0.1	–	1.0	1.4	2.5
Charge to equity/OCI	–	–	–	0.9	0.9
At 31 December 2019	**(3.8)**	**(0.5)**	**(0.9)**	**(10.9)**	**(16.1)**
Company					
At 1 January 2018	–	–	–	(5.2)	(5.2)
Charge to income	–	–	–	0.3	0.3
Credit to equity/OCI	–	–	–	(1.8)	(1.8)
At 1 January 2019	–	–	–	(6.7)	(6.7)
Charge to income	–	–	–	0.6	0.6
Charge to equity/OCI	–	–	–	0.6	0.6
At 31 December 2019	**–**	**–**	**–**	**(5.5)**	**(5.5)**

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Act 2016 on 6 September 2016. These included a reduction to the main rate to reduce it to 17% from 1 April 2020, from the previous rate of 18% under Finance Bill 2015 (No.2). Deferred taxes at the balance sheet date have been measured using these latest substantively enacted tax rates and reflected in these financial statements.

22. Provisions

	Reorganisation provisions		Onerous lease provisions		Total provisions	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Group						
At 1 January	**1.0**	–	**0.1**	0.3	**1.1**	0.3
Provided during the year	**–**	1.7	**–**	–	**–**	1.7
Written off during the year	**–**	–	**(0.1)**	–	**(0.1)**	–
Utilised during the year	**(1.0)**	(0.7)	**–**	(0.2)	**(1.0)**	(0.9)
At 31 December	**–**	1.0	**–**	0.1	**–**	1.1

The Company had no provisions at 31 December 2019 (2018: £nil).

23. Ordinary shares and share premium

	Number of shares (thousands)	Ordinary shares £m	Share premium £m	Total £m
Group and Company				
At 1 January 2018	39,367	19.7	101.9	121.6
Shares bought back on-market and cancelled	(175)	(0.1)	–	(0.1)
At 1 January 2019	39,192	19.6	101.9	121.5
Sharesave exercise	–	–	0.1	0.1
At 31 December 2019	**39,192**	**19.6**	**102.0**	**121.6**

The total authorised number of ordinary shares is 63 million shares (2018: 63 million shares) with a par value of £0.50 per share (2018: £0.50 per share). All issued shares are fully paid.

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

Cash generated by operations

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Operating profit/(loss)	**22.6**	9.0	**1.4**	(1.7)
Adjustments for:				
Depreciation and amortisation (note 6)	**4.8**	2.4	**–**	–
Share based payments	**0.3**	0.3	**0.3**	0.3
Sale of investment – exceptional	**(2.0)**	–	**(2.0)**	–
Acquisition costs – exceptional	**0.1**	–	**–**	–
Write off development costs – exceptional	**1.9**	–	**–**	–
Reorganisation – exceptional	**–**	8.7	**–**	–
Sale of STV 2 – exceptional	**–**	0.8	**–**	–
GMP – exceptional	**–**	1.6	**–**	1.1
Adjusted EBITDA	**27.7**	22.8	**(0.3)**	(0.3)
(Increase)/decrease in inventories	**(0.7)**	0.7	**–**	–
Decrease in trade and other receivables (excluding ELM)	**1.5**	2.2	**–**	0.1
(Decrease)/increase in trade and other payables (excluding ELM)	**(1.1)**	3.1	**(0.2)**	0.2
Increase in ELM trade and other receivables	**(1.3)**	(2.6)	**–**	–
Decrease in ELM trade and other payables	**(0.5)**	(0.1)	**–**	–
Increase in intra group balances	**–**	–	**13.3**	14.8
Cash generated by operations	**25.6**	26.1	**12.8**	14.8

Non-cash investing and financing activities
Right-of-use assets of £0.3m were acquired during the year.

Net debt reconciliation

	At 31 December 2018 £m	On adoption of IFRS 16 £m	At 1 January 2019 £m	Cash flows (i) £m	Non-cash changes (ii) £m	**At 31 December 2019 £m**
Long-term borrowings	(42.6)	–	(42.6)	(1.0)	(0.1)	**(43.7)**
Cash and cash equivalents	6.3	–	6.3	(0.1)	–	**6.2**
Net debt	(36.3)	–	(36.3)	(1.1)	(0.1)	**(37.5)**
Lease liabilities	–	(13.7)	(13.7)	1.9	(0.6)	**(12.4)**
Net debt including lease liabilities	(36.3)	(13.7)	(50.0)	0.8	(0.7)	**(49.9)**

(i) Cash flows includes an amount of cash acquired on acquisition of subsidiary.

(ii) Non-cash changes for long-term borrowings relates to the amortisation of borrowing costs and for lease liabilities, the acquisition of right-of-use assets.

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25. Non-cancellable operating leases

The Group leases various buildings and vehicles under non-cancellable operating leases.

From 1 January 2019, the Group has recognised right-of-use assets for leases, except short-term and low value leases (see note 14 for more information).

Commitments for minimum lease payments in relation to non-cancellable operating leases, for leasehold buildings, were as follows at the end of 2018:

	2019 £m	2018 £m
Within one year	–	1.7
Between two and five years	–	8.0
After five years	–	4.1
	–	13.8

26. 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 charge for the year was £1.3m (2018: £1.5m).

Defined benefit schemes

The Group operates two defined benefit pension schemes, the benefits of which are related to service and final salary. The schemes are trustee administered and the schemes' assets are held independently from those of the Group. 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. Both are closed schemes and accounted for under the projected unit method.

The net deficit of the schemes is recognised in the consolidated and Company balance sheets and presented within non-current liabilities, as follows:

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Defined benefit scheme obligations	(445.9)	(421.9)	(186.7)	(180.3)
Defined benefit scheme assets	381.9	343.4	154.6	139.8
Net pension deficit	(64.0)	(78.5)	(32.1)	(40.5)

A related, offsetting deferred tax asset for the Group of £10.9m (2018: £13.2m) and the Company of £5.5m (2018: £6.7m) is included within non-current assets. Therefore, the pension scheme deficit net of deferred tax for the Group was £53.1m at 31 December 2019 (2018: £65.3m) and the Company was £26.6m (2018: £33.8m).

Assumptions used to estimate the scheme obligations

The significant actuarial assumptions used for accounting purposes reflect prevailing market conditions in the UK and are as follows:

	Group and Company	
	2019 %	2018 %
Rate of increase in salaries	nil	nil
Rate of increase of pensions in payment	3.00	3.30
Discount rate	2.00	2.75
Rate of price inflation (RPI)	3.00	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).

	Group		Company	
	2019 Years	2018 Years	**2019 Years**	2018 Years
Retiring at balance sheet date:				
Male	**19.3**	19.4	**18.9**	19.1
Female	**21.5**	21.6	**21.2**	21.3
Retiring in 25 years:				
Male	**21.2**	21.4	**20.7**	20.8
Female	**23.1**	23.1	**23.3**	23.3

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%	Increase/decrease by 3%
Rate of price inflation (RPI)	Increase/decrease by 0.25%	Increase/decrease by 2%
Rate of mortality	Decrease by 1 year	Decrease by 5%
Company		
Discount rate	Increase/decrease by 0.25%	Increase/decrease 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 5%

These sensitivities have been calculated to show the movement in the defined benefit obligations in isolation, and assuming no other changes in market conditions at the balance sheet date.

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

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Fair value of scheme assets at 1 January	**343.4**	369.4	**139.8**	151.6
Interest income	**9.3**	9.3	**3.8**	3.8
Return on plan assets excluding interest income	**39.1**	(22.5)	**15.3**	(9.0)
Contributions from the employer	**11.6**	10.0	**5.2**	4.5
Administrative expenses paid from plan assets	**(1.6)**	(2.7)	**(0.5)**	(1.7)
Benefits paid from plan	**(19.9)**	(20.1)	**(9.0)**	(9.4)
Fair value of scheme assets at 31 December	**381.9**	343.4	**154.6**	139.8

In addition to the assets shown above, one of the schemes also holds insurance policies that pay an income into the scheme. As at the most recent funding valuation of the scheme as at 31 December 2017, these insurance policy assets, and the scheme liabilities they cover, were both valued at £37.0m.

At 31 December 2019, the 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:

	At 31 December 2019			At 31 December 2018		
Group	**Quoted £m**	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Investment funds	**66.2**	**115.3**	**181.5**	36.1	110.4	146.5
Debt instruments	**193.6**	**–**	**193.6**	184.0	–	184.0
Cash and cash equivalents	**5.1**	**–**	**5.1**	13.1	–	13.1
Derivatives	**–**	**1.7**	**1.7**	–	(0.2)	(0.2)
	264.9	**117.0**	**381.9**	233.2	110.2	343.4

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

26. Retirement benefit schemes continued

Company	At 31 December 2019 Quoted £m	At 31 December 2019 Unquoted £m	At 31 December 2019 Total £m	At 31 December 2018 Quoted £m	At 31 December 2018 Unquoted £m	At 31 December 2018 Total £m
Investment funds	**26.6**	**46.9**	**73.5**	14.8	45.2	60.0
Debt instruments	**78.3**	**–**	**78.3**	75.1	–	75.1
Cash and cash equivalents	**2.1**	**–**	**2.1**	5.0	–	5.0
Derivatives	**–**	**0.7**	**0.7**	–	(0.3)	(0.3)
	107.0	**47.6**	**154.6**	94.9	44.9	139.8

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

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Defined benefit obligation at 1 January	**421.9**	440.0	**180.3**	182.2
Past service cost – GMP equalisation	**–**	1.6	**–**	1.1
Interest cost	**11.3**	11.0	**4.8**	4.5
Remeasurement losses/(gains)	**32.6**	(10.6)	**10.6**	1.9
Benefits paid from plan	**(19.9)**	(20.1)	**(9.0)**	(9.4)
Defined benefit obligation at 31 December	**445.9**	421.9	**186.7**	180.3

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

	2019 £m	2018 £m
Amount charged to net operating expenses:		
Administration expenses	**(1.6)**	(1.8)
Past service cost – GMP equalisation (exceptional item)	**–**	(1.6)
	(1.6)	(3.4)
Amount charged to finance costs:		
Net interest expense	**(2.0)**	(1.8)
Total charged in the consolidated income statement	**(3.6)**	(5.2)

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

	2019 £m	2018 £m
Return on plan assets excluding interest income	**39.1**	(22.5)
Actuarial gains/(losses) on liabilities arising from change in:		
– demographic assumptions	**3.0**	(19.0)
– financial assumptions	**(36.7)**	8.1
– experience adjustments	**0.8**	20.1
Total recognised in the consolidated statement of comprehensive income	**6.2**	(13.3)

Funding arrangements
Contribution rates to the scheme are determined by a qualified independent actuary on the basis of a triennial valuation using the projected unit method. The most recent triennial valuation was carried out as at 31 December 2017. This valuation resulted in a deficit of £127.0m on a pre tax basis at 28 February 2019 compared to £130.0m on a pre tax basis at the previous settlement date of 30 November 2016. The next triennial valuation will take place as at 31 December 2020.

Following the valuation, a 12 year recovery plan was agreed with the first annual contributions of £9.0m in line with the existing recovery plan. Annual contributions will increase at the rate of 2% per annum over the term of the plan, the first such increase being on 1 January 2020. 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 2020 are £10.5m which reflects the deficit funding payments described above.

The weighted average duration of the Plan's defined benefit obligation is approximately 14 years.

27. 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. That plan matured at the end of 2015 and the remaining outstanding shares were exercised in 2019.

Total share-based compensation costs were £0.3m (2018: £0.3m).

i) Long-term incentive plans
The Group has a long-term incentive plan for executive directors and other senior executives. Awards are normally granted 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 what they consider to be aligned with the delivery of strategy and creation of 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 an appropriate option pricing model.

The assumptions used for the 2019 LTIP valuation are:

	%
Risk-free interest rate	0.65
Expected dividend yield	4.87
Expected share price volatility	35.23

Awards granted 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 £	2019 Number	2018 Number
2013 VCP	1.00	–	376,735
2014 LTIP	3.40	1,873	1,873
2015 LTIP	4.25	1,607	1,607
2016 LTIP	3.67	4,689	306,395
2017 LTIP	3.65	247,765	264,647
2018 LTIP	3.23	348,025	348,025
2018 LTIP – Chief Executive	3.10	210,662	210,662
2019 LTIP	3.55	417,461	–

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 quotion 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 £3.31 to £3.60. At 31 December 2019 there were 309,239 (2018: 428,886) options outstanding under the plans. The employee share plans are valued using the Black and Scholes model.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

28. Financial risk management

Capital management

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

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

The Group monitors capital on the basis of the gearing ratio. 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 2019 and 2018 were as follows:

	2019 £m	2018 £m
Total borrowings (note 20)	**43.7**	42.6
Cash and cash equivalents	**(6.2)**	(6.3)
Net debt	**37.5**	36.3
Total equity	**(47.3)**	(59.1)
Total capital	**(9.8)**	(22.8)
	(383%)	(159%)

Covenants

The Group is subject to two financial covenants in respect of its committed borrowing facilities. 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 24) 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 with a principal value of £15.0m (2018: £15.0m) were entered into on 9 July 2018 and mature on 9 July 2020. Fair value is based on the market price of these instruments at the balance sheet date. In accordance with IFRS 13, 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 2019 the Group had no forward foreign currency contracts in place (2018: £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 £7.7m (2018: £6.4m) 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 (comprising the undrawn borrowing facility (note 20) and cash and cash equivalents) 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 2019, a movement of 0.25% in interest rates would change the level of interest paid in the year by +/- £0.1m (2018: £0.1m). 0.25% is considered a reasonably possible change.

29. 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:

	2019 £m	2018 £m
Short-term employee benefits*	**1.9**	2.4

* See Directors' Remuneration Report on pages 65 to 68 for details.

Other related party transactions

During the year £2,644 (2018: £3,700) of fee income was received from the Group's investment companies and a balance of £nil owed at 31 December 2019 (2018: £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 £32,116 (2018: £32,758) with an outstanding receivable of £nil at 31 December 2019 (2018: £nil).

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

30. Reconciliation of statutory results to adjusted results

In reporting financial information, the Group presents alternative performance measures (APMs) which are not defined or specified under the requirements of IFRS. The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business.

The Group makes certain adjustments to the statutory profit measures in order to provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis.

Below sets out a reconciliation of the statutory results to the adjusted results:

	2019			2018		
	Profit before tax £m	**Basic EPS pence**	**Diluted EPS pence**	Profit before tax £m	Basic EPS pence	Diluted EPS pence
Post-exceptional	**19.0**	**42.2p**	**40.8p**	1.9	4.2p	4.1p
Add back: exceptionals	**–**	**(0.2p)**	**(0.2p)**	15.3	33.0p	32.4p
Pre-exceptional	**19.0**	**42.0p**	**40.6p**	17.2	37.2p	36.5p
Add back: IAS 19	**2.0**	**4.4p**	**4.3p**	1.8	3.9p	3.8p
Adjusted results	**21.0**	**46.4p**	**44.9p**	19.0	41.1p	40.3p

31. Post balance sheet event

On 8 January 2020, the Group acquired a minority investment in drama producer Two Cities Television for an initial consideration of £1.1m. In addition, convertible loan notes to the value of £0.4m have been issued.

FIVE YEAR SUMMARY

For the year ended 31 December 2019

	2015 £m	2016 £m	2017 £m	2018 £m	**2019 £m**
Results					
Revenue	116.5	120.4	117.0	125.9	**123.8**
Profit from operations before exceptional items	20.3	19.7	19.0	20.1	**22.6**
Profit on ordinary activities before taxation and exceptional items	18.6	18.5	15.5	17.2	**19.0**
Assets					
Non-current assets	22.3	38.4	39.2	40.1	**52.0**
Current assets	55.0	55.6	53.4	43.4	**41.0**
Total assets	77.3	94.0	92.6	83.5	**93.0**
Equity and liabilities					
Current liabilities	18.6	18.1	18.6	21.5	**22.0**
Non-current liabilities	47.8	128.9	112.3	121.1	**118.3**
Equity attributable to the owners	10.9	(53.0)	(38.3)	(59.1)	**(47.1)**
Non-controlling interests	–	–	–	–	**(0.2)**
Total equity and liabilities	77.3	94.0	92.6	83.5	**93.0**
Key statistics					
Earnings per ordinary share – basic	29.8p	32.5p	30.1p	4.2p	**42.2p**
– diluted	29.0p	31.9p	29.6p	4.1p	**40.8p**
Dividends per ordinary share	10.0p	15.0p	17.0p	20.0p	**21.0p**

SHAREHOLDER INFORMATION

Registrars
Link Asset Services
The Registry, 34 Beckenham Road
Beckenham,
Kent BR3 4TU
Tel: 0871 664 0300*
Tel: (overseas) +44 371 664 0300

Email: enquiries@linkgroup.co.uk
Share Portal: www.signalshares.com

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

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

Burness Paull LLP
120 Bothwell Street
Glasgow G2 7JL

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

Stockbrokers
Peel Hunt LLP
Moor House
120 London Wall
London EC2Y 5ET

Panmure Gordon & Co
One New Change
London EC4M 9AF

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

Company registration number
SC203873

Annual Report on internet
The 2019 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:

Kirstin Stevenson
Head of Communications
STV Group plc
Pacific Quay
Glasgow G51 1PQ
Tel: 0141 300 3886
Email: kirstin.stevenson@stv.tv

SHAREHOLDER INFORMATION

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.

Shareholder services

If you have any queries in relation to your shareholding, please contact Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; email: **enquiries@linkgroup.co.uk**; telephone from the UK 0871 664 0300* or from outside of the UK +44 371 664 0300**.

Shareholder portal

You can register online to view your holdings using the Share Portal, a service offered by Link Asset Services at **www.signalshares.com**. The Share Portal is an online service enabling you to quickly and easily access and maintain your shareholding online – reducing the need for paperwork and providing 24 hour access for your convenience. Through the Share Portal you may:

- Cast your proxy vote online
- View your holding balance and get an indicative valuation
- View movements on your holding
- View the dividend payments you have received
- Update your address
- Register and change bank mandate instructions so that dividends can be paid directly to your bank account
- Elect to receive shareholder communications electronically
- Access a wide range of shareholder information including the ability to download shareholder forms

Dividend payment options

UK shareholders: STV normally pays dividends twice each year and we would like to encourage you to elect to have your dividends paid directly into your bank account. This is a more secure method of payment and avoids delays or cheques being lost. You can sign up for this service on the Share Portal **www.signalshares.com**. This will allow you to receive all future dividends direct to your chosen account.

Non-UK shareholders: If you are resident outside the UK you can have any dividends in excess of £10 paid into your bank account directly via Link Asset Services international payments service. Details and terms and conditions may be viewed at **www.ips.linkassetservices.com**

Dividend Reinvestment Plan

STV Group plc operates a Dividend Reinvestment Plan to provide shareholders who are resident in the European Economic Area (EEA) and institutional investors incorporated in the EEA 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 0381** or by emailing shares@linkgroup.co.uk.

Link share dealing services

Link offer a quick and easy share dealing service to buy or sell STV Group plc shares. An online and 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 Tuesday 21 April 2020 at 11 am for the purpose of considering and, if thought fit, passing the resolutions below.

Resolutions 1 to 13 (inclusive) will be proposed as ordinary resolutions and Resolutions 14 to 16 (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 2019 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 60 to 71 of the Annual Report and Accounts for the financial year ended 31 December 2019.

   As required by the Directors' Remuneration Report Regulations 2002, the Company's auditors, PricewaterhouseCoopers LLP, have audited those parts of the Directors' Remuneration Report capable of being audited.
3. To declare a final dividend of 14.7p per ordinary share for the year ended 31 December 2019.

   The Board proposes a final dividend of 14.7p per ordinary share for the year ended 31 December 2019 which, if approved, will be paid on 29 May 2020 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 14 April 2020.

Resolutions 4 to 13

Under the 2018 UK Corporate Governance Code, all Directors are subject to annual re-election and the following resolutions provide you with the opportunity to confirm their appointments.

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

   Lindsay Dixon is standing for election following her appointment as Chief Financial Officer on 21 May 2019. Biographical details of Lindsay Dixon can be found on page 49.
5. To re-elect Baroness Margaret Ford as a Director of the Company.

   Biographical details of Baroness Ford can be found on page 49 and the Board confirms that she meets the independence criteria as set out in Provision 10 of the UK Corporate Governance Code.

   Following formal performance evaluation Baroness Ford's contribution is, and continues to be, important to the Company's long-term sustainable success.
6. To re-elect Simon Pitts as a Director of the Company.

   Biographical details of Simon Pitts can be found on page 49 and following formal performance evaluation Mr Pitts' contribution is, and continues to be, important to the Company's long-term sustainable success.
7. To re-elect Simon Miller as a Director of the Company.

   Biographical details of Simon Miller can be found on page 49 and the Board confirms that he meets the independence criteria as set out in Provision 10 of the UK Corporate Governance Code.

   Following formal performance evaluation Mr Miller's contribution is, and continues to be, important to the Company's long-term sustainable success.
8. To re-elect Anne Marie Cannon as a Director of the Company.

   Biographical details of Anne Marie Cannon can be found on page 49 and the Board confirms that she meets the independence criteria as set out in Provision 10 of the UK Corporate Governance Code.

   Following formal performance evaluation Ms Cannon's contribution is, and continues to be, important to the Company's long-term sustainable success.
9. To re-elect Ian Steele as a Director of the Company.

   Biographical details of Ian Steele can be found on page 49 and the Board confirms that he meets the independence criteria as set out in Provision 10 of the UK Corporate Governance Code.

   Following formal performance evaluation Mr Steele's contribution is, and continues to be, important to the Company's long-term sustainable success.

NOTICE OF ANNUAL GENERAL MEETING

10. To re-elect David Bergg as a Director of the Company.

    Biographical details of David Bergg can be found on page 49 and the Board confirms that he meets the independence criteria as set out in Provision 10 of the UK Corporate Governance Code.

    Following formal performance evaluation Mr Bergg's contribution is, and continues to be, important to the Company's long-term sustainable success.

11. 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.

12. To authorise the Audit & Risk Committee to fix the remuneration of the auditors of the Company.

13. 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 £6,532,022; and
    (b) up to an aggregate nominal amount of £6,532,022 in connection with a rights issue in favour of the ordinary shareholders of the Company where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them in the Company, or in favour of the holders of other equity securities as required by the rights of those securities, subject in both cases to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matters, provided that this authority shall expire on the date of the next Annual General Meeting of the Company after the passing of the resolution, but so that the Directors may at any time prior to such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if the authority conferred by this resolution had not expired; and all unexercised authorities previously granted to the Directors to allot equity securities are revoked.

    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 (13,064,045 being shares representing one third of the ordinary issued share capital of the Company as at 9 March 2020, 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 (13,064,045 being shares representing one third of the ordinary issued share capital of the Company as at 9 March 2020, 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 2021. 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

14. That subject to the passing of Resolution 13, 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 13 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 13 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 £979,803,

    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 1,959,606 ordinary shares, representing 5% of the ordinary issued share capital of the Company as at 9 March 2020.

    It also allows the Directors to allot shares up to a nominal amount of £13,064,045 (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 £6,532,022 (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 2021. 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.

15. 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 3,919,213 Shares, the aggregate nominal value of which is £1,959,606;
    (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.

    This resolution seeks the authority of shareholders to allow the Company to purchase its own shares. The authority sought extends to 3,919,213 Shares, representing 10% of the ordinary share capital of the Company in issue as at 9 March 2020. 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 Directors are of the opinion that it would be advantageous for the Company to be in a position to purchase its own shares should such action be deemed appropriate by the Board. The Directors have no present intention of exercising the authority to purchase the Company's ordinary shares but will keep the matter under review, taking into account the financial resources of the Company, the Company's share price and future funding opportunities. The authority will be exercised only if the Directors believe that to do so would result in an increase in earnings per share and would be in the interests of shareholders generally. Other investment opportunities, gearing levels and the overall position of the Company will be taken into account in reaching such a decision.

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

    As at 9 March 2020 there were 39,192,137 ordinary shares of 50p each in issue, each with one vote and no shares are held in treasury.

    As at 9 March 2020 warrants and options to subscribe for 1,103,219 ordinary shares in the capital of the Company were outstanding, representing 2.81% of the Company's issued ordinary share capital as at 9 March 2020 (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 3.13% of the issued ordinary share capital of the Company (excluding treasury shares held by the Company).

16. 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
9 March 2020

NOTICE OF ANNUAL GENERAL MEETING

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.
4. To appoint a proxy and give proxy instructions please visit www.signalshares.com. You will require your investor code which can be found on your share certificate or obtained from our Registrar, Link Asset Services. To request a paper proxy form please contact Link on 0871 664 0300 or at enquiries@linkgroup.co.uk (calls cost 12p per minute plus your phone company's access charge. Calls from 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).
5. To be valid the appointment of a proxy must be received online, by post or by hand (during normal business hours only) at Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF no later than 11.00am on 19 April 2020 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 by 6pm on 19 April 2020 (or, in the event of any adjournment, by 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 9 March 2020 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 39,192,137 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 9 March 2020 are 39,192,137.
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 (ID RA10) by 11.00am on 19 April 2020 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 from 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 21 April 2020 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.

    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.

NOTICE OF ANNUAL GENERAL 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 or
    - in any related document (including the Chairman's letter and proxy form)

    to communicate with the Company for any purposes other than those expressly stated.

23. At the 2019 Annual General Meeting, a minority of shareholders opposed resolution 2 which dealt with approval of the Directors' Remuneration Report. Of the votes cast, 70.46% of shareholders voted in favour of this resolution, and in accordance with guidelines a letter was sent to the Investment Association for inclusion in its Public Register.

    Following the vote, the Company sought to engage with the three major shareholders who had voted against the resolution to understand their concerns. The Chair of the Remuneration Committee, Anne Marie Cannon, met with two of these shareholders, and one common theme that emerged was the level of disclosure for the personal element of the executives' annual bonus. Despite ongoing and pro-active efforts to engage, one of the major shareholders who voted against the Report has provided no response or feedback.

    Regarding the stretch of the 2018 bonus targets, the Remuneration Committee remains unanimous in its opinion that bonus targets were appropriately stretching. 2018 was a unique year of significant and transformative change across the business, initiated by the appointment of a new Chief Executive, and the targets were set in this context.

    However, the Board fully respects the views of its shareholders and welcomes the engagement and feedback it has received. It is aware of the continued focus from many stakeholders on the area of executive remuneration and remains dedicated to ongoing engagement with shareholders on this matter. As a result, there is increased disclosure of the personal element of the annual bonus in this year's Directors' Remuneration Report.

Designed and produced by Thunderbolt Projects

£21m
raised so far

1,344
projects supported

95,000
children and young people helped

100%
of Scotland's local authorities reached

To get involved with the 2020 Appeal visit
www.stv.tv/appeal

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Company Registration Number SC203873