BUILDING A STRONG FOUNDATION FOR GROWTH

Annual Report and Accounts 2018

Contents

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

2018 financial and operational highlights

TURNOVER
(£ millions)

£125.9m (+8%)

2017: £117.0m

OPERATING PROFIT*
(£ millions)

£20.1m (+6%)

2017: £19.0m

TOTAL ADVERTISING REVENUE
(£ millions)

£97.4m (+4%)

2017: £93.5m

NON-BROADCAST PROFIT
(£ millions)

£4.8m (+30%)

2017: £3.7m

EPS*
(pence)

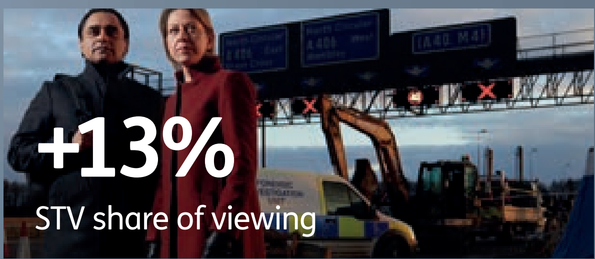
41.1p (+4%)

2017: 39.6p

DIVIDENDS PER SHARE
(pence)

20.0p (+18%)

2017: 17.0p



* Pre-exceptional and IAS19, see note 31.

Dancing on Ice was one of the best watched programmes on STV in 2018 reaching 2.1 million viewers.

Who we are and what we do

We are Scotland's home of news and entertainment

STV is our main TV channel, accessible free-to-air on all the main TV platforms in Scotland.

22.1%

STV delivered its best share of viewing performance in a decade in 2018 with a peak time viewing share of 22.1%. This was up 13% on the year before, the highest increase of any TV channel in the UK.

stv.tv

Our website, providing a portal to all of our content such as News, Sport, Entertainment, Weather, Competitions, Video on Demand and STV programme information with TV listings.

28.2 million

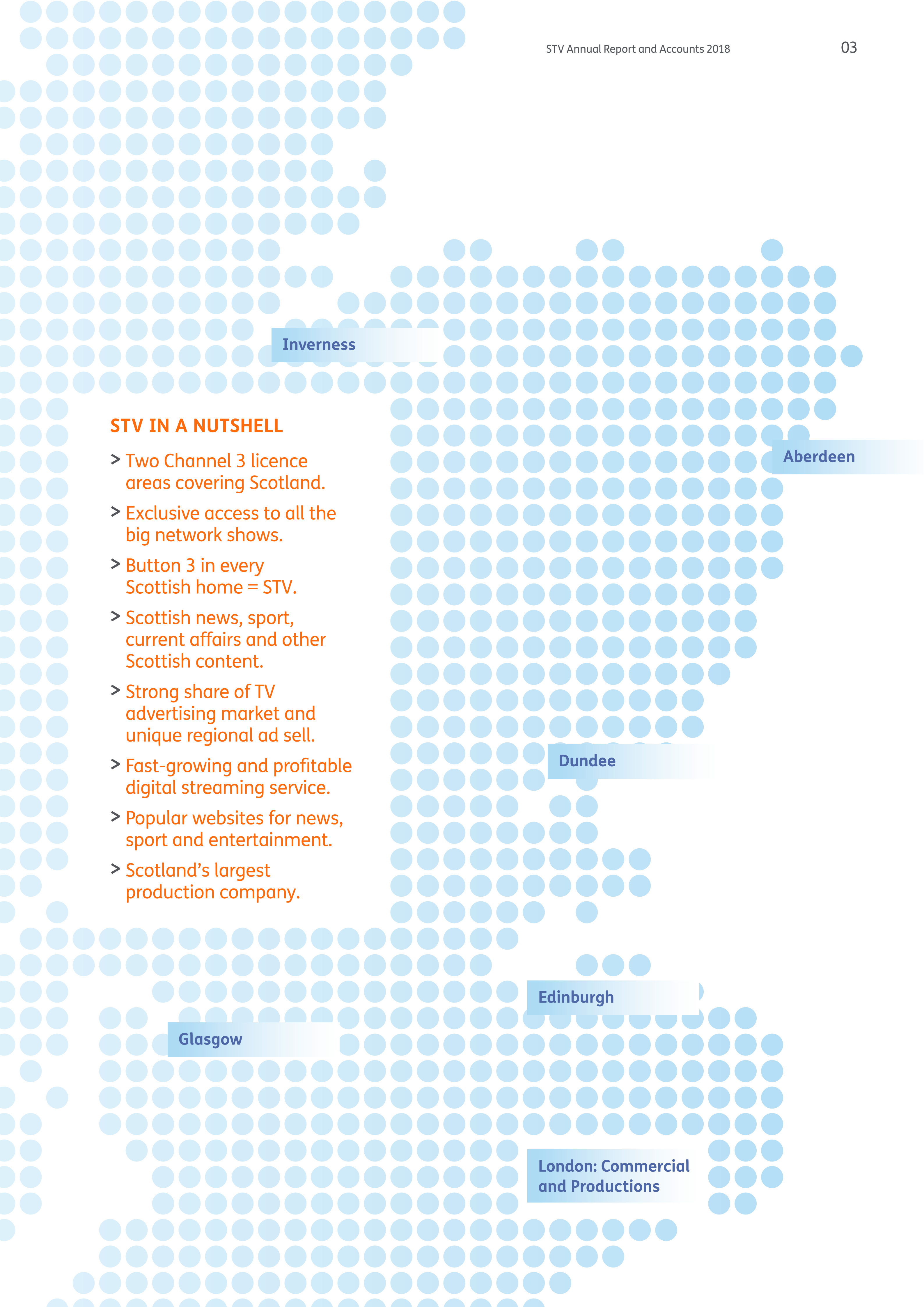
Average monthly page views increased by 40% in 2018.

STV Player

Our online Video on Demand service, accessible through the STV website as well as being available on a variety of smartphones, tablets, consoles, set top boxes and Smart TVs.

35 million

During 2018 there were 35 million long form streams on the Player, 24% up on 2017.



STV IN A NUTSHELL

> Two Channel 3 licence areas covering Scotland.

> Exclusive access to all the big network shows.

> Button 3 in every Scottish home = STV.

> Scottish news, sport, current affairs and other Scottish content.

> Strong share of TV advertising market and unique regional ad sell.

> Fast-growing and profitable digital streaming service.

> Popular websites for news, sport and entertainment.

> Scotland's largest production company.

Chairman's statement

Baroness Margaret Ford OBE
Chairman

2018 was a year of significant change for STV starting with the arrival in January of Simon Pitts who took the helm as Chief Executive Officer. Following a thorough review, the new three year strategy was announced in May, which the Board fully endorsed and its implementation began immediately.

Our people

Our staff are integral to the delivery of the new strategy and the Board is acutely aware that the success of an organisation is dependent upon the people and talent within it. STV is fortunate to have so many committed staff whose contributions and drive are key to STV's achievements. On behalf of the Board, I would like to thank all colleagues across the business for their commitment, patience and hard work throughout this time.

We are delighted that many career opportunities have been created in 2018 with over 100 STV people in new roles. Over 75 staff members have been internally promoted and the staff development process is being refocused and refreshed. I would like to thank those employees who left STV for their significant contribution.

News is fundamental to STV and during the year we launched a comprehensive change programme that invests in training, digital and technology to ensure that STV News remains the most comprehensive, most popular and most trusted news service in Scotland.

Driving the Scottish economy

We created the *STV Growth Fund* in which we are investing £5m of airtime to support Scottish businesses and grow future advertising budgets. Our commitment to driving economic growth in Scotland was further strengthened when we joined forces with Entrepreneurial Scotland to launch *Summit*, celebrating a host of Scottish entrepreneurs and also with the *STV Growth Academy* which is designed to help small and medium sized businesses.

Support for the STV Children's Appeal continues to grow in communities up and down the country with schools, local businesses and individuals giving their time and commitment to this hugely important cause raising £2.6m in 2018. Together with the Scottish Children's Lottery, a total of £4.7m was raised for charitable causes, nearly 15% more than last year.

Looking forward

In summary, 2018 has been a year of progress for the business and we are executing a growth strategy that we believe will build momentum and enable us to deliver strong shareholder returns. The success of STV relies on a strong Board made up of a diverse range of experience, skills and perspectives. We were delighted to appoint David Bergg as a Non-Executive Director in May who brings his extensive knowledge of commercial broadcasting. With a strong and focused CEO, the Board feels it is well positioned to support the development of the Company's culture and strategy.

I would like to thank my Board colleagues for their valuable support and wise counsel during 2018 and we look forward to supporting Simon and the Management Team in the coming year. Together we will continue to maintain a strong and effective governance structure to enable the business to deliver its strategy, generate shareholder value and safeguard our shareholders' long-term interests.

On behalf of the Board, I would like to warmly welcome Lindsay Dixon who joins as Chief Financial Officer in May following the resignation of George Watt. George is leaving after over 20 years with STV to pursue a non-executive career and his fellow Directors thank him for his outstanding contribution to the success of STV and wish him every success in the future.

Thank you for your continued support.

STV is a cash generative group with clear strategic priorities that focus the organisation on growth.

Royal Television Society Awards
Ben Philip, based in Aberdeen, took home the award for Young Journalist presented in memory of George Sinclair.

Ben has been part of the STV News team for just over a year, taking on the role of both presenter and reporter on a daily basis at STV.

Scotland Tonight
The leading Scottish current affairs programme.

Scottish Children's Lottery
Raised £3m since launch to support children and young people's charities.

STV Appeal
Now in its eighth year, having raised over £19m.

Celebrity Antiques Road Trip
Long running ratings success for BBC Two consistently achieving 2 million viewers.

STV Growth Academy
Established to provide SMEs with business insight.

STV 2020 – introducing our vision and strategy for long term growth

Simon Pitts
Chief Executive Officer

STV is a company full of talented and committed people with a strong brand and a privileged place in the lives of Scottish TV viewers. We're the home of some of the biggest, most popular shows on television but we also have a clear public purpose.

Our challenge is to build on these strengths while recognising that viewing habits are constantly changing and that we need to change too to stay relevant. The ambitious growth strategy we set out in May is rooted in the many conversations I had with colleagues, stakeholders and viewers inside and outside STV when I joined the business. It is designed to make the best of STV's great potential – to simplify the way we operate, to invest in the most exciting areas of growth, and to re-establish STV as an independent creative force in Scotland and beyond.

Our comprehensive three-year strategy for creative and digital success is now well underway and is already delivering tangible results. We have committed to investing £15m in original content, news and digital to put the business on a path to long term, sustainable growth. The strategy is fully costed and self-funded and does not come at the expense of our progressive dividend policy.

We have attracted fantastic new talent to the Management Team and this team is now fully in place. I'm delighted that we've also managed to make a large number of internal promotions across the business, recognising the strong talent already working at STV.

Strong foundations for growth

We've made good early progress in delivering our plan, including agreeing important new commercial deals across Broadcast, Digital and Production that set us up for the future. I'm also delighted that all parts of the business are now growing.

There is a huge amount to do but we have a strong foundation on which to drive further growth:

- TV viewing remains resilient, particularly in Scotland where people watch an average of 24 minutes more television a day than anywhere else in the UK;
- At STV we have the most powerful marketing shop window in Scotland which we can use to build both new programme brands and advertiser brands;
- STV Productions is very well placed to benefit from the growing demand for quality content from the nations and regions from broadcasters striving to reflect the diversity of Britain;
- And STV's Digital business, already profitable, is poised for continued growth as on demand viewing goes mainstream and STV's core audience catches up with the early adopters.

We have developed a clear vision for the kind of business STV needs to be in order to be relevant and successful in 2020.

STV DIVISIONAL BOARD STRUCTURE

STV's new internal governance structure, with three new clearly defined and accountable divisional boards.

PLC BOARD

MANAGEMENT BOARD

- Chaired by CEO
- Meets weekly
- Development and implementation of strategy
- Group-wide decision making
- Prioritisation of resources
- Risk management

BROADCAST BOARD | **DIGITAL BOARD** | **PRODUCTION BOARD**

- Chaired by divisional MDs
- Meets monthly
- Attendees CEO, CFO plus senior divisional execs
- Drives performance and change
- Approves operational expenditure
- Upwards approval to Management Board where appropriate

Three clear strategic objectives
To deliver our vision we are pursuing three strategic objectives:

- Firstly, maximising the value of STV's broadcast business by delivering high quality, cost effective news and entertainment;
- Secondly, driving digital growth through the STV Player by creating an STV for everyone; and
- Thirdly, building STV Productions into a world class production business.

We are focusing the team on the things that matter – making the best of our unique broadcast platform, driving digital growth, and owning more valuable IP.

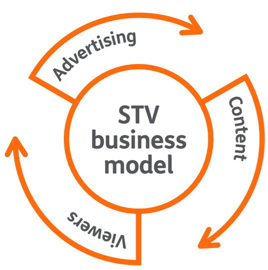
To do this we've created three divisions – Broadcast, Digital and Production – to simplify the business and mirror our three strategic objectives, each with its own Managing Director, P&L and KPIs, and we have established clear priorities for each. These are explained in more detail below. We have a fourth division – STV ELM – and more detailed information on this can be found on page 33.

Read on for more detail on how each of our new divisions will fulfil our strategic ambitions for 2020.

Key Performance Indicators (KPIs)
The company has one public KPI which is to achieve a third of total operating profit from non-broadcast activities by 2020. In 2018, non-broadcasting profits accounted for 24% of total operating profit, up from 19% in 2017.

STV BUSINESS MODEL

Broadcast and Digital deliver unique, high quality content to attract mass audiences which is sold to advertisers to generate revenues.
This content is delivered across multiple platforms. Productions creates and produces high quality content for broadcast networks in the UK and overseas.
Profit is made on initial sale and on the exploitation of back end rights in the UK secondary and overseas markets.



OUR VISION FOR 2020

Our vision begins with attracting and retaining the best creative talent to work with STV and ends with great shows being made for STV and other broadcasters which are made available wherever and whenever viewers want to watch.

OUR DIVISIONAL STRATEGIC OBJECTIVES

BROADCAST
Maximise the value of our broadcast business by delivering high quality, cost-effective news and entertainment.

SEE PAGE 08

DIGITAL
Drive digital growth by creating an 'STV for everyone.'

SEE PAGE 14

PRODUCTION
Build a world class production business.

SEE PAGE 20

ELM
Grow Scottish Children's Lottery sales, generate more money for good causes and pay down debt.

SEE PAGE 33

Operating review – Broadcast

BROADCAST

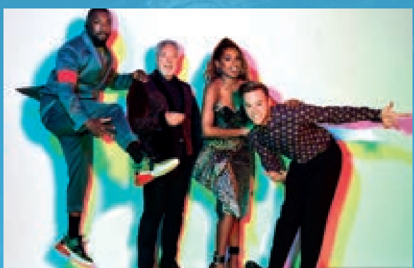
STRATEGIC OBJECTIVE #1:

to maximise the value of our broadcast business by delivering high quality, cost-effective news and entertainment

KEY PRIORITIES

- Invest to create a distinctive, cost effective, future-facing news organisation
- Develop a wider range of new content for our main channel and STV Player
- Make the most of our unique Channel 3 marketing shop window
- Maximise our share of the advertising market
- Work in partnership with the TV platforms to drive more value

I'm a Celebrity... Get Me Out of Here was the most successful series in the show's 17 year history.



The Voice UK achieved a share of 28% and a series reach of 1.2 million.

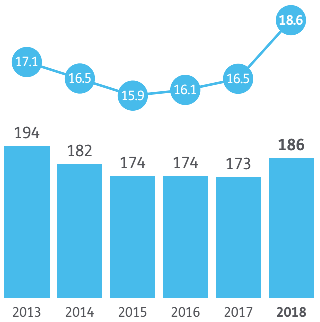
The Chase is the best watched daytime show in Scotland.

STV News at Six is now the best watched news programme in Scotland.

Operating review – Broadcast

KEY HIGHLIGHTS

On screen STV had a terrific year in 2018, achieving its highest viewing share in a decade. At a time when commentators regularly speculate about Netflix, Amazon and YouTube eating into TV viewing, STV posted the highest viewing share growth of any UK channel – and there are over 500 other channels.



Source: BARB 2009-2018, share and avg aud, figures incl. HD & +1, 09:00-24:00

+13%
STV all-time viewing share

+8%
STV all-time viewing volume

STV was the only broadcaster in the UK to increase both share and volume of viewing across every age group in 2018. Volume is a crucial measure as it describes the total amount of viewing to STV in terms of average audiences and minutes watched, and this went up last year by 8% to record the highest viewing volume on STV in five years. This was the case for virtually every demographic including 16-34s.

It wasn't just the World Cup or *I'm a Celebrity* where the gains were made. We actually improved our viewing share in 49 out of 52 weeks in 2018, posting share gains across all day parts and beating the rest of the ITV Network by a whole share point or 5%. I'm happy to say that 2019 also started strongly, with our viewing share up again on last year, driven by big dramas like *Manhunt* and *Vera* as well as *Dancing on Ice* and *The Chase*.

Translating on-screen success into commercial success

A strong viewing performance is the key to maintaining our commercial success. In audience terms we are nearly four times bigger than our nearest commercial competitor, C4, and over five times bigger than Channel 5, and in 2018 this meant that we delivered 99% of all commercial audiences over 500,000 in Scotland, with Channel 4's *The Great British Bake Off* final the only exception. This is, in a nutshell, our USP with advertisers. We're the only broadcaster to consistently deliver mass audiences and genuine must-watch TV, day in, day out.

Our entertainment show *I'm a Celebrity... Get Me Out of Here* is a great example. Amazingly, 18 series in, the last series was its best ever. It won its slot every night of its 22-night run, with audience figures up 34% and young audiences up a massive 73%. And online it was a juggernaut, propelling STV Player to its biggest revenue month ever in November.

Bobby Hain
Managing Director, Broadcast

Managing Director Bobby Hain has vast experience across editorial, commercial and marketing areas in multiple media both in Scotland and the wider UK and has been a senior executive within STV since 2000.

Bobby is responsible for STV's broadcast business as well as the key relationships with ITV, Ofcom and the major television platforms.

DRIVING THE SCOTTISH ECONOMY

STV's unique marketing platform reaches 87% of Scots every month and we want to use this to boost Scottish business.

STV Growth Fund

The STV Growth Fund launched in May and has got off to a very promising start. Television advertising is the most effective way of building a business and the aim of the fund is to make TV more accessible and affordable to SMEs and entrepreneurs earlier in their business journey.

The Growth Fund has already partnered with over 100 businesses from right across Scotland, allocating over £3m of TV airtime so far. The commercial aim of the Fund is to maximise STV's share of the local advertising market, in particular by attracting new businesses to TV for the first time. So far over half the deals are with clients new to TV, with the remainder lapsed advertisers coming back to TV or existing clients increasing their spend with us.

Following the Fund's early success we have decided to scale it up further to attract an even greater range of businesses to television. We have now announced that we will be doubling the size of the Growth Fund to £10m of airtime which we will look to allocate over the next two years or so, focusing on three types of commercial deal.

- Firstly, free airtime to entrepreneurs and start-ups that we hope will be the successful businesses of tomorrow.
- Secondly, matched funding to a whole range of small and medium sized enterprises where an advertiser commits to a certain amount of spend with us and we double the size of their campaign.
- And thirdly, deals where STV invests airtime not for an immediate return but for a share of future revenues or an equity share of the business.

STV supporting Scottish entrepreneurs

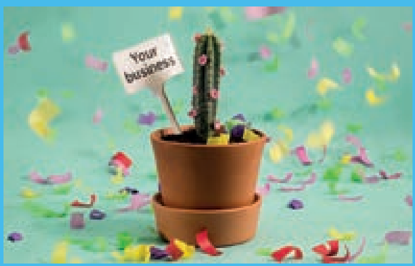
During 2018, STV and Entrepreneurial Scotland joined forces to launch *Summit – Celebrating Scottish Entrepreneurship.* The campaign called on innovators, visionaries and game-changers – no matter what stage they were at in their journey – to come forward and take part, with entries welcomed from anyone showing an entrepreneurial mindset to grow a business or organisation, address a challenge or seize an opportunity.

Summit was an opportunity to connect entrepreneurs with the unrivalled reach STV has with consumers across Scotland and STV was keen to help entrepreneurs increase awareness of their organisations in order to support their ongoing growth and scale-up, as well as inspiring the next generation of entrepreneurs to take that next step and start up. Highlighting these Scottish entrepreneurial stories showcased and shone a light on the innovations and achievements across the country and recognised that the thriving entrepreneurial community was core to a real, sustainable positive impact on our country's economy and broader society.

STV created an extensive on-screen awareness campaign, focusing on established and up-and-coming entrepreneurs from a range of backgrounds and sectors – people and their teams who not only created jobs and value for the economy, but also breathed life into solutions to the biggest challenges and could shape the future we want to live in. The on-screen stories brought to life their passion, innovation, struggles, resilience, determination and warmth, and were seen by millions of Scots across the campaign.

The 2018 Summit Entrepreneurship Awards featured various categories recognising the increasing scope and diversity of entrepreneurship within Scotland and awards were made at a glitzy ceremony in Glasgow in November. Winners included Derek Pierce of J&D Pierce Contracts for *Entrepreneur of the Year* and Isla Leslie of Estrela who won *Young Entrepreneur of the Year.*

> 'The STV Growth Fund has given me the chance to take my business on to TV for the first time, when previously I wouldn't have been able to even consider it.'
>
> **John Paul Reilly** JPR Interiors



STV Growth Fund multiplatform marketing campaign reached 77% of Scots.

Celia Hodson, Founder of Hey Girls won Social Entrepreneur of the Year at Summit.

TV campaign for STV Growth Fund member, *Cheeky Chompers.*

I'M A CELEBRITY AUDIENCE STATISTICS

AUDIENCE
974,000
+34% year on year

VIEWING SHARE
45%
Highest ever!

REACH
2.8m
Won its slot every night

AUDIENCE AGE
25–34
+73% year on year

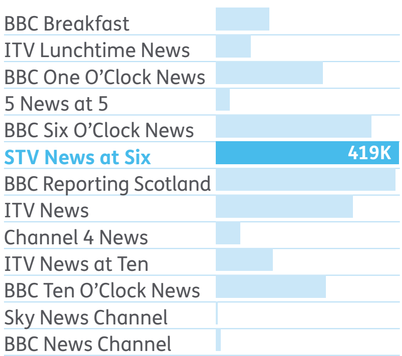
CATCH UP STREAMS
1.2m
+41% year on year

LIVE STREAMS
650,000
+30% year on year

Operating review – Broadcast

STV NEWS AT SIX AUDIENCE SHARE

In September 2018, *STV News at Six* in the Central Belt was relaunched and is now dual presented from Glasgow and Edinburgh.
It is now the best watched news programme in Scotland.



Source: BARB: weekday news audiences since Central Belt show was relaunched from 10/09/2018 – 31/12/2018

AUDIENCE

+7%

year on year

SHARE

30%

+3 percentage points year on year

+10 share points on ITV London

Investing in news

Our news performance has played a crucial part in STV's on-screen success in 2018.

STV's ambitious and extensive change programme has progressed well and a comprehensive training programme has been put in place to create a single, integrated news gathering function across broadcasting and digital platforms, reflecting the fact that news habits have changed faster than virtually any other part of the TV market. Investment of £2 million has been made in the development of journalists and technology to ensure that STV News is in the strongest position to meet the needs of a growing digital audience. The on screen news performance remains very strong despite all the change.

Steven Ladurantaye was appointed Head of News and Current Affairs in November to lead the news organisation and deliver the transformation programme and a newly created Editorial Board ensures the content maintains its high quality and is distinctive and relevant, securing STV's leading position across all platforms. This is chaired by John MacKay who, in addition to being widely recognised by journalists across Scotland as a leader in his profession, embodies the values of STV News.

Several other promotions from within the News team were made during the year, including Linda Grimes who was appointed Editor, Broadcast Output, assuming responsibility for programming across news and current affairs and David Milne who became Editor, Digital Output, responsible for digital, social and syndicated content across all platforms and Nicki McCourt who became Editor of Newsgathering.

Ben Philip, who joined the News team in Aberdeen in 2017 as both presenter and reporter, took home the award for Young Journalist of the Year 2018 at the Royal Television Society Scotland Awards.

On screen, news performance remains very strong and the re-launch of the main 6pm bulletin provides an exciting and innovative new programme for the central belt of Scotland. The reinvigorated *STV News at Six* was launched in September, broadcasting live from Edinburgh and Glasgow with Kelly-Ann Woodland and John MacKay sharing links in a dual-presented section as well as seamlessly anchoring separate sections comprising local stories, features, bulletins and sport. This format is designed to deliver the combined strength of the presenters and the whole team of news journalists bring a fresh, authoritative but friendly approach to this flagship news programme. It now includes more original journalism, live commentary, interaction with viewers and complementary content can be found on STV's social and online platforms.

STV News at Six is now Scotland's best watched news programme, recording its highest viewing share in over 15 years and beating BBC News. Our investment in a new multi-platform news model is starting to pay off: our news audiences were up a total of 7% across the year with an audience share of over 30%, compared to 20% for ITV's London news.

Scots watched an average of 214 minutes of television per adult per day in 2018, 11% higher than the rest of the UK.

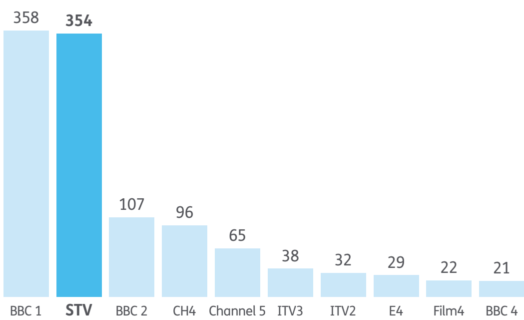
PEAK TIME VIEWING

We are a long way ahead of our nearest commercial competitors.

5x bigger than Channel 5

4x bigger than Channel 4

Source: BARB Jan-Dec 2018, peak time (18:00-22.30), individuals



Operating review – Digital

DIGITAL

STRATEGIC OBJECTIVE #2:

to drive digital growth by creating an ‘STV for everyone’

KEY PRIORITIES

- Place digital front and centre in the organisation
- Upgrade the STV Player to deliver a TV-like experience
- Move to a culture of continuous improvement and personalisation of the digital user experience
- Expand STV Player distribution and access new revenues
- Deliver a significantly improved content proposition

Unforgotten was STV Player's most successful boxset of 2018, generating more than 700,000 views.

Emmerdale – in 2018 there were 13.2 million catch up streams for all soaps on STV.

Marcella series 1-2 boxset generated 449,000 streams on the Player.

Britain's Got Talent achieved a share of 37% and a series reach of 2.5 million.

Operating review – Digital

KEY HIGHLIGHTS

Our new Digital MD Richard Williams has been in post since October 2018 and has hit the ground running. His dedicated digital division is now in place and we're running STV Player like the real business it has become.

DIGITAL REVENUE	DIGITAL PROFITS	DIGITAL PROFIT MARGIN NOW
+17%	+27%	49%

Last year our online streams were up 24% but our users were also watching for longer creating even faster growth in advertising impressions of 29%. And because we're getting better at selling, our online revenue is up 39%.

The key to this growth is our strong exclusive content. The soaps *Coronation Street* and *Emmerdale*, big dramas like *Vera* and *Marcella*, and entertainment favourites like *I'm a Celebrity* all make a big contribution to our online success as well, of course, as the football World Cup.

New partnerships with Virgin and Sky
In September, a valuable four-year strategic partnership was agreed with Virgin under which Virgin will Broadcast STV in HD across all cabled STV regions on EPG slot 103 as well as launch the STV Player app on Virgin Media set top boxes for the very first time. This partnership will create additional value for both businesses and delivers a significantly enhanced viewing experience across STV and the STV Player. Virgin have a 17% market share in Scotland – approximately 400,000 homes – which is its highest anywhere in the UK, so this gives the Player's distribution a sizeable boost.

Richard Williams
Managing Director, Digital

Managing Director Richard Williams is an experienced digital leader having successfully delivered digital strategies at Virgin, Yahoo, the BBC and ITV and started with STV in October 2018.

He most recently ran UKTV's video on demand service and is focused on driving the growth of the STV Player by maximising the digital potential of STV's programming, delivering a seamless viewing experience, increasing the reach of the STV Player and developing a compelling digital content offer.

The STV Player has almost 3 million registered users in Scotland and is one of the fastest growing on demand platforms in the UK.

STV is also the first UK public service broadcaster to go exclusively HD on a major TV platform, which helps to enhance both the viewing experience and advertising sell as previously only one of the three STV regions broadcast by Virgin was available in HD.

Overall, it's a partnership that works for both sides, allowing both to maintain their respective long-held positions on the issue of retransmission fees, but results in tangible incremental value to STV for the long-term.

STV also announced a five-year strategic partnership with Sky in January 2019, which will give Sky customers in Scotland access to STV's regional variants in full HD, as well as to the STV Player on their set top boxes for the first time.

It allows Sky customers in STV's broadcast licence areas to catch up on their favourite STV programmes and classic shows from the STV archives – on Sky Q and Sky+ set top boxes, as well as mobile devices via streaming and offline viewing and will be available in the second half of 2019. As part of the deal, all four STV regions will launch in HD giving all Sky customers across Scotland access to the right regional variant of STV in HD for the first time. The new HD variants are expected to launch in the first half of 2019.

This new partnership enhances an already strong relationship between the two broadcasters, with STV Player already available on Sky's NOW TV. Additionally, the deal will support future functionality.

Universal distribution for the first time

In total that means STV Player is now on nearly 30 platforms and connected TVs and has universal distribution in Scotland for the very first time. The pie chart shows you the consumption split between mobile, PC and TV, which has shifted dramatically towards the TV set in recent years and now stands at 60% of all VoD streams. Most people will watch a show on the biggest screen available to them at the time and with virtually all TVs now connected to the Internet, television's share of VoD will grow and grow over the next few years, to over 75% of all VoD viewing by 2022 according to our forecasts. And that's good news for us, because our market share of VoD is much better on the TV than anywhere else.

1bn

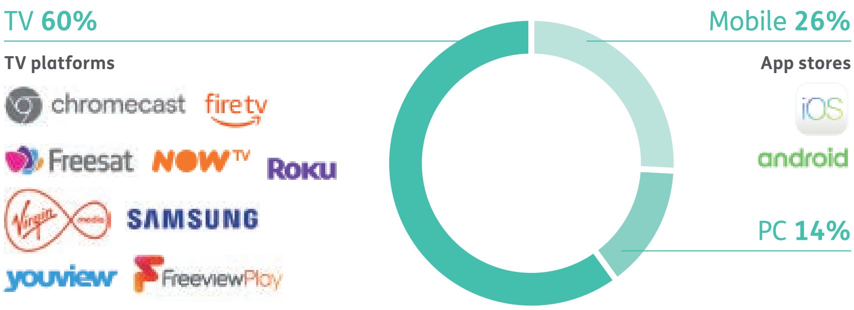
1 billion minutes were spent watching content on the STV Player in 2018

34%

November 2018 saw the highest VoD revenues, up 34% year on year

VIDEO ON DEMAND (VoD) MARKET SHARE BY PLATFORM

STV Player now has universal distribution. By 2022 we expect TV – the platform where STV does best – to account for over 75% of all VoD viewing.



Operating review – Digital

THE WORLD CUP 2018

FIFA World Cup 2018 was the most watched sporting event ever on the STV Player, with nearly 60 million streamed minutes across 2.3 million live streams. The 2018 FIFA World Cup reached an audience of 3.5 million on STV while the streams per match increased to an average of 72,000 in 2018.

WORLD CUP ON TV AND ONLINE

> Viewed by 3.5 million Scots
> Generating 2.3 million live streams on the STV Player
> There were 59.2 million minutes of streams watched on the STV Player
> The best watched match was Croatia v England watched by 1.4 million and a 70% viewing share
> Despite Scotland not qualifying (again!), STV tracked 4 share points up on Network for men across all the World Cup matches

3.5m
Scots viewed 2018 FIFA World Cup

2.3m
live streams on the STV Player

16%
of all live player viewing in 2018

Improving the STV Player content offer
We have steadily increased the number of boxsets available on the platform to meet the changing demands of our audience. 2018's top drama boxset was our drama *Unforgotten* with over 700,000 views which would be the equivalent of 7 million UK-wide.

We have also agreed a range of new content partnerships to bolster our core genres and target new audiences across factual, drama, entertainment, kids and sport. Our partners include Hopster (children's), Little Dot Studios (factual and entertainment), Eleven Sports (football), Flame (documentaries) and Jukin Media (entertainment). These are low risk partnerships as they are based on sharing the advertising revenue generated around the content rather than making upfront payments. During the course of this year we expect to go from around 100 hours of partner content on the Player today to around 400-500 hours, and we see this as an interesting growth opportunity for the Player.

The launch of STV Player+
In February 2019 we successfully launched our new ad-free subscription version of STV Player, called STV Player+. It costs £3.99 per month and allows viewers to watch STV programming without the advertisements, to download their favourite shows for offline viewing, and to watch abroad for the first time. STV has never been in pay TV, so this is a first, and it is gives us a low risk foothold in the very fast-growing subscription VoD market.

STV PLAYER PERFORMANCE

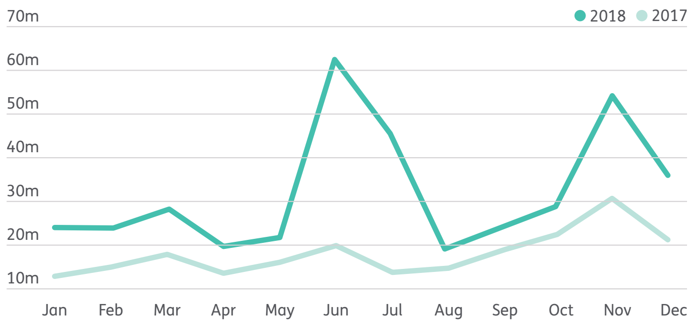
STV Player continues to grow strongly, underpinned by the best exclusive content and a simple business model.

MORE USAGE = MORE INVENTORY = MORE REVENUE

+24%	=	+29%	=	+39%
Online Streams		Ad Impressions		Online Revenue

LIVE STREAM CONTENT TIME SPENT (MINS) 2018 VS. 2017

28% of all streams on STV Player were live.
Total live viewing minutes were up 81% to 370 million.
The 59 million minutes of live World Cup viewing represented 16% of all live Player viewing across 2018.
I'm a Celebrity average live viewing time per stream increased from 18 minutes in 2017 to 26 minutes in 2018.



Source: Adobe Analytics Jan-Dec 2017, Jan-Dec 2018.
STV Database Jan-Dec 2017, Jan-Dec 2018.

28%
of all streams on STV Player were live

▲81%
Total live viewing minutes were up 81% to 370 million

Operating review – Production

PRODUCTION

STRATEGIC OBJECTIVE #3:
to build a world class production business

KEY PRIORITIES

- Focus on high value returning series and the nations and regions growth opportunity
- Use STV channels to pilot and showcase new ideas and formats
- Expand the pipeline by placing more creative bets
- Pursue a partnership strategy to expand internationally

Celebrity Antiques Road Trip – long running ratings success for BBC Two achieving an average 8% viewing share.

Britain's Polar Bear Cub produced for Channel 4.

Catchphrase and ***Celebrity Catchphrase*** produced for ITV.

The Bank That Almost Broke Britain produced for BBC2.

Operating review – Production

KEY HIGHLIGHTS

2018 was a transitional year for STV Productions but we still managed to produce high quality peak time series for BBC, ITV and C4 for the first time and we are very ambitious for the future.

STV PRODUCTIONS DELIVERED

11	7	115
shows	series	hours of television

The market opportunity

In taking charge of STV's production teams in Glasgow and London, David's brief is to turn STV into one of the UK's leading production companies, focusing on the development of returning series for terrestrial and SVoD (subscription video on demand) players across both scripted and unscripted programming, and taking full advantage of the growing demand for quality programming from the nations and regions. He is also establishing new creative production partnerships and working with the team to pilot a range of new programme formats on STV, capitalising on STV's unique status as a producer-broadcaster.

While 2018 was a transitional year for the Production business we still managed to achieve excellent revenue growth of 60%, delivering 11 shows, including seven series, and producing over 115 hours of television for nine different channels. We have also shifted all of our focus to developing returnable series and formats which have the potential to be picked up nationwide and internationally.

60%

growth in revenue with new commissions secured in all genres including a return to high-end drama

David Mortimer
Managing Director, Production

Managing Director David Mortimer is a highly respected creative business leader and has worked with NBC Universal, Fever Media and the BBC and prior to joining STV in November was Director of Content for Tinopolis, the UK's largest independent production group.

David has been responsible for a number of hit programmes including *Dragon's Den* and *Louis Theroux's Weird Weekends*.

As the table below illustrates, we are already making popular, returnable, peak time programming for the UK's biggest channels. We've now made a total of 26 series of *Antiques Road Trip* and *Celebrity Antiques Road Trip* for the BBC and *Catchphrase* is in similarly good form, regularly achieving ITV peak-time audiences of over 4.5 million.

We are also excited that two brand new series are about to air. New Scottish drama *The Victim* starring Kelly Macdonald and John Hannah will transmit on BBC1 shortly, and our first ever peak-time entertainment show for C4, *Sex Tape*, will also be on air shortly in the coveted 10pm slot.

Investing in STV's creative pipeline

Part of our new strategy is to place more creative bets on more people to maximise our chances of developing hit shows. We already have a deal with celebrated drama producer Elaine Collins who produced *Vera* for ITV and *Shetland* for BBC and we recently agreed an entertainment partnership with Primal Media, the creators of hit entertainment shows like *Release the Hounds* for ITV2, *Carnage* for Sky and *Bigheads* for ITV. Together we'll pitch large-scale entertainment formats to UK and international networks with the aim that these are then co-produced in Scotland.

We're also broadening our creative pipeline in drama. Alongside our drama *The Victim* we'll be producing a second 9pm drama for BBC1 later this year – *Elizabeth is Missing* – based on the best-selling novel by Emma Healey. We also recently announced exclusive deals to option two further best-selling books from Scottish authors, *Maggie & Me* and *Fishnet*. Alongside our two drama commissions we have a burgeoning slate of new drama projects, with 8-10 different dramas at script stage and under active consideration by broadcasters.

Alongside the digital business we continue to view production as a significant growth opportunity for STV. This will take time, but there is a sound basis for optimism here. The surge in demand for nations and regions programming is real and we're already seeing evidence of it in the market. Last month we confirmed two new commissions for the new BBC Scotland channel. The BBC recently raised its nations and regions production quota to 50% of all its output, and C4 has confirmed the same. In November, C4 announced its move to Leeds and that it will also open a creative hub in Glasgow where commissioning decisions will be taken.

Our ambition is clear. We want to re-establish STV as a real creative force, making the very best of local Scottish creative talent, producing in Scotland, but targeting not just a Scottish but a UK-wide and global audience.

STV PRODUCTIONS SHOWS IN 2018

Network shows produced for other channels.

	Average audience
Catchphrase (ITV/STV)	4.2m
Catchphrase Celebrity Special (ITV/STV)	3.4m
Antiques Road Trip Series 16 (BBC1)	2.6m
Britain's Biggest Warship (BBC2)	2.2m
Britain's Polar Bear Club (Channel 4)	1.8m
Antiques Road Trip Series 17 (BBC1)	1.7m
Celebrity Antiques Road Trip Series 8 (BBC2)	1.6m
The Bank That Almost Broke Britain (BBC2)	1.4m
Lucy Worsley's Fireworks For A Tudor Queen (BBC4)	678k
Killed Abroad (BBC Scotland)	281k
Tuas a'Bhradain Series 4 (BBC Alba)*	–

* Not BARB audited
Source: BARB Jan-Dec 2018, UK, Individuals

CELEBRATING SUCCESS

STV had a successful 2018 with many award nominations, starting in January with the following at the National Television Awards:

- Best quiz show for *Catchphrase*
- Bruce Forsyth Entertainment award for *And They're Off...*
- Best daytime for *Antiques Road Trip*

This was followed by nominations in the following categories at the Royal Television Society Scotland Awards in May:

- Documentary and Specialist Factual: History – *The Force: The Story of Scotland's Police*
- Sport: Live Event – *Scotland v England World Cup Qualifier*
- News programme – STV North and STV Central
- On Screen Personality of the Year – Halla Mohieddeen
- Young Journalist – Ben Phillip
- Professional Excellence: Sound – John Cobban, for *Ross Kemp Behind Bars: Inside Barlinnie*

STV struck gold with *STV News at Six – North* and Ben Philip both winning awards.

Finally, at the BAFTA Scotland awards in November, STV was nominated for *The Force: The Story of Scotland's Police* in the Features and Factual Series category.

Operating review – Production

INVESTING IN THE SCOTTISH CREATIVE ECONOMY

As Scotland's largest indigenous production company, STV Productions is well positioned to serve the increased demand for productions made in the nations and regions.

Antiques Road Trip

By the end of 2018:

- 450 episodes of ART
- 150 episodes of CART (2009-2018)
- Sold to 40 territories

Antiques Road Trip and its sister show, *Celebrity Antiques Road Trip* is shown on almost every weekday and is often in the top three rated shows of the day. The programmes were commissioned by the BBC and *Antiques Road Trip* is in its 18th series while series 9 of the celebrity version is currently being shown.

Series 19 and 20 of *Antiques Road Trip* will be delivered in 2019.

As a returning series, many episodes are made each year – approximately 70 during 2018 and between 50 and 60 people are employed almost on a year-round basis because of this volume. As the programmes are based here in Glasgow with about two-thirds of the team being Scots, as a returning show, this can put several million pounds a year back into the local economy.

2018

60 episodes produced employing 50-60 people year round

The Victim

This is STV Productions first drama series commission for BBC One and is a four part thriller set in Edinburgh within Scotland's unique legal system starring Kelly Macdonald and John Hannah. It is told through the eyes of the plaintiff and the accused and offers a constantly surprising and twisting perspective on who really is 'The Victim'.

This modern day courtroom crime thriller created 100 new jobs in the Scottish production sector, 86 of which were taken by Scots or people permanently living in Scotland. It is the type of potentially returning drama series that STV wants to do more of and that Scotland needs more of to make that telling contribution to the UK creative economy. It is a show made in Scotland by Scots but has universal appeal as it deals with themes that will not just resonate with the rest of the UK but potentially globally too.

100

New jobs created in the Scottish production sector

The STV of the future

2018 has been a year of significant change and progress at STV. We have a positive vision for the future which involves us investing to re-establish STV as an independent creative force in Scotland and beyond. There is a clear plan in place to deliver the vision, a first class team, and we are making good early progress, though there is much to do.

We want the STV of the future to be:

- A truly multi-platform media company with a balanced profit base across broadcast, production and digital
- A brand famous for a wider range of programming
- As many Scots as possible, at home and abroad, with our apps on their devices
- A magnet for the best creative talent from Scotland and beyond
- A leading UK producer, making world class series for domestic and international players
- Working in partnership to drive the Scottish economy and showcase Scotland to the world.

In short, we want to be Scotland's home of news and entertainment.

2019 has started well with continued growth evident in the regional advertising market and a strong digital performance. Both of these are providing an offset to the more cautious national advertising market, which is reflecting the wider macro-economic conditions.

STV Productions growth trajectory has also continued in early 2019 with approximately half of the revenue achieved in 2018 already secured.

The key to our future success will be our ability to attract, retain and develop the best people, both on and off screen. With a refocused and reinvigorated organisation and team, and clear goals and priorities to deliver the growth plan and returns to shareholders, we have set strong foundations for future growth.

Antiques Road Trip series 19 and 20 and *Celebrity Antiques Road Trip* series 9 secured for delivery in 2019.

Corporate responsibility

People

Our people strategy

The strategic vision for 2020 sets our people at the heart of its success and begins with attracting and retaining the best creative talent.

2018 involved extensive organisational change to transition to a structure that simplifies the way we operate, enables focus on the areas of the business with greatest growth potential and ensures we can make STV an agile, creative and fun place to work.

The opinions and suggestions of colleagues on their views of STV, both as a place to work and their thoughts on the future strategic direction of the business, were sought by Simon Pitts when he joined the business. In addition to holding meetings with every team and encouraging one to one meetings to solicit views, '*STV Ideas*' was set up to provide an opportunity for anyone to put forward confidential proposals and give their feedback on any aspect of the business. Many of these insights and suggestions were incorporated into the strategic plan. In early 2019 an employee opinion survey will be undertaken to provide us with feedback and a baseline for measurement of our progress in implementing the new culture.

With the re-structuring of the business concluded in late 2018, the implementation of a range of cultural changes was started across the company.

Career development

As the new organisation has been formed, new talent has been attracted to the company, particularly in key senior positions, whilst new career opportunities have been created for one in five colleagues across the business. These new roles are providing development and progression opportunities.

Internal promotions were most extensive within the news team as the future news strategy was implemented and new roles and responsibilities defined. These internal appointees have been supported in their new roles with a significant investment in training and skills acquisition and investment in new technology.

Aligning our goals

A refreshed focus on career development is at the core of the new culture. New ways of working have been introduced across a number of areas of the business, in particular within STV News to embrace digital output, and within the Digital business to ensure the development teams are aligned to our digital products and growth priorities to deliver the strategy.

At the beginning of 2019 a new approach to goal setting, performance tracking and career development planning was introduced. '*CheckIn*' will provide everyone with a clear set of objectives and goals for the year, each aligned to the performance targets of their business area and, more widely, to the strategic growth plan. Through this approach everyone will have at least three opportunities each year for a formal structured discussion with their manager on their progress and career development.

A new development framework is also being designed. The first phase of this will be targeted at increasing the company's leadership capability and supporting colleagues identified with potential to grow beyond their current roles. Additionally it will provide development support for newly promoted managers. Finally, an element focused on supporting colleagues at early stage career will form part of the first stage of this framework.

Future talent

Partnerships with universities and colleges to invest in the talent of the future are highly valued. During 2018 we have continued to provide students with opportunities for work experience, internships, industry insights and career planning. We are committed to continuing to strengthen these relationships and in early 2019 will announce a significant multi-year investment in an STV Bursary Scheme, to be delivered in partnership with the Royal Television Society.

Our support of Modern Apprenticeships has continued to provide a successful entry route direct from secondary education, contributing to diversity and widening opportunities to secure a career in the sector. In 2019 we will extend this commitment with the introduction of Graduate Apprenticeships in our digital business.

Diversity and inclusion

Our focus on diversity and inclusion is aimed at creating an environment where everyone can thrive, develop and succeed. Our commitment to ensuring all colleagues are treated with dignity, respect and fairness is fulfilled through creating a culture based on merit and equality of opportunity.

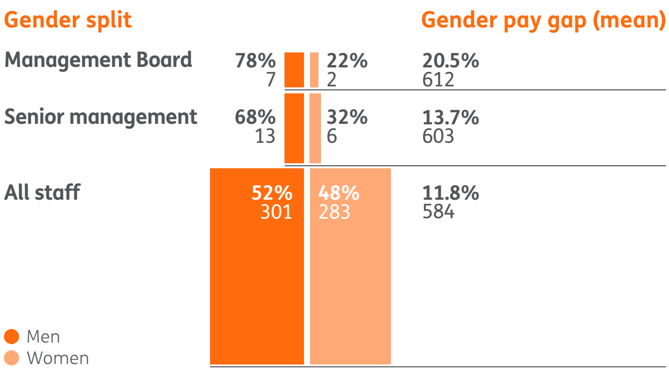
A range of programmes and activities have continued during 2018 to widen access routes into STV and more widely to the creative industries sector.

Gender pay report

The Company's second Gender Pay Report, based on the statutory reporting date of 5 April 2018, records data of 612 colleagues in employment on that date. The gender profile on the reporting date was 52% men and 48% women.

The company supports the objectives of gender pay reporting which are consistent with our broader ambition to achieve diversity and inclusivity across all areas of our business. The company is open and transparent about the challenges faced in achieving diversity and recognises this requires meaningful and sustained change – across all protected characteristics. This will require proactivity, continued focus by everyone in the business, and, where appropriate, targeted action. The Company's 'Open Access' charter sets out the activities already underway to improve diversity and secure equality of opportunity for all.

Gender split and gender pay gap by level



As at the end of April 2018, 40% of senior and leadership roles were held by women, up 6% year on year.

Removing these roles from the calculation of mean gender pay significantly reduces the gap to 11.8% (across 584 colleagues). Including senior management roles (19 colleagues) represents a gap of an additional 2%, resulting in a gender pay gap of 13.8%. Adding the management board (9 colleagues), represents a gap of a further 6.8% (bringing the reportable mean gender pay gap to 20.6%).

Mean and median gender pay gap

MEAN

20.5%

10% improvement year on year

The mean gender pay gap is the difference in average hourly rates of pay between men and women as at the snapshot date of 5 April 2018, expressed as a percentage of male earnings.

MEDIAN

18.5%

7% up year on year

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.

Understanding our profile

The Company's mean gender pay gap is 20.5%, an improvement of 10% year on year.

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. The Company has set a target to achieve a 50:50 profile across the top 25% of roles by seniority by 2023. To support attainment of this, a range of measures are in place to encourage more women to remain with the Company and progress through the organisation to these roles.

Corporate responsibility

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

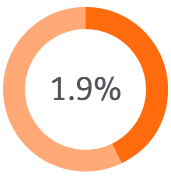
Analysis of the mean gender pay gap by pay quartile shows the main reason for the Company's gender pay gap is the balance of men and women in senior management and leadership team roles.

In the upper quartile, with a gender profile of 63% men and 37% women, the mean gender pay gap is 11.9%. Across the other three quartiles, the overall gender profile is balanced with 48% men and 52% women.

Other factors contributing to the Company's gender pay gap include differing levels of skills and experience in colleagues undertaking otherwise comparable roles, the impact of market factors during recruitment, and salary progression arising from length of service.

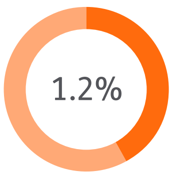
We are confident that continued focus on progression of women through the organisation to achieve gender balance in the top 25% of roles by earnings by 2023. This has improved over the past year with a 23% increase in the number of women employed in these roles.

Lower



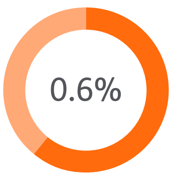
43% Men
57% Women

Lower middle



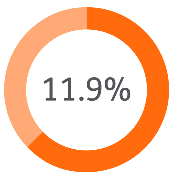
42% Men
58% Women

Upper middle



61% Men
39% Women

Upper



63% Men
37% Women

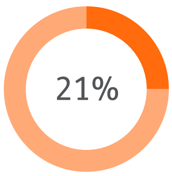
Bonus gender pay gap

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.

We are confident that colleagues undertaking equivalent roles have equivalent bonus opportunity, regardless of gender or any other personal characteristic.

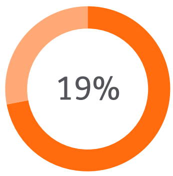
Within the first two bonus pay quartiles, there is a reverse bonus pay gap, that is bonus earned by female colleagues is greater than bonus earned by male colleagues. However, in the upper middle and upper bonus pay quartiles, which includes senior roles, there is a mean bonus gender pay gap of 21% and 19% respectively; however, if the management board are excluded from the upper quartile, there is a reverse gender pay gap of 17.5% in the upper quartile. This is illustrated below.

Upper middle



25% Men
75% Women

Upper



72% Men
28% Women

Mean and median bonus gender pay gap

MEAN

40%

28% improvement year on year

MEDIAN

33%

3% improvement year on year

The mean bonus gender pay gap is the difference in average bonus payment between men and women in the year to 5 April 2018.

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

Proportion of men and women awarded a bonus

This is the percentage of men and women who were awarded a bonus payment in the 12 months leading up to the snapshot date of 5 April 2018.

MEN

11%

WOMEN

7%

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 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. Specifically, during 2018, staff with responsibilities for procurement of suppliers undertook training designed to support a response 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 refreshers are carried out on a rolling basis and we have a full complement of 44 first aiders located throughout STV sites. There are defibrillators on site at Pacific Quay and Craigshaw 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 and to a high standard. Driving standards and rules are communicated to staff through STV's Drivers Manual and this helps maintain the Company's low accident rates.

We have continued to place our News and Creative teams on safety training with a Chartered Health and Safety Consultant who specialises in media safety training. A total of 20 staff have completed the safety training in 2018. 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 2018, with modules including Manual Handling, Office Safety and Fire Wardens, being covered.

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

Health and Safety performance in 2018

STV reports work-related accidents, diseases and dangerous occurrences in compliance with the Reporting of Injuries, Diseases and Dangerous Occurrences Regulation 1995 (RIDDOR). Analysis of the causes of accidents provides valuable information for implementing improvements, if and when required, in working practices and procedures.

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

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

Corporate responsibility

Environment

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

Throughout 2018 we have again been able to recycle 100% of our waste (with the introduction of RDF via our waste management contractor), resulting in no waste being diverted to landfill.

STV's Green Travel Plan at the Glasgow headquarters encourages staff to use more sustainable means of transport to commute. To promote cycling, shower facilities, cycle parking and lockers are provided for employees. A car sharing initiative, matching up employees living in the same area, enabling them to travel to work together, is managed and there are currently 45 members of staff taking part in this initiative.

During 2018, STV continued recycling old mobile phones via ICT Reverse and 10 handsets were recycled in this way. Any money raised from ICT Reverse is donated to the STV Children's Appeal.

Additional info:

- The electric car charging bays that were installed are proving very successful and are utilised every day by approximately 10 staff and we continue to promote use of electric vehicles throughout the business
- Since enlisting the assistance and guidance from ESOS (Energy Savings Opportunity Scheme), STV continues to take on many of their recommendations to lower our CO_2 emissions
- We have reviewed STV pool vehicles and leased vehicles and new vehicles will be of a lower CO_2 rating

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

	FY2018		FY2017		FY2016	
Greenhouse gas emission source	**(tCO_2e)**	**(tCO_2e/£m revenue)**	(tCO_2e)	(tCO_2e/£m revenue)	(tCO_2e)	(tCO_2e/£m revenue)
Scope 1	**437.27**	**3.47**	433.89	3.71	501.46	4.16
Scope 2	**1,251.94**	**9.94**	2,055.77	17.57	2,039.95	16.94
Statutory total (Scope 1 & 2)	**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.

Please note: Our carbon footprint has been restated for all years in order to account for material changes to the conversion factors provided by Defra for company reporting purposes.

Explanations

SCOPE 1 Travel & Transport

Increase in the travel and transport emissions due to:

- During 2018 there was a slight increase in air travel and transport mileage associated with Productions.

SCOPE 2 Energy

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

Waste

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

GHG emissions statement

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

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

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

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

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

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

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 2018

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

In just eight years the STV Children's Appeal has raised over £19 million. This has enabled the charity to make 1,102 large and small awards to charitable projects across all 32 local authority areas in Scotland, providing much-needed support and assistance to over 79,000 children and young people. The funding helps make a real difference to young lives by providing practical help like food and warm clothes; creating opportunities for training and employability; and enabling social and emotional support for those who need it most.

The STV Children's Appeal is proud to guarantee that all the money it raises is invested in Scotland. All of the charity's overheads are met by STV and The Hunter Foundation so that every penny of donations goes directly to helping those in need.

Connecting with communities

In 2018, the Appeal continued to engage with communities across Scotland to encourage individuals, schools, businesses and community groups to get involved with the charity at a local level. Community-based fundraising for the Appeal took place throughout the year – a testament to the public support generated for the charity – with events ranging from a major cross-Scotland challenge led by Mark Beaumont, and Sean Batty's Tea Party in Shetland raising money for Scotland's children. Schools, businesses and sports teams across the country were invited to host 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 fundraising partner for Kiltwalk and thousands donned their walking boots to take part to raise money.

Employee engagement

In 2018 STV employees continued to be great ambassadors for the Appeal. Chief Executive, Simon Pitts, led an STV team who participated in Mark Beaumont's gruelling round-the-world cycle.

In 2018, STV staff raised £20,000 for the Appeal which was matched by the Company to make a £40,000 donation. 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

Since its launch the Appeal has formed strong partnerships with high-profile corporate partners including Royal Bank of Scotland, Lidl, Optical Express, Quality Meat Scotland and Tunnock's.

Organisations such as Wholesale Domestic Bathrooms, Loganair and Glasgow Taxis have, this year, extended their support for the Appeal and continue to raise hundreds of thousands of pounds and help raise the profile of an issue affecting so many people across Scotland.

Since the Appeal was launched, the Scottish Government has match funded the monies raised each year. In 2018, the Scottish Government once again committed to match fund the first £1 million raised by the STV Children's Appeal.

Programming

Across the year, STV produced a series of TV programmes to support the work of the Appeal, shining a light on the issues faced by so many people across Scotland. In March, *STV Children's Appeal: Where Your Money Went* revealed how the Appeal makes a real difference to communities across the country with STV presenters visiting projects who receive funding and support.

In the autumn, STV broadcast a series of programmes to highlight the work carried out by the Appeal to support children and young people across Scotland. The line-up of programmes featured a thought-provoking and revealing half-hour documentary looking at the impact of Adverse Childhood Experiences on young people across Scotland and the fundraising efforts culminated in the annual televised STV Children's Appeal Live Show, hosted by Lorraine Kelly and Ross King, who announced the total sum raised in 2018.

Corporate responsibility

Street Soccer
The STV Children's Appeal has supported Street Soccer's success over recent years.

Concept Soccer Sevens
Concept Soccer Sevens is run by the Scottish Schools Football Association – a new partnership for the Appeal in 2018.

Big Scottish Breakfast
Lorraine Kelly and Ross King supported the Big Scottish Breakfast.

Mark Beaumont
Over 80 cyclists joined Mark Beaumont going round the world in a day.

Tunnock's Tea Party
Sean Batty's Tunnock's Tea Party, supported by Loganair, saw Sean joining Shetland locals for tea parties.

The STV External Lottery Manager (ELM)

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. The ELM also provides wider benefits to the Group including access to consumer data, transactional service capabilities and data analysis capabilities.

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

In 2018, online lottery ticket sales and new customer sign-ups continued to grow, and the launch of a retail sales opportunity in early 2019 will further support increased ticket sales.

The strategically significant target of cashflow breakeven for the Scottish Children's Lottery was achieved on 1 January 2019, in line with previous guidance. The debtor balance of £11.6 million gross (£6.6 million net) is expected to be repaid over the next six years.

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

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

The Scottish Children's Lottery achieved a major landmark in 2018, with £3 million raised to support children and young people's charities working in all 32 local authorities across Scotland. Since launch up to 31 December 2018, a total of £3.5 million has been raised to support good causes.

Distributing to deserving causes

138 grants ranging from £1,000 to £50,000, totalling over £2.2m, were distributed to Scottish charities during 2018, with over 51,000 young people directly benefiting from the awards.

Examples of the charities and projects which have received funding include:

- The Yard (£31,022). The charity, based in Fife, Dundee and Edinburgh, provides creative adventure play experiences that encourage disabled children and young people to have fun, take risks and build friendships. The charity also supports families by offering information, advice and a place to relax. With an ethos of child-centred and child-led play, The Yard supports over 1,000 families across the east of Scotland.

- Moving On Employment Project (£20,000). The Shetland charity provides employability support and helps individuals build up their confidence, skills and knowledge. With a growing demand for support for young people in Shetland, including those with learning difficulties, social, emotional and behavioural difficulties and those who are looked after, the award from the Scottish Children's Lottery has helped fund the charity's Transition service, which helps young people with additional support needs in the local community.

- Balivanich Community Leisure Area Group (£21,653). Located in the rural and remote town of Balivanich on the Isle of Benbecula in the Western Isles, the charity is committed to replacing the equipment at the local play park, and funding from the Scottish Children's Lottery has helped to provide local children, young people and families with a safe, stimulating and well equipped space to play and develop, improving their overall health and wellbeing.

- Home-Start Wigtownshire (£15,204). The charity, in Dumfries & Galloway, offers support to families with children under the age of five, who may be going through difficult times due to physical illness, mental health issues, postnatal illness, disability and social or geographical isolation. The Scottish Children's Lottery funding has helped the charity offer practical and emotional support to local families throughout Wigtownshire.

- Belville Community Garden Trust (£24,000). This Greenock charity provides an open-access, urban growing facility, teaching food growing skills, cookery and construction to young people from disadvantaged backgrounds and acting as a first stepping stone to employability. The grant from the Scottish Children's Lottery has allowed the charity to continue offer long-term placements to young people, and work with local schools to create an exciting outdoor growing space.

Increasing awareness

The Scottish Children's Lottery promoted its £3 million milestone, as well as the awards distributed to charities across Scotland, through targeted media relations activities aimed at national and regional news titles and charitable sector publications.

Engagement with MSPs and MPs helped further raise public awareness and encourage online applications from eligible charitable organisations and groups across the country. In April 2018, a successful Holyrood event sponsored by Rona McKay MSP provided an opportunity to further build relationships with parliamentarian contacts and beneficiaries from the third sector.

Baroness Margaret Ford OBE
Chairman

Financial review

For the year ended 31 December 2018

The Group uses non-statutory measures of performance to give shareholders a better understanding of the underlying performance of its operations and cash generation. The principal adjustments made to the statutory results are for IAS19 interest, as this is a significant non-operational non-cash item, and for exceptional items, due to their non-recurring and often non-cash nature. A reconciliation of the adjusted results to the statutory results is included at note 31. These are also the first results reported under the new divisional structure and comparative figures have been restated where appropriate to aid comparison between periods.

Revenue

Total revenue increased by 8% to £125.9m (2017: £117.0m) reflecting strong regional revenue, digital revenue and productions revenue growth.

Broadcast division revenues were up 3% at £94.5m (2017: £92.0m) due to regional airtime growing by 24% as a result of the success of the STV Growth Fund. National airtime revenues were broadly flat as a weak December market offset the impact of the World Cup earlier in the year.

The newly established Digital division grew revenues by 17% to £9.6m (2017: £8.2m) reflecting a very strong STV Player performance.

Production division revenues also grew strongly – up 60% to £16.3m (2017: £10.2m) as higher value productions, particularly new drama *The Victim*, were delivered.

The STV ELM invoiced £5.5m of costs to the Scottish Children's Lottery (SCL) (2017: £6.6m) and the division continues to operate on a breakeven basis.

Operating profit

Operating profit, before exceptional items, increased by 6% to £20.1m (2017: £19.0m). Operating profit after exceptional items decreased to £9.0m (2017: £18.2m).

Broadcast division operating profit was flat at £15.3m (2017: £15.3m) with the growth in revenue offset by higher sales bonus costs due to significant outperformance against targets and increased transmission costs. The operating margin of the Broadcast division also fell slightly to 16.2% (2017: 16.6%) caused by the lower profitability on higher revenues.

Digital division operating profits grew by 27% to £4.7m (2017: £3.7m) with margins also expanding to 49.0% (2017: 45.1%) caused by high margin incremental STV Player revenue.

Production division operating profit amounted to £0.1m (2017: £nil).

The STV ELM operates on a breakeven basis as noted above and had a loss after exceptional items of £4.2m (2017: £1.6m) primarily due to provisions made for the risk of not achieving a full recovery of the debtor due from the SCL.

Exceptional items

A total of £11.1m cash and non-cash exceptional charges have been made in 2018 related to the closure of STV2, GMP equalisation and the organisational restructure which has taken place. These include £3.3m of cash exceptional costs which principally related to redundancy costs (£2.3m) arising from the closure of STV2 and restructuring of the business.

There are non-cash exceptional costs of £7.8m, with the two largest items being a writedown to the value of STV Productions' stock following the closure of STV2 (£4.6m) and the impact of GMP (guaranteed minimum pension) equalisation (£1.6m).

Finance costs

Net finance costs increased to £7.1m (2017: £3.5m) due largely to an increase in impairment losses against the SCL debtor to the ELM to £4.2m (2017: £0.8m) offset by the non-cash IAS19 finance charge decreasing to £1.8m (2017: £2.5m). Cash interest costs increased to £1.1m (2017: £1.0m) due to slightly higher average interest rates.

Statutory result

The statutory result for the year after tax, exceptional items and IAS19 interest was a profit of £1.6m (2017: £11.7m). The Group's effective tax rate increased to 17% (2017: 14%) due to a reduced level of prior year losses utilisation.

Earnings Per Share (EPS)

EPS before exceptional items and IAS19 interest was up 4% at 41.1p (2017: 39.6p) reflecting the growth in operating profit partly offset by a higher effective tax rate of 17% (2017: 14%). On a statutory basis, EPS amounted to 4.2p (2017: 30.1p). A reconciliation is included in note 31 in the Notes to the Financial Statements.

Cashflow and net debt

Net debt, as defined in our banking covenants, at 31 December increased by £0.8m to £36.3m (2017: £35.5m) with the net debt:EBITDA ratio at 1.36x (2017: 1.41x), within the target range of 1.0x-1.5x on a covenant basis. There was a significant working capital inflow as sums due from ITV under the Network Affiliate Agreement (NAA) and Advertising Sales Agreement (ASA) related to 2017, amounting to £3.6m, were received in Q3.

The SCL had a need for further working capital of £2.7m in 2018 but following changes to the cost base from 1 January 2019, the SCL has reached cashflow breakeven and the Group will see a cash inflow in 2019 as the ELM's debtor balance of £6.6m net begins to be repaid.

Other major outflows in 2019 included pension deficit funding cash payments of £8.8m, dividends of £6.9m, £3.4m of capital expenditure, £2.4m of reorganisation costs and £3.9m of share purchases through the buyback programme and into the Employee Benefit Trust.

The Group's preferred measure of operating profit converted to free cashflow, defined as operating profit plus depreciation, amortisation and share based payments, less working capital movements (excluding STV ELM) and capital expenditure, increased to 125% (2017: 64%) due to the NAA and ASA timing impact and other working capital movements noted above.

The Group's £60m revolving credit and overdraft facility matures in June 2022 and provides good medium term funding certainty.

Pensions

The IAS deficit increased to £78.5m (2017: £70.6m) pre-tax, £50.2m (2017: £58.6m) post-tax. The assumptions underpinning the deficit calculation are detailed in note 29 in the Notes to the Financial Statements. The 31 December 2017 triennial valuation process is ongoing.

Balance sheet

The principal movements on the Group's balance sheet were the movement in the IAS19 pension deficit and the debtor and creditor movements in working capital following the exceptional charges taken in 2018, all of which are discussed above.

Viability statement

The Group has a strategic plan for the next three financial years which the Directors review at least annually. The three year plan reflects the Group's strategy as set out on pages 6 to 40. The plan also includes a number of important assumptions about the necessary capital investments to implement the strategy and models the expected cash flows including dividends as well as other key financial and performance indicators over the period.

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

In making the viability statement the Directors have also considered the resilience of the Group to a number of severe but plausible scenarios. These scenarios took into account the aspects of the principal risks disclosed on pages 39 and 40. Accordingly, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period of the assessment.

Risk management

Risk appetite

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

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

Reputation

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

Compliance and regulatory

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

Financial

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

The above statements take priority over the statements made below

Technology

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

Opportunities

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

TV market

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

Operational

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

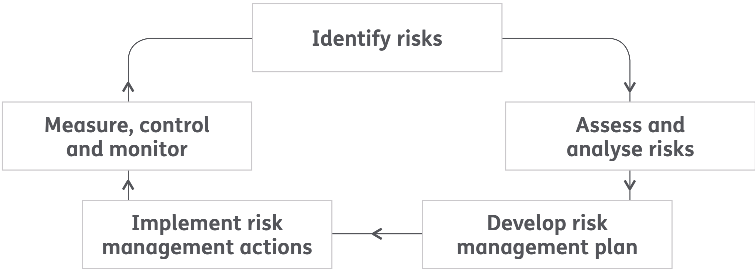
Pensions

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

People and culture

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

Risk management and internal control



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

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

During the year a thorough review of STV's Group risk register was carried out, designed to challenge and update the current STV risk profile through:

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

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

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

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

During 2018, the following reviews were carried out by the internal auditors: (i) GDPR implementation, planning and project management; (ii) Core financial control framework testing; (iii) Cyber risk, phase II, extending coverage and assessment to other parts of STV's IT infrastructure and operations; and (iv) follow up on GDPR including LIAs and records of processing activities.

STV has a separate cyber risk register which is reviewed twice a year.

The system is designed to manage rather than eliminate risk and internal control can only provide reasonable and not absolute assurance against material misstatement or loss. All points raised by the internal auditors were addressed and executive management believes that the control environment has been strengthened further by the actions taken. The Company has planned a complete refresh of the risk register which will be facilitated by Deloitte and will involve the full Management Team.

In addition to internal audit, the following key controls are in place:

- a comprehensive financial review cycle, which includes a detailed budgeting process where business units prepare budgets for approval by the Board, monthly reporting of trading results for review and, where necessary, corrective action as well as detailed and regular re-forecasting
- clearly defined management structure and delegation of authority to committees of the Board, subsidiary boards and associated business units
- high recruitment standards and formal career development and training to ensure the integrity and competence of staff
- regular reviews of key performance indicators and business risks 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.

A highly detailed review process conducted on a multi-level basis ensures that the consolidated Group accounts are prepared having taken into account the internal control procedures and risk management strategies outlined above.

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

Risk management

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

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

Identified risks are mitigated through unambiguous business processes with integrated risk management activities, segregation of duties and appropriate delegation of authority.

Each role within the Company is well-defined with clear responsibilities and a transparent reporting structure. The Company's business processes include financial controls regarding the approval and accounting of business transactions and the financial reporting process has controls regarding recognition, measurement and disclosure. These include the application of critical accounting policies and estimates, in individual subsidiaries as well as in the consolidated accounts.

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

The Company has in place a Whistleblowing Policy through which staff can, in confidence, raise concerns about possible improprieties either in the conduct of others in the business or in the way the business is run. Concerns can relate to actual or potential breaches of law or Company policy, including those relating to accounting, risk issues, internal controls, auditing issues and related matters. All matters raised will be investigated and reported to the Audit Committee.

The risk management framework and internal controls system across the Company, which are subject to continuous development, provides the basis on which the Company has complied with the Code provisions on internal control. These have been put in place in order that the Board can satisfy itself that management has understood the risks and has implemented and monitored appropriate policies and controls, enabling the Board to be provided with timely information so that it can discharge its own responsibilities.

Baroness Margaret Ford OBE
Chairman

Principal risks and uncertainties

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

STV's risk register sets out the key risks that have been identified throughout the business, allocating an owner to each. The impact and likelihood of each risk is considered and risks are scored both on a gross and, after the current mitigating controls have been taken into account, a net basis. The effectiveness of the current mitigating controls is graded as strong, adequate or weak and any additional controls required are also noted. The register is reviewed and updated on an ongoing basis both at an operational level and on a biannual basis by the Board, with the Audit Committee conducting an in-depth annual review.

The Directors confirm they have carried out a robust assessment of the principal risks facing the Company and during 2018 two additional risks were added to the register: one relating to the General Data Protection Regulations ('GDPR') which came into force in May 2018 and the other relating to cyber security, which was considered a principal risk. The level of risk has increased slightly when compared to last year.

More information on the cyber risk is set out below and with regard to the GDPR risk, STV has put in place various policies and procedures as well as defining roles and responsibilities to manage this risk. A Data Security Group has been established together with a Data Governance Manager and each business function now has its own Data Champions to promote GDPR awareness, implement procedures and train staff.

All of the risks identified have been fully evaluated and taken into account in preparing the budgets and forecasts which support going concern, viability statement and impairment assessments. The risks have also been reviewed and agreed with the internal auditors. A full refresh of the risk register, facilitated by Deloitte LLP, will be carried out during 2019.

Regulatory environment

STV's television business is operated under licences which are regulated by Ofcom, and the key Channel 3 licences have a term that runs to the end of 2024. These Channel 3 licences contain conditions around contribution to public service broadcasting, programme production and compliance with Ofcom's codes. As licensees, it is STV's responsibility to ensure that the terms of these licences are adhered to and measures have been put in place internally to ensure that this occurs. In the event of any serious or repeated breaches, Ofcom has powers to impose sanctions on licensees including, in the most extreme circumstances, financial penalties or revocation of licences.

Dependence on advertising

STV's sales, expenses and operating results could vary from period to period as a result of a variety of factors, some of which are outside STV's control. These factors include general economic conditions; conditions specific to general advertising markets including the commercial television market; trends in sales, capital expenditure and other costs, and the introduction of new services and products by 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.

Brexit

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

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 plc in the Network Affiliate Agreement and Advertising Sales Agreement.

Performance of the ITV Network

The majority of STV's programming content is provided by the ITV Network. Therefore, its ability to attract and retain audiences and the advertising airtime sales performance of ITV's sales house – which is responsible for the sale of STV's UK national airtime and sponsorship to advertisers – are factors that affect performance. This relationship is managed closely, with regular updates on programme and schedule developments being provided and through STV's Commercial Director who manages the sales relationship with ITV. The terms of the Airtime Sales Agreement with ITV were amended and simplified in December 2016 to provide improved efficiency, transparency and stability.

Cyber

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. Vulnerability to an external attack is a growing worldwide issue and cyber risk has been subject to increased focus by the Audit Committee. An initial review of cyber risk was undertaken by the internal auditors, Deloitte LLP, in 2017, and a cyber risk register was established which is reviewed and updated regularly. A further wider review was carried out in the second half of 2018, the results of which were reported to the Audit Committee in November. It was found that STV was in a good position compared with other similar organisations.

Pension scheme shortfalls

The STV pension schemes' investment strategy is calculated to reduce any market movement impacts. However, it is possible that the Group may be required to increase its contributions to cover an increase in the cost of funding future pension benefits or to cover funding shortfalls which could have an adverse impact on results and cash flow. This position is kept under regular review by the Board. The trustees appointed River & Mercantile Solutions (formerly PSolve) as investment manager for the schemes' assets and this is intended to increase returns and meet the schemes' long-term funding objectives.

Principal risks and uncertainties

Reputational and financial risk of lottery operation

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

The Lottery was awarded licences by the UK Gambling Commission and while operated independently of STV, in accordance with the requirements of these licences, it is provided with financial support by STV, which amounted to a debtor of £11.6m gross (£6.6m net) at 31 December 2018. This debtor is expected to be recovered by 2025 and cashflow breakeven was achieved on 1 January 2019.

Although responsibility for operating the Lottery and ensuring that the terms of the licence are adhered to lies with STV ELM Limited, there is a reputational risk to STV, as the holding company, from any issues related to the operation of the Lottery.

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

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

Financial

The overall financial position of STV may be constrained by the Group's leverage and other debt arrangements. An increase in LIBOR interest rates could have an adverse impact on the financial position and business results. STV is exposed to a variety of financial risks that arise from and apply to its activities: currency risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's borrowings are denominated in Sterling which is also the Group's intra-UK net currency flow. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

STV uses derivative financial instruments to hedge certain risk exposures.

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

a) Currency risk

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

b) Credit risk

STV has no significant concentration of credit risk apart from the £11.6m gross (£6.6m net) debtor from the SCL noted above. It has policies in place to ensure that sales are made to customers with an appropriate credit history. Derivative transaction counterparties are limited to high-credit quality financial institutions.

c) Liquidity risk

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

d) Cash flow interest rate risk

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

Introduction to governance

Board of Directors

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

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

The Board also delegates some of its responsibilities to Board Committees, details of which are set out on pages 47 to 51.

Diversity

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

Diversity means positive recognition of the differences individuals can bring to the Company and how these individuals work together to exploit these differences for the benefit of the business. Information on the Group's approach to diversity and inclusion is set out in the Strategic Report on pages 6 to 40 and further information on the number of women within the organisation can be found on page 27.

Effectiveness

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

Performance evaluation of the Board, its Committees and individual Directors takes place on an annual basis and the 2018 evaluation was internally facilitated. Further details on the process can be found on page 52 but the overall conclusion was that the Board and its Committees were working in an effective and constructive manner.

The Board is mindful of the tenure of the Non-Executive Directors and the benefits of refreshing the experience, skills and diversity present on the Board and further details of the work of the Nomination Committee can be found on page 48.

Accountability

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

Remuneration

The Remuneration Committee, chaired by Anne Marie Cannon, ensures that our remuneration framework is appropriately structured, in a fair and responsible manner. The report from the Committee denotes the approach taken to executive remuneration and the work done on revising the Company's Remuneration Policy as well as other work carried out during the year on this high profile topic. The Remuneration Policy was approved by shareholders at the AGM last year and the Committee expects it to remain in place until a further vote is required in 2021. Our annual report on remuneration, which will be subject to an advisory vote, can be found on pages 56 to 61.

Relationship with Shareholders

The AGM provides an opportunity for shareholders to meet the Board and to ask questions. Our 2019 AGM is scheduled for 23 April 2019 at Pacific Quay and we look forward to meeting the shareholders who are able to attend.

Compliance with the UK Corporate Governance Code

The Board considers that, in respect of the financial year ended 31 December 2018, the Company has complied fully with the UK Corporate Governance Code 2016 (the Code) and this section, together with the report by the Directors on remuneration, set out on pages 54 to 61, 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.

Margaret Ford

Baroness Margaret Ford OBE
Chairman

Board of Directors

At 14 March 2019

left to right by row, from top left

Baroness Margaret Ford OBE
Simon Pitts
George Watt
Christian Woolfenden
Anne Marie Cannon
Ian Steele
Simon Miller
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.

George Watt

Chief Financial Officer

Appointed: February 2001

George is a member of the Institute of Chartered Accountants in Scotland. He joined the Company in 1998 as Group Financial Controller and Treasurer and prior to this worked with KPMG's audit and assurance services practice in the UK and also in the US. George is non-executive Chairman of SpaceandPeople plc, a former non-executive director of DeltaDNA Limited and is also an executive committee member of the Scottish Council for Development and Industry.

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 executive and non executive roles. He is currently chairman of Brewin Dolphin Holdings PLC; chairman of Blackrock North American Income Trust plc; chairman of JP Morgan Global Convertibles Income Fund Ltd and 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

Christian has extensive operational, consumer marketing and digital experience and is currently Managing Director of Photobox. 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. Christian is a non-executive director of Rentify Ltd.

Anne Marie Cannon
Non-Executive Director

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

Anne Marie has over 35 years experience in the energy industry and investment banking. For the past 14 years Anne Marie was a senior advisor at Morgan Stanley specialising in international upstream mergers and acquisitions. Anne Marie has previously held financial and commercial roles with Shell UK, J Henry Schroder Wagg and Thomson North Sea and was an executive director on the boards of Hardy Oil and Gas and British Borneo. She is currently a non-executive director at Premier Oil plc, Aker ASA and Aker Energy AS and is Deputy Chair of Aker BP ASA.

Ian Steele
Non-Executive Director

Appointed: November 2015
Committees: Audit (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 recently retired as Senior Partner for Deloitte in Scotland and Northern Ireland. Prior to retiring, he had been on the UK Board of Deloitte LLP for over eight years. Ian was a Corporate Finance Advisory Partner with Deloitte and was Head of Global Advisory for some three years and has recently joined the Council of The Institute of Chartered Accountants of Scotland. Ian is a non-executive director of Killinchy Aerospace Holdings Limited, the principal trading subsidiary of which is Martin-Baker Aircraft Company Limited and is Chairman of Iomart Group plc.

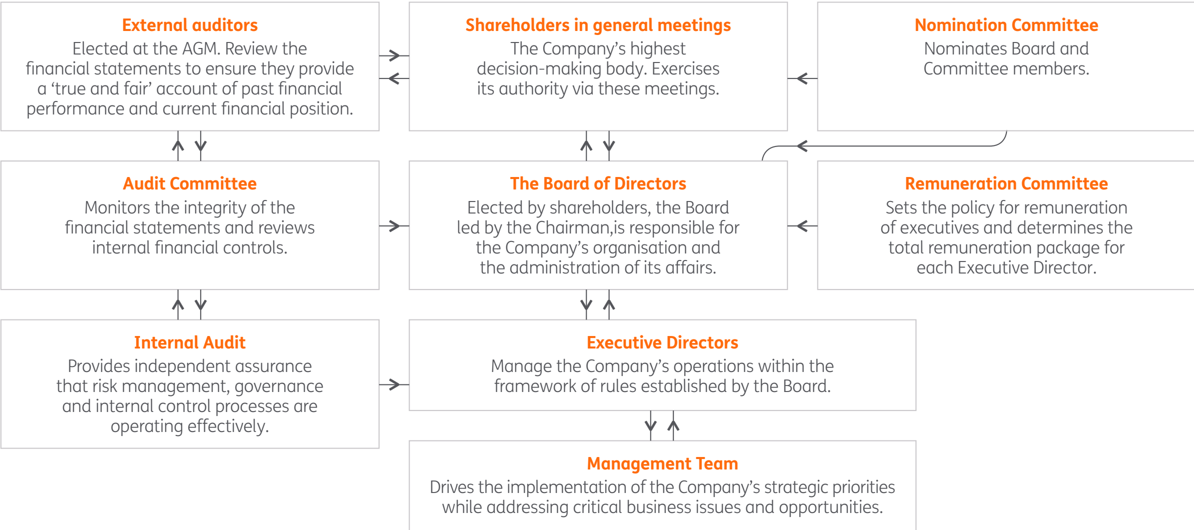
David Bergg
Non-Executive Director

Appointed: May 2018
Committees: Remuneration; Audit

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.

Corporate governance report

Governance structure



Principles statement

STV Group plc is fully committed to the highest standards of corporate governance, believing that such standards are vital to overall business integrity and performance and considers it crucial that it conducts itself honestly, transparently and responsibly. During the financial year ending 31 December 2018, the Company was subject to the provisions of the UK Corporate Governance Code (2016 Code) and the Board considers that it has complied with all relevant provisions of the 2016 Code.

The Board has a critical role to play in shaping business performance while creating and delivering long term return for shareholders. This requires it to determine business strategy and the Company's appetite for risk; to monitor management's performance in delivering against that strategy and ensure that the risk management measures and internal controls put in place are appropriate and effective. The Board must ensure that the funding and talent available to the business will support it in the longer term and must remain aware of the Company's obligations to its shareholders and other stakeholders, responding to their needs with transparent reporting and active engagement.

Board of Directors

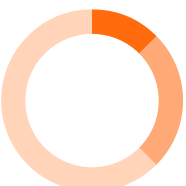
The membership of the Board throughout the year and up to the date of signing the financial statements was as follows:

Chairman	Baroness Margaret Ford OBE
Chief Executive Officer	Simon Pitts (appointed 3 January 2018)
Chief Financial Officer	George Watt
Non-Executive Directors	Simon Miller (Senior Independent Director) Christian Woolfenden Anne Marie Cannon Ian Steele David Bergg (appointed 1 May 2018)

George Watt is leaving STV on 30 April 2019. Lindsay Dixon will be appointed Chief Financial Officer in May 2019.

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

Board of Directors



- **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 contribution to the proper functioning of the Board and its Committees, ensuring that matters are debated and that no individual or group dominates the Board's decision-making processes. Non-Executive Directors have a particular responsibility for ensuring that the business strategies proposed are fully discussed and critically reviewed and their collective experience and broad range of skills gained through a range of sectors means they can constructively challenge management in relation both to the development of strategy and performance against the goals set by the Board.

The Non-Executive Directors do not participate in any share option or pension scheme of the Company.

All Directors have access to the advice and services of the Company Secretary and, at the Company's expense, the Company's legal advisors. The Company Secretary is an employee of the Company and attends all meetings of the Board and its Committees. She is responsible for making sure that all Board procedures are observed and for advising the Board on corporate governance matters. She also has responsibility for ensuring the flow of information within the Board, its committees and between senior management and Non-Executive Directors.

Board responsibilities

The roles of Chairman and Chief Executive are separate with a clear division of responsibility between them, which is set out in writing and approved by the Board. The Board delegates responsibility for the day to day running of the business through the Chief Executive to executive management while the Board provides constructive challenge to management which is necessary to create accountability and drive performance. This results in an environment that creates and preserves value for shareholders.

The Chairman is responsible for leadership of the Board, ensuring its effectiveness and that Directors receive accurate, timely and clear information, as well as setting the agenda. She provides a conduit for communication to and from shareholders and facilitates the contribution of the Non-Executive Directors while ensuring constructive relations between the Executive and Non-Executive Directors.

The Board has responsibility for making all key strategic, management and commercial decisions which are necessary for the conduct of the Company's business as a whole, including the approval of corporate strategy, annual budgets, interim and full year financial statements and reports, dividends, accounting policies and all significant capital projects, acquisitions and disposals. The Chief Executive and his management team are responsible for developing the appropriate business strategy and, once approved by the Board, for ensuring that the strategy is effectively implemented in accordance with the approved operating plan and within a sound system of internal controls to achieve the agreed objectives. He creates a framework of strategy, values, organisation and objectives to ensure the successful delivery of results, and allocates decision making and responsibilities accordingly. Compliance with policies and achievement against objectives is monitored by the Board through monthly performance reporting and budget updates.

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

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

The Senior Independent Director is available to shareholders should they request a meeting or have concerns which they have been unable to resolve through normal channels or when such channels would be inappropriate. He provides a communication conduit between the Chairman and the Non-Executive Directors and is responsible for leading the Non-Executive Directors' discussion on the Chairman's performance at the annual performance review.

The Board recognises that it is accountable to the Company's shareholders for good governance to ensure efficient and effective management in order to deliver shareholder value over the long-term. Each Director is able to devote the time necessary to discharge their respective responsibilities effectively.

Corporate governance report

Board meetings

Attendance of Board members at Board and Committee meetings held in 2018 is set out below:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held:	**8**	**3**	**3**	**4**
Attendance:				
Baroness Margaret Ford OBE	8	1*	2*	4
Simon Pitts	8	3*	1*	1*
George Watt	8	3*	–	–
Simon Miller	8	1*	–	4
Michael Jackson (retired 26 April 2018)	2	–	2	–
Anne Marie Cannon	8	3	3	–
Christian Woolfenden	8	3	–	–
Ian Steele	8	3	3	4
David Bergg (appointed 1 May 2018) **	5	2	1	–

* Attended at the invitation of the respective Chairman.
** Appointed to the Remuneration Committee and Audit Committee on 28 June 2018.

The Board meets regularly, at least eight times a year with additional meetings taking place as and when required. The Board has adopted a schedule of matters reserved for its decision which can be found on the Company's website at www.stvplc.tv, the principal matters being approval of:

- financial statements and shareholder circulars; dividend policy; significant changes in accounting policies or practices
- Board and committee appointments and terms of reference; terms and conditions of Non-Executive and Executive Directors
- the Company's long-term objectives and commercial strategy; annual operating and capital expenditure budgets
- material contracts and significant variations in terms of the Company's borrowing facilities
- corporate activity, which is subject to the City Code on Takeovers and Mergers or of a material nature
- major changes to the Company's pension schemes, share schemes and treasury policy
- risk management, internal control policies and corporate governance arrangements.

All Directors attended the 2018 annual Strategy Day in November and in addition to a presentation from the Executive Directors looking ahead to 2019, a presentation on the latest viewing trends and their implications for STV was given. Richard Williams, MD of Digital and David Mortimer, MD of Production each shared their early thoughts on their new roles, the market and early priorities and Commercial Director, Peter Reilly provided greater insight into the new revenues being considered by his team. Suzanne Burns, HR and Communications Director presented the steps planned to bring about cultural change within STV, covering people, organisation, working environment and communication. Directors agreed that with the highly engaged Management Team in place together with dedicated staff, the Company was well positioned to realise its future growth potential and continue to deliver 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 2018 included:

Operational and financial performance, including monitoring

- receipt of operational and financial updates at each Board meeting
- review of monthly finance reports, including details of performance against budget and the Company's financial position
- approval of the Annual Report and the full and half-year financial results
- approval and declaration of dividends
- approval of the 2019 Budget
- approval of viability statement

Strategy

- presentations on initiatives to grow revenue
- approval of the Company's strategy
- discussion on various regulatory issues
- approval of the three year plan

Corporate development

- agreement of STV's corporate objectives and values for 2018

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 2019
- approval of the 2019 AGM Resolutions
- approval of the Gender Pay Report
- approval of the appointment of David Bergg
- approval of the appointment of Lindsay Dixon
- performance evaluation
- consideration of the Group's risk appetite and risk management

Investor relations

- review of institutional feedback following meetings between the Company's broker and shareholders after both the full and half year results
- review of the draft analysts' results presentations, when reviewing the Company's full and half-year financial results

Corporate Social Responsibility

- involvement in the STV Children's Appeal 2018

Board committees

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

Leadership

Board of Directors

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

Audit Committee

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

Page 49
Audit Committee Report

Remuneration Committee

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

Page 54
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 48
Nomination Committee Report

An evaluation of the work and effectiveness of each of these Committees during the year was conducted, the results of which concluded that each was operating in an effective manner and carrying out its respective delegated duties efficiently. The Board and its Committees will continue to review critically their procedures, effectiveness and development throughout the year ahead with any concerns or observations raised with the Chairman.

Corporate governance report

Remuneration Committee
The members of the Committee during the year were:

Anne Marie Cannon (Chairman)
Michael Jackson (retired 26 April 2018)
Ian Steele
David Bergg (appointed 28 June 2018)

The activities of the Remuneration Committee are described within the report by the Directors on remuneration which can be found on pages 56 to 61. The written terms of reference of the Remuneration Committee set out various considerations when determining the Company's remuneration policy, such as ensuring:

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

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

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

Baroness Margaret Ford 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

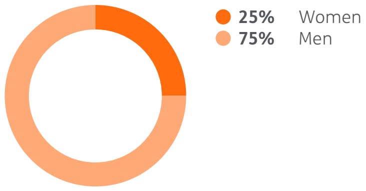
The Nomination Committee's focus in the first half of the year was the appointment of an additional Non-Executive Director as Michael Jackson was stepping down at the AGM in April 2018. Bird & Co., which has no other connection with STV, was appointed to assist with the process, the result of which was the appointment of David Bergg on 1 May 2018. David has extensive knowledge of commercial broadcasting and brings a wealth of experience after a stellar executive career which began in the television industry in Scotland in the 1980s. His sector knowledge and insight will be hugely valuable as STV's business grows.

It was announced that George Watt, Chief Financial Officer would be leaving in March 2019 and accordingly the process of finding a new CFO was commenced. Ridgeway Partners, which has no other connection with STV, was appointed to lead the search for suitable candidates. The Committee considered the alignment of Board composition with Company strategy and a vigorous and robust process thereafter began whereby the specification for the role and the main attributes required by the successful candidate were discussed and agreed. The need to ensure that the Board as a whole had the necessary skills to secure its long term success was agreed to be vital and following a series of interviews with several exceptional quality candidates, a short list was agreed. While all were considered to be high calibre individuals, the preferred candidate was Lindsay Dixon. The Committee's recommendation of this appointment to the Board was unanimously agreed and Lindsay Dixon will join the Company during May 2019 from William Grant & Sons Limited where she holds the role of Group Financial Controller.

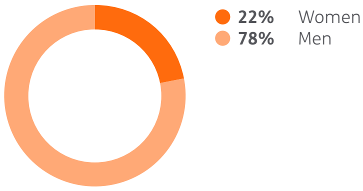
Diversity
STV believes that diversity is wider than simply gender and aims to hire the best candidates with the widest range of skills and experience, whatever their background or gender. A range of programmes and activities continued during 2018 to increase access routes into STV and the wider creative industries sector. The Board is committed to improving diversity in its membership in the broadest sense as a diverse Board provides a range of perspectives, insights and challenges that are needed to support good decision making.

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

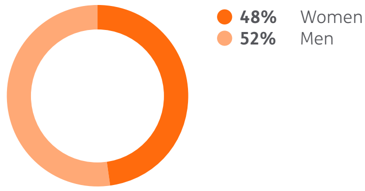
Board



Management Team



Staff



During 2018, STV set a target to achieve gender balance across the top 25% of roles by earnings over the next five years.

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

Ian Steele (Chairman)
Christian Woolfenden
Anne Marie Cannon
David Bergg (appointed 28 June 2018)

The Audit Committee is chaired by Ian Steele who has recent and relevant financial experience.

The Committee is authorised by the Board to investigate any activity within its terms of reference and to seek any information it requires from any employee. All employees are directed to co-operate with any request made by the Committee. The Audit Committee has written terms of reference and these are available on request and on the Company's website www.stvplc.tv

At the invitation of the Committee, meetings are attended by the Chairman, Chief Executive Officer, Chief Financial Officer and the Group 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 auditors.

The Chairman of the Audit Committee reports to the subsequent meeting of the Board on the Committee's work and the Board receives a copy of the minutes of each meeting. The papers considered by the Committee are available to any Director who is not a member should they wish to receive them. The Committee's effectiveness is reviewed annually as part of the Board evaluation process.

The Audit Committee and the Board place great emphasis on the objectivity of the Company's auditors PricewaterhouseCoopers LLP (PwC) in their reporting. PwC were appointed auditor in 2013 following a tender process and KPMG has carried out tax work for the Company since 2016.

The audit partner and manager attend all Audit Committee meetings to ensure full communication of matters relating to the audit. The auditors have confirmed to the Committee that in relation to their services to the Company they comply with UK regulatory and professional requirements, including Ethical Standards issued by the Auditing Practices Board and that their objectivity is not compromised.

The auditors are required each year to confirm in writing to the Committee that they have complied with the independence rules of their profession and regulations governing independence having taken into consideration matters such as the individual independence of members of the engagement team and the firm as whole and the nature of any non-audit work undertaken. Before PwC takes on any engagement for other services from the Company, careful consideration is given as to whether the project could conflict with its role as auditor or impair its independence or infringe the EU Audit rules. This includes consideration of the safeguards which are in place to mitigate the risks to independence.

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

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

During the year the Committee reviewed the Company's interim and full year results prior to publication as well as its risk management procedures and the revised risk register, incorporating relevant, social, ethical and environmental risks.

Corporate governance report

Significant issues considered by the Audit Committee in relation to the 2018 financial statements included the following:

Deferred production stock

Deferred production stock forms part of inventory and is stated in the accounts at the lower of cost and net realisable value. Programme costs are expensed in line with expected future revenues, which is a judgemental area. An impairment review was carried out following management change in June 2018 and an impairment of £4.6m was recorded. This was based on a detailed forecast of future secondary sales prepared by management, taking into account historic experience and expected future trends. A further review was performed at the year end and an additional impairment of £0.4m was recorded. Management's treatment and disclosures in relation to deferred production stock were considered to be appropriate.

Pensions

The assumptions in relation to discount rate, salary increases, RPI and CPI were reviewed and were all within a range that management considered appropriate as well as being consistent with assumptions being used by other companies. A formal health study was undertaken in 2016 by a third party covering approximately 40% of the pensioner members of the Group's two defined benefit pension schemes. This provided information for the triennial valuation process and year end mortality assumptions. Management's treatment and disclosures in relation to IAS19 were considered to be appropriate.

SCL debtor recoverability

As a new venture which has received significant financial backing from the Group, the assumptions around the future expected progress of the SCL were considered. In particular, the key objective of reaching cashflow breakeven in 2018 was reviewed and considered to have a reasonable expectation of being achieved. The cashflow breakeven point was reached on 1 January 2019.

The disclosure of the debtor balance due from the SCL as non current was also deemed appropriate given the timing of breakeven and the likely recoupment of the debtor balance over the following five years from 2019. The change in the timing and probability of the recoverability of the debtor resulted in an additional IFRS9 provision of £4.2m being required. Management's treatment and disclosures in relation to the SCL debtor were considered to be appropriate.

Independence of the external auditor

The Audit Committee is responsible for approving non-audit work and in order to preserve the auditor's objectivity and independence, the Company has a policy regulating the provision of non-audit services by the auditors. The Chief Financial Officer must obtain the approval of either the Chairman of the Audit Committee or another Committee member if the preference is to use the auditors and must provide an explanation as to why the auditors are the most suitable supplier of services bearing in mind the EU Audit rules. A case by case decision is therefore necessary and the auditors cannot be engaged for non-audit work without reference to the Audit Committee. It is felt that this process ensures shareholders receive value for money and the Audit Committee keeps this policy under review. PwC also has an internal process whereby pre-engagement approval of all non-audit services is required to be given by the Audit Partner.

During the year under review, the non-audit work carried out by PwC consisted solely of covenant reporting and the Audit Committee agreed that PwC was the most suitable supplier.

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

External audit effectiveness

With regard to the requirement for the Audit Committee to assess the effectiveness of the external audit process, feedback is sought from the Audit Committee, the Chief Financial Officer as well as STV's finance team. This covers various aspects of the external audit process, including the audit team; how the audit is both planned and executed; the role of management; and communication. Comments are considered by the Audit Committee and relayed to the auditors and to management. Following this process, the Audit Committee concluded that the external audit process operated effectively and efficiently.

Internal audit

Deloitte LLP (Deloitte) are the Company's internal auditors and the primary focus of their internal audit programme is to provide assurance over key revenue streams and operating costs. Deloitte review systems and processes and ensure that the Company is operating effectively, efficiently and economically and in accordance with legislative requirements and professional standards. Its work is designed to provide insights into the internal control environment and efficiencies of key processes, as well as providing feedback on the effectiveness of interfaces between the business and enabling functions.

Deloitte attends all meetings of the Audit Committee and provides update reports on which specific areas have been reviewed in terms of the planned internal audit for the year, together with an evaluation of the current controls and the key findings and recommendations.

The Board reviews the internal control process and its effectiveness on an ongoing basis to ensure it remains robust and to identify any control weaknesses and can confirm that no significant failings or weaknesses were identified in relation to the review.

Committee activities

The principal activities undertaken by the Board Committees during 2018 included:

Month	Committee	Activity
January	Nomination	NXD succession
February	Remuneration	Consideration of performance under 2017 Bonus Plan
February	Audit	Review of Year End Results Review of Auditor report on Year End Results Review of Prelim Announcement Review of Annual Report Review of Independence of Auditors Approval of Internal Audit Plan for the year Review of internal controls/risk management Committee Performance Evaluation
February	Remuneration	Approval of Remuneration Report, 2018 remuneration and Committee Performance Evaluation
April	Nomination	Approval of NXD appointment
June	Nomination	Appointment of NXD to sub committees
August	Audit	Review of Half Year Results Review of Auditor report on Half Year Results Internal Audit update Review of internal controls/risk management
November	Audit	Annual Business Risk Review Internal audit update
November	Nomination	CFO succession planning
December	Remuneration	Review of Remuneration Policy and NXD fees Performance Evaluation

Management Team

The Management Team comprises the Executive Directors; the Managing Directors of Broadcast, Digital and Productions; 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 and ensures that there are clear lines of accountability.

Training and development

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

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

Corporate governance report

Performance evaluation

The effective functioning of the Board is key to the success of the Company and STV recognises that Board evaluation is extremely valuable in contributing to Board effectiveness: a formal appraisal encourages all Directors to reflect on what the Board has accomplished, as well as on what it should be doing, how it operates and whether any improvements can be made.

Accordingly, each year evaluation is undertaken in order to assess the Board, its committees, the Directors and the Chairman. The process aims to enhance effectiveness and also provides an opportunity for the Non-Executive Directors – through their exposure on other Company boards – to draw on their experience and to suggest areas of best practice. As in previous years, the 2018 process was an internal exercise facilitated by the Company Secretary and it has been agreed to have an external facilitator for the 2019 annual performance evaluation.

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

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

On completion of the 2018 performance evaluation, the performance of each Director was found to be effective and the mix of skills and experience on the Board was felt to be appropriate.

Measured against the principal duties expected of it, and building upon the progress of previous years, the Board continued to operate effectively and to meet in full its obligations to support management, to monitor performance across a wide area, and to maintain its strategic oversight. Accordingly, the process concluded that the Board provides the effective leadership and control required for a listed company. It was recognised that there was open dialogue between all Directors enabling issues to be raised and dealt with and meetings were well chaired with an appropriate level of involvement outside formal meetings. It was suggested that Board meetings be longer to allow more in depth reviews into specific areas of the business and that additional opportunities for interaction with the Management Team be arranged.

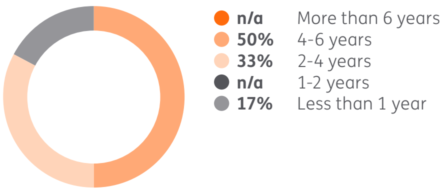
The evaluation process further concluded that the Board was made up of strong and independent minded Non-Executive Directors each of whom made a significant contribution to the overall success of the Company and who demonstrated full commitment in their respective roles. All were able to allocate sufficient time to the Company enabling them to discharge their responsibilities effectively. The Chairman reported the results of the evaluations at the Board meeting held on 17 December 2018. The Nomination Committee confirmed to the Board that the contributions made by the Directors offering themselves for re-election at the AGM in April 2019 continue to be effective and that the Company should support their re-election.

Re-election

Directors stand for election by shareholders at the first Annual General Meeting following their appointment and thereafter for re-election at intervals of no more than three years. At each AGM, at least one third of the Directors are required to retire. Copies of the Non-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 Chairman and other members of the Board recommend that the Directors retiring be re-elected and their biographies can be found on pages 46 and 47. The Chairman has confirmed that the Directors retiring and seeking re-election have been subject to performance evaluation and as part of this evaluation the Chairman confirms that they continue to demonstrate commitment to their role and continue to fulfil their functions responsibly.

Tenure of Non-Executive Directors and Chairman

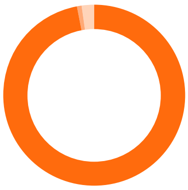


Relations with shareholders

STV believes that open and regular dialogue with investors is the basis for a trusted relationship. Its corporate website (www.stvplc.tv) has information for institutional and private shareholders alike and shareholders seeking information may contact the Company directly throughout the year. In addition, STV has an electronic communication facility to allow shareholders to receive information more quickly and in a manner more convenient for them.

The Board recognises the importance of having continual engagement with its shareholders and fully supports the principles of the Code which encourage open dialogue between companies and their shareholders. The Board welcomes and encourages the participation of all shareholders at the Company's Annual General Meeting at which the Chief Executive provides a detailed presentation on the activities and performance of the Group over the preceding year. All Directors attend the AGM so shareholders have the opportunity to meet with them to discuss particular areas of focus and ask any questions.

Shareholders by type



Institutional shareholders

STV undertakes a comprehensive programme of meetings and events for institutional investors and research analysts throughout the year and the Board are kept fully informed of feedback given to the Chief Executive and Chief Financial Officer in the course of their extensive round of investor meetings. The Board routinely receives updates on significant movements on the share register, analysts' consensus forecasts and market sentiment.

The Chairman, the Senior Independent Director and other Non-Executive Directors are available to meet with shareholders to discuss governance and strategy, and develop a balanced understanding of their issues and concerns and various meetings have taken place with shareholders during the year. Discussions at these meetings are conveyed to all Directors in order that each can develop an understanding of major shareholders' views on the Company.

Communication with major shareholders, analysts and the financial press is maintained throughout the year and feedback from major shareholders is regularly sought and reviewed by the Board. Copies of analysts' research relating to the Company are circulated to all Directors upon publication and a brief analysis of the shareholder register is prepared for each Board meeting.

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

Significant minority voting

At the 2018 Annual General Meeting ('AGM'), a significant minority of shareholders opposed resolution 13 which dealt with approval for the allotment of an additional 5% of the issued share capital on a non-pre-emptive basis, to be used for the purposes of acquisition funding.

Of the votes cast, 75.34% 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. STV noted that the resolution was entirely standard as had been confirmed by its lawyers and that a recommendation to vote against it had been made by PIRC on the basis that best practice would be to seek a specific authority from shareholders in relation to a specific transaction if such situation arose.

STV appreciates that some shareholders generally oppose share issuances without pre-emptive rights above 5% and therefore the vote against this resolution was not specific to STV. However, STV has decided not to put this particular resolution before shareholders at the 2019 AGM.

Private shareholders

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

Remuneration report

Annual Statement

I am pleased to introduce the Directors' Remuneration Report for 2018. This was an important year for the Company with key changes to the executive team and the undertaking of a strategic review of the business. The Board are fully supportive of the new three-year strategic plan, announced in May, and the Remuneration Committee are satisfied the current remuneration policy and framework is aligned with the new strategic priorities whilst delivering an appropriate incentive structure to support delivery of the plan and shareholder expectations.

In addition to the wider changes across the Company during 2018, it was also a significant year for the Remuneration Committee as we consulted with shareholders on the triennial review of the Remuneration Policy. This was voted upon and overwhelmingly approved at the AGM in April 2018. The Committee are highly aware of the increased focus on executive remuneration. We continue to closely monitor developments in guidance and principles to ensure that our approach meets shareholders' expectations.

Board appointments

At the beginning of 2018 Simon Pitts took up his appointment as CEO. Full details of his remuneration, including details of the arrangements to compensate for incentive awards forfeited from his previous employer, which were fully in line with our Recruitment Remuneration Policy, were set out in last year's report. All of these awards and payments have been made during 2018 and are covered in this report.

Further pending Board changes were announced in late 2018 as long-serving CFO, George Watt, confirmed his intention to embark upon a non-executive portfolio career following 20 years with the Company. George will serve his full contractual notice period, continuing to support Simon Pitts in implementing the strategic growth plan.

2018 incentive outcomes

Despite a backdrop of extensive organisational change and challenging market conditions, the financial performance of the business was strong. Additionally, considerable progress was achieved by all of the executive team in implementing the change process to enable the formation of an organisation capable of delivering the new strategic plan.

This performance and progress has resulted in payments being triggered under the annual bonus plan. Full details of the performance outcomes and associated awards are set out in the report.

Finally, we remain committed to open and ongoing dialogue with our shareholders and are confident that our current incentive structure is appropriately aligned with the new strategy and growth ambitions for the Company.

Anne Marie Cannon
Chairman of the Remuneration Committee
14 March 2019

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. Full details of votes cast in relation to remuneration at the 2018 AGM, including the Directors' Remuneration Policy, are set out on page 61 of this report.

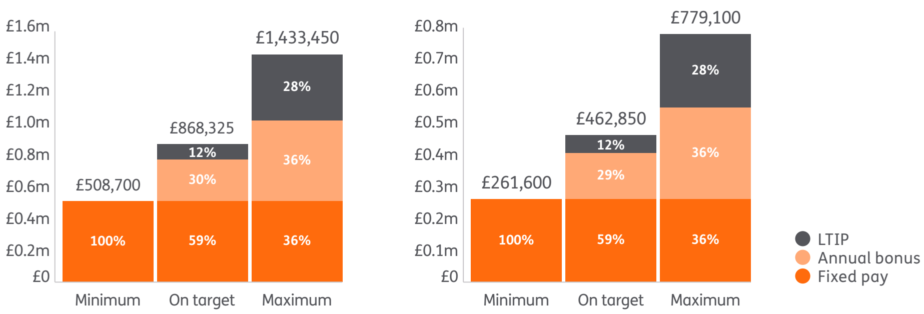
Illustrations of application of remuneration policy

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

In October 2018, it was announced that George Watt will step down as Chief Financial Officer to pursue a portfolio career. George Watt will leave the Company's employment and resign from the Board in April 2019, having served his contractual notice period of six months and supported a smooth succession process.

Lindsay Dixon has been appointed Chief Financial Officer to succeed George Watt and will take up the role and join the Board during May 2019. Her remuneration package was determined in accordance with the Remuneration Policy and is set out in the undernoted illustration of the application of the policy.

Chief Executive Officer – Simon Pitts **Chief Financial Officer – Lindsay Dixon**



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

- Minimum – reflects fixed pay only. For the Chief Executive Officer this comprises base salary as at 1 January 2019, benefits allowance (£15.5k), and cash in lieu of pension contributions at 20% of salary. For the Chief Financial Officer this will comprise base salary on appointment, benefits allowance (£15.5k) and cash in lieu of pension contributions at 7% of salary in accordance with the 2018 amendment to the Remuneration Policy.
- Target – reflects fixed pay, target bonus (62.5% of salary) and LTIP awards (100% of salary) vesting at threshold performance (25% of maximum).
- Maximum – reflects fixed pay, maximum bonus (125% of salary) and LTIP awards vesting in full (100% of salary).

Service contracts

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

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

Remuneration report

Consideration of shareholder views

The views of the Company's shareholders are very important and the Committee welcomes constructive feedback with respect to the remuneration policies or structure which we take on board to formulate our arrangements. An extensive consultation with shareholders was undertaken in early 2018 in advance of the renewal of the Remuneration Policy at the 2018 AGM.

Annual Report on Remuneration

This section of the report sets out how the Policy will be implemented in 2019 and how it was implemented during 2018. Some sections of this report, where indicated, have been audited.

As noted in the Chairman's Annual Statement, George Watt will step down in April 2019. His successor, Lindsay Dixon, will take up her appointment in May 2019. Her remuneration arrangements, as set out below, are in line with the Remuneration Policy as approved by shareholders at the 2018 AGM.

Statement of implementation of remuneration policy for 2019

Executive Directors

The salaries for 2019 are set out below:

Executive Director	2018 salary £000	2019 salary £000	% increase
S Pitts	400	411	2.75%
G Watt	230	237	2.75%
L Dixon	–	230	–

Salary levels of employees throughout the Company were increased by an average of 2.75% in January 2019.

Benefits and pension will be in line with the Remuneration Policy. As a new executive appointment, Lindsay Dixon's pension will be set at the reduced level of 7% of salary, in line with pension benefits provided to employees across the business.

For 2019, Simon Pitts will participate in the annual bonus which will operate in line with the Remuneration Policy. The maximum opportunity is 125% of salary.

Lindsay Dixon's participation in the plan will be pro-rated to reflect the date of commencement of employment. George Watt will not participate in the annual bonus in 2019. 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	Maximum bonus contribution (% of salary)
Operating profit*	50%	62.5%
Cash flow**	25%	31.25%
Personal objectives	25%	31.25%
Total		125%

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

The Committee is of the opinion that the personal objectives 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, the objectives will relate to key success factors in progressing and delivering the strategic growth plan, including:

- Maximising the value of the Broadcast business by delivering high quality, cost effective news and entertainment;
- Driving digital growth through the STV Player;
- Building STV Productions into a world class production business.

It is the Committee's intention to disclose the targets and performance measures in full after the end of the financial year if the Committee is satisfied the targets are no longer sensitive.

In 2019, Simon Pitts and Lindsay Dixon will receive awards under the LTIP at the level of 100% of salary. George Watt will not participate in the LTIP for 2019. These will vest after three years and will be subject to a two-year holding period post vesting.

Non-Executive Directors

The fees payable in 2019 are set out below. Fees were increased by 2.75% in January 2019 in line with the increase applied to employees across the Company:

Non-Executive Director	£000
Chairman fee	128
Basic Non-Executive Director fee	39
Additional fees: Senior Independent Director	13
Chairing the Audit 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 financial year. Historical data covering the past ten years is set out on page 60.

Executive Director	Financial year	Salary £000	Taxable benefits £000	Annual bonus £000	Long-term incentives £000	Pension £000	Sub total excluding buy-out £000	Other £000	Total £000
S Pitts	**2018**	**400**	**16**	**359**	**–**	**80**	**855**	**645**	**1,500**
	2017	–	–	–	–	–	–	–	–
G Watt	**2018**	**230**	**16**	**207**	**30**	**45**	**528**	**–**	**528**
	2017	226	16	90	23	45	400	–	400

Notes
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 2018, 20% of this will be deferred into shares for three years for Simon Pitts.
In accordance with the terms of his departure, the annual bonus payment earned by George Watt in 2018 will be paid in cash.
Pension – Both Executive Directors receive a taxable cash allowance in lieu of pension and life assurance.
Other – This relates to Simon Pitts' buy-out package paid to compensate for forfeited remuneration from his previous employer. As disclosed in last year's Directors' Remuneration Report, this constitutes an immediate cash payment of £187,000, a share award to the value of £56,000 and awards of STV Group plc deferred shares, which vest in phases over the period to 2021. The shares have been valued based on a share price of 309.5p, being the share price on the date of grant.

Annual bonus (audited)

The table below sets out the targets and performance achieved against these for the year ended 31 December 2018.

	Annual contribution (% salary)			Performance targets		Actual performance outcome			
Performance condition	Weighting	Threshold	Maximum	Threshold	Maximum	(£m)	(% salary)	S Pitts	G Watt
Operating profit*	50%	6.25%	62.5%	£17.1m	£21.8m	£20.1m	43%	£173,246	£99,928
Cash flow**	25%	3.125%	31.25%	£21.4m	£27.4m	£24.8m	20%	£80,007	£46,148
Personal objectives	25%	3.125%	31.25%	See below			27%	£106,250	£61,285
Total	100%	12.5%	125%				89%	£359,503	£207,361

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

The personal objectives relate to key strategic priorities of the business; progression of the business plan and delivery of shareholder value.

The key personal objective assigned to Simon Pitts was the development and implementation of a refreshed strategy. This plan, designed to deliver sustainable, profitable growth, was developed in early 2018 and announced to stakeholders in May 2018.

Related to the development of a new strategy was an objective to implement an organisational structure and culture capable of delivering the refreshed strategy whilst maintaining strong commercial and delivery focus across all areas of the business. Significant progress has been made against this objective by the end of 2018, with a new organisational structure successfully established, key appointments have commenced employment and begun to implement the growth plan. A number of important commercial deals have been secured which will, in relation to the wider long-term aims of the new strategy, set the business up to deliver the growth plan.

Overall significant progress was achieved against all personal objectives, resulting in awards against this element of the bonus plan at 85% of bonus potential (27% of base salary).

Remuneration report

Long-term Incentive Plan (audited)

The table below sets out the achieved performance for the 2016 Long-term Incentive Plan:

	EPS (50% of award)		Non-broadcast operating profit (30% of award)		Relative TSR vs. FTSE Small Cap (20% of award)		
Performance period	Annualised growth	Vesting	Final year performance FY2018	Vesting	Ranked TSR vs. Group	Vesting	Overall vesting
1/1/16-31/12/18	Not achieved	Nil	£6.7m	65%	Below median	Nil	19.7%

The 2016 Long-term Incentive Plan will vest in June 2019. Awards will vest at 19.7% as only one of the performance targets – non-broadcast operating profit which accounts for 30% of the total award – was achieved. George Watt participated in this plan and will receive an award of 11,962 shares on the release date (2 June 2019) and will be exercisable for 6 months thereafter.

Scheme interests awarded in 2018 financial year (audited)

The table below shows awards made to the Executive Directors during 2018 under the LTIP. As George Watt was under notice at the date of grant of award, he did not participate in the 2018 plan.

Executive Director	Award type	Basis of award	Face value of award	Threshold vesting	Performance period
S Pitts	LTIP	100% of salary	*£400,000	25% of maximum	1/1/18-31/12/20
	LTIP	Buy-out	**£402,000	25% of maximum	Various**

* Calculated using the closing share price 323 pence on the date prior to the date of award.
** Calculated using the closing share price 309.5 pence on the date prior to the date of grant, will vest in tranches as follows. 24,196 shares vest in March 2019, 75,228 shares vest in March 2020 and 30,372 shares vest in March 2021.

The awards granted under the LTIP in 2018 will vest after three years subject to the following performance targets:

Performance measure	Calibration of targets	Weighting	Threshold vesting (25% of maximum)	Maximum vesting
EPS	Annualised growth in adjusted EPS from FY17 to FY20	50%	7%	12%
Non-broadcast operating profit	Operating profit for non-broadcast activities in FY20	30%	£4.0m	£11.0m
Relative TSR	Ranked position of the Company's total shareholder return ('TSR') against the constituents of the FTSE Small Cap Index (using 3 month averaging)	20%	Median	Upper quartile

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

Payments for loss of office (audited)

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

George Watt will leave the Company's employment and step down from the Board in April 2019 and will be afforded good leaver status in respect of all elements of remuneration. George Watt will receive contractual benefits of base salary, benefits allowance and pension allowance until the date of termination of employment. As he is under notice of resignation, George Watt will not participate in the 2019 annual bonus plan nor will he be included in the grant of award of the 2019 LTIP.

Payments to past Directors (audited)

No payments were made to past Directors during the year.

All employee share plans

A new three year Save As You Earn Option Plan ('SAYE') was launched in October 2018 at a price of 360 pence per share. Neither of the Executive Directors participated.

External appointments

During 2018, George Watt received £25k as a non-executive director of SpaceandPeople plc. In accordance with the Company's policy, Executive Directors are entitled to retain their fees.

Non-Executive Directors (audited)

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

Non-Executive Director	Financial year	Basic fees £	Additional fees £	Total fees £
Baroness Ford	**2018**	**125,000**	**–**	**125,000**
	2017	125,000	–	125,000
C Woolfenden	**2018**	**38,250**	**–**	**38,250**
	2017	32,500	5,000	37,500
A M Cannon	**2018**	**38,250**	**5,000**	**43,250**
	2017	32,500	7,500	40,000
I Steele	**2018**	**38,250**	**5,000**	**43,250**
	2017	32,500	5,000	37,500
S Miller	**2018**	**38,250**	**12,750**	**51,000**
	2017	40,833	3,334	44,167
D Bergg	**2018**	**25,500**	**–**	**25,500**
	2017	–	–	–

Notes
Additional fees in 2018 relate to the fee structure whereby the basic Non-Executive fee was £38,250 per annum with an additional fee of £5,000 per annum payable for chairing either the Audit or Remuneration Committees and an additional fee of £12,750 per annum payable to the Senior Independent Director.

Statement of Directors' shareholding and share interests (audited)

Under the current policy, Executive Directors are required to build up a shareholding equal to 150% of salary. Non-Executive Directors are required to build up a shareholding equivalent to their basic fee over a three-year period. The table below summarises the Directors' interests in shares and the extent, where applicable, to which the shareholding requirements have been achieved.

Director	Number of beneficially owned shares*	Number of nil cost options	Number of SAYE options subject to conditions	Number of unvested LTIP awards at 31/12/18	Total interests held at 31/12/18	Monetary value of shares at 31/12/18**	Shareholding requirements (% salary)	Current shareholding (% salary/ basic fee)	Requirement met***
Executive									
S Pitts	9,589	–	–	464,297	9,589	34	150	9	n/a
G Watt	271,321	40,000	–	122,780	311,321	1,102	150	477	Yes
Non-Executive									
Baroness Ford	25,958	–	–	–	25,958	92	100	72	n/a
C Woolfenden	9,092	–	–	–	9,092	32	100	84	n/a
A M Cannon	9,042	–	–	–	9,042	32	100	74	n/a
I Steele	8,000	–	–	–	8,000	28	100	65	n/a
S Miller	5,000	–	–	–	5,000	18	100	35	n/a
D Bergg	–	–	–	–	–	–	100	–	n/a

* Beneficial interests include shares held directly or indirectly by connected persons.
** Value in £000; share price as at 31/12/18 was 354 pence per share.
*** Not applicable as three-year period to acquire is ongoing.

Remuneration report

Dilution

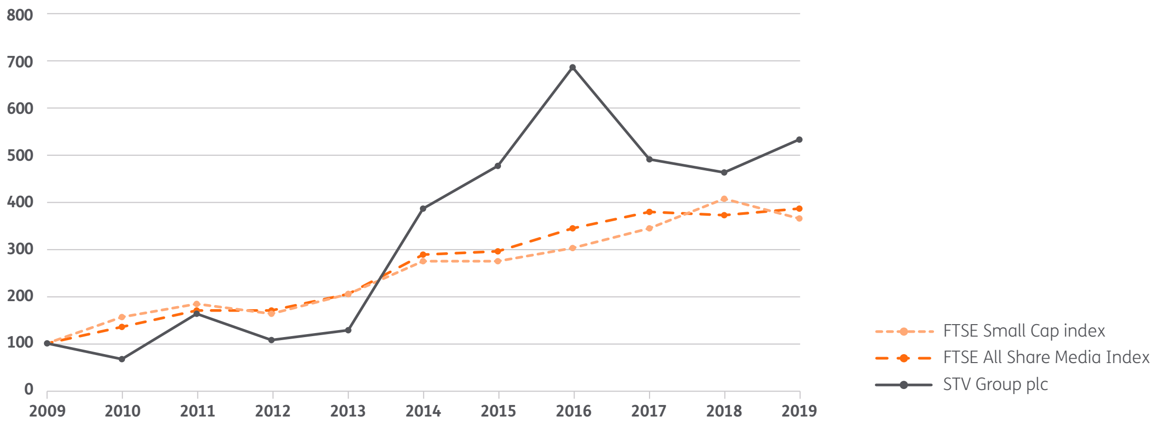
The following table sets out the current level of dilution against the limits in the Bonus Plan and sets out the commitments to issue shares made during the financial year reported:

Maximum	Current dilution	Additional dilution during the year in question
10% dilution in ten years	9.16	0
5% dilution in ten years	4.40	0

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

Performance graph and table

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



Single figure of total remuneration

The table below shows the Chief Executive Officer's remuneration over the past 10 years.

Year	Chief Executive Officer	Single figure of total remuneration (£000)	Bonus pay-out (as % maximum opportunity)	Long-term incentive vesting rates (as % maximum opportunity)
2018	S Pitts	855*	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	–
2009	R Woodward	418	–	–

* Excludes buy-out, see page 57.

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 2017 and 2018.

	Salary	Taxable benefits	Bonus
Chief Executive Officer	2.75%	–	n/a
All employees	2.75%	–	n/a

Relative importance of spend on pay

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

Significant distributions	2018	2017	% change
Overall spend on pay	£23.5m	£20.4m	15%
Dividend or share buy back	£7.5m	£6.8m	16%

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

Members of the Committee

During the year, the Committee comprised of the following independent Non-Executive Directors; Anne Marie Cannon (Chairman); Michael Jackson (retired 26 April 2018); Ian Steele; and David Bergg (appointed 28 June 2018). The Committee met three times during the year.

The Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and the senior management 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 describes its full remit and which can be downloaded from the Company's website, www.stvplc.tv.

Advisers to the Committee

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

During the year, the Committee received advice from Deloitte LLP. Deloitte LLP is a member of the Remuneration Consultants' Group and has signed up to that Group's Code of Conduct on executive remuneration consulting. On that basis, the Committee is satisfied that the advice received was objective and independent. Deloitte LLP was also the Company's internal auditor during that period. The Committee reviewed the nature of the services provided and was satisfied that no conflict of interest existed in the provision of these services, and that the advice provided was objective and independent. The total fees paid to Deloitte LLP during the year for advice to the Committee were £15,900.

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 remuneration related votes at the AGM held on 26 April 2018.

	Votes for	%	Votes against	%	Total votes cast	Votes withheld*
2017 Remuneration Report	29,280,853	98.79	358,891	1.21	29,641,192	1,448
2017 Remuneration Policy	23,755,066	80.15	5,884,715	19.85	29,641,192	1,411

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

Anne Marie Cannon
Chairman of the Remuneration Committee
14 March 2019

Directors' report

The Directors present the Directors' report, together with the audited accounts for the year ended 31 December 2018. The Directors' report comprises pages 62 to 64 and the sections of the annual report incorporated by reference are set out below:

Directors during 2018 financial year – See page **44**
Greenhouse gas emissions – See page **30**
Employee diversity and inclusion – See page **26**
Principal risks – See pages **39 and 40**
Risk management – See pages **36 to 38**
Corporate governance report – See pages **41 to 53**
Employee involvement – See page **26**

Dividends

The proposed total dividend for 2018 is 20.0p per share – an increase of 18% on 2017 (17.0p). During 2018 the final 2017 dividend of 12.0p per share was paid together with the interim dividend for 2018 of 6.0p per share. A final dividend of 14.0p per share has been declared which, subject to approval at the AGM in April, will be paid on 31 May 2019, to shareholders on the register at 12 April 2019.

Share capital

The Company announced a share buyback programme on 22 September 2017 and as at 14 March 2019 the Company has completed the buyback of 356,094 ordinary shares of 50p each, the aggregate consideration of which was £1,255,279. Each of these shares was cancelled upon purchase. Consequently, on 14 March 2019 there were 39,192,137 ordinary shares of 50p each in issue, each with one vote and no shares are held in treasury.

The rights and obligations to the Company's shares are set out in its Articles of Association. Details of Directors interests in shares can be found on page 59.

As at 14 March 2019, the Group had been notified of the following interests of 3% or more in its shares:

Shareholders	Shares held	%
Crystal Amber Advisers	7,197,893	18.37
Slater Investments	3,750,743	9.57
Columbia Threadneedle Asset Mgt	3,661,029	9.34
UBS Global Asset Mgt	2,339,842	5.97
Chelverton Asset Mgt	2,100,000	5.36
Schroder Inv. Mgt	2,065,693	5.27
Majedie Asset Mgt	2,000,000	5.10
Cavendish Asset Mgt	1,429,100	3.05

Principal activities

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

Compliance

Part of the information that fulfils the Companies Act requirements of the Directors' Report can be found in the Financial Review on pages 34 and 35. The Group's subsidiaries are listed in note 17 of the Company financial statements and details of the principal risks and uncertainties facing the Group can be found on pages 39 and 40.

Directors and officers of the Company and its subsidiaries have the benefit of a Directors' and Officers' liability insurance policy. The Company's Articles of Association also provide that every Director and other officer of the Company is to be indemnified out of the assets of the Company against any liability he or she incurs in defending any proceedings brought against them (provided that judgement is not given against them).

Directors have a statutory duty to avoid situations where they have or can have, any interest that conflicts or possibly may conflict with the interests of the Company. A Director will not be in breach of that duty if the relevant matter has been authorised in accordance with the Articles of Association by the other Directors. The Directors confirm that there have been no such conflicts during the year to 31 December 2018.

Annual General Meeting

Details of the 2019 AGM, together with the Notice of AGM can be found on pages 103 to 108.

Directors

The Directors of the Company and their profiles are detailed on pages 42 and 43. All of these Directors served throughout the year under review with the exception of David Bergg who was appointed to the Board as a Non-Executive Director on 1 May 2018.

The Articles of Association of the Company require Directors to submit themselves for re-election every three years. In addition all Directors are subject to election at the first opportunity after their appointment to the Board.

Donations

The Group made no political donations during the year (2017: £nil).

Voting rights and restrictions on transfer of shares

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

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

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

Change of control

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

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

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

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare the financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the Group and Company and the profit and loss of the Group and Company for that period. In preparing these financial statements the Directors are required to:

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

The Directors consider that the annual report and accounts for the year ending 31 December 2018, when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Directors' report

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps in the prevention and detection of fraud and other irregularities.

Independent Auditors and Disclosure of Information

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

Directors' Statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed on pages 42 and 43 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
14 March 2019

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 2018 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 and Accounts (the 'Annual Report'), which comprise: the consolidated and parent company balance sheets as at 31 December 2018; the consolidated income statement and consolidated statement of comprehensive income, the consolidated and parent company statements of cash flows, and the consolidated and parent company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the group or the parent company in the period from 1 January 2018 to 31 December 2018.

Our audit approach: Overview

Materiality

- Overall group materiality: £857,306 (2017: £775,000), based on 5% of profit before tax and exceptional items.
- Overall parent company materiality: £420,000 (2017: £420,000), based on 1% of Total Assets (capped to an allocation of overall group materiality).

Audit scope

- We performed audit work over all four segments of the business.
- Taken together, the entities where we performed our audit work accounted for 99% of Group revenue and 96% of Group profit before tax.

Key audit matters

- Retirement benefit obligations (Group and parent).
- Deferred programme production costs carrying value (Group).
- Recoverability of External Lottery Management's ('ELM') other receivable (Group).
- Classification of Exceptional Items (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. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

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 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 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, including in relation to the classification of costs as exceptional;
- Identifying and testing journal entries, in particular any journal entries posted by senior management, postings to exceptional items 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. In addition, 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.

STV Group plc consolidated financial statements

Independent auditors' report to the members of STV Group plc

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Retirement benefit obligations: Group and parent (Refer to page 78 (Significant accounting policies) and page 96 (Retirement benefit schemes)). The Group has a net retirement benefit obligation of £78.5m (2017: £70.6m) and the Parent company an obligation of £40.5m (2017: £30.6m). 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 considered 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 expected range. All actuarial assumptions, with the exception of the mortality, fell within our expected range based on our knowledge and experience. We used our specialist knowledge and experience and engaged our actuarial experts to challenge the Directors in relation to the mortality assumptions selected, as they were initially below our expectation although consistent with the prior year. Following discussions with management and their, and our, actuarial experts, management agreed to an increase in the mortality assumptions applied to certain member categories. As a result of this we concluded that the final assumptions selected by the Directors were reasonable, taking into account the nature of the schemes and scheme experience. We also reviewed the disclosures relating to the pension schemes for compliance with accounting standards and to ensure they agreed to the actuaries report and the testing performed.
Deferred programme production costs carrying value: Group (Refer to page 77 (Significant accounting policies) and page 90 (Inventories)). Production inventory of £10.3m (2017: £14.8m) relates to associated costs incurred in the production of programming which is deferred on the Balance Sheet at the point of initial sale and charged to the income statement in line with the associated forecast future revenue. This is an area of focus because the carrying value of the deferred programme production costs, and hence the charge to the income statement, are based on judgements made by the Directors in respect of associated future revenue.	We analysed the Directors' 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, in addition to the amount determined by management, was required. There were no material issues arising from the work performed.
Recoverability of ELM Other receivable: Group (Refer to page 77 (Significant accounting policies) and page 90 (Trade and other receivables)). The net receivable from ELM of £6.6m (2017: £8.2m) relates to start up and running costs recoverable from the Scottish Children's Lottery in accordance with the contract between ELM and the Lottery. The total amount recoverable as at the year-end was £11.6m against which an expected credit loss provision of £5m has been recorded. The recoverability of these costs is dependent on the future growth of the lottery and its ability to generate future positive cash flows.	Management performed a whole of life probability weighted impairment review under IFRS 9 and identified a provision of £5m was required. 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 forecast with current sales and plans to extend sales to new channels. We then challenged the probabilities assigned to each scenario through doing our own assessment. We concluded that the approach taken by management was reasonable and that the provision was within an acceptable range.

Key audit matter	How our audit addressed the key audit matter
Classification of Exceptional Items: Group Refer to page 84 (Exceptional items). Exceptional items of £15.3m (2017: £1.6m) relate to the restructuring within STV Group during 2018, the sale of STV2 entities, GMP equalisation, deferred production stock write down and impairment of the lottery debtor. This is a key focus area for our audit as management use operating profit before exceptional items as an alternative performance measure in their external reporting of financial performance and for remuneration purposes.	In addition to auditing the accuracy of each exceptional item, we have challenged management as to whether or not they are exceptional in accordance with their stated accounting policy. We also considered whether or not there were any items, in particular gains, that were not recorded as exceptional items, but should be. Lastly, we reviewed the associated disclosure in the financial statements to ensure they appropriately described the nature of the exceptional items. We reported to the Audit Committee that there were no matters arising from this work.

How we tailored the audit scope

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

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

Taken together, the segments and functions where we performed our audit work accounted for 99% of Group revenues and 96% of Group profit before tax.

A full scope audit was performed on the Parent entity.

Materiality

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

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

	Group financial statements	Parent company financial statements
Overall materiality	£857,306 (2017: £775,000).	£420,000 (2017: £420,000).
How we determined it	5% of profit before tax and exceptional items	1% of Total Assets (capped to an allocation of overall 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 exceptional items is the measure most commonly used by the shareholders to measure the performance of the Group.	Consistent with last year, 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.

STV Group plc consolidated financial statements

Independent auditors' report to the members of STV Group plc

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £110,105 and £857,306. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £42,865 (Group audit) (2017: £39,000) and £21,000 (Parent company audit) (2017: £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 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 company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, 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) and ISAs (UK) 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 2018 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 44 to 53) 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 Financial Conduct Authority ('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 44 to 53) 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

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the 'Code'), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on page 39 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 35 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

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 63, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit.
- The section of the Annual Report on page 49 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

We have nothing to report in respect of this responsibility.

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, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 4 March 2004 to audit the financial statements for the year ended 31 December 2004 and subsequent financial periods. The period of total uninterrupted engagement is 15 years, covering the years ended 31 December 2004 to 31 December 2018.

Michael Timar (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
14 March 2019

Consolidated income statement

Year ended 31 December 2018

	Note	2018 £m	2017 £m
Revenue	6	**125.9**	117.0
Net operating expenses	7	**(116.9)**	(99.6)
Operating profit		**9.0**	17.4
Analysed as:			
Operating profit before exceptional items		**20.1**	19.0
Exceptional items	9	**(11.1)**	(1.6)
Operating profit		**9.0**	17.4
Finance costs – borrowings	10	**(1.1)**	(1.0)
– IAS 19 pension	10	**(1.8)**	(2.5)
Impairment losses – exceptional ELM provision	10	**(4.2)**	–
		(7.1)	(3.5)
Profit before tax		**1.9**	13.9
Tax charge	12	**(0.3)**	(2.2)
Profit for the year		**1.6**	11.7
Earnings per share			
Basic	13	**4.2p**	30.1p
Diluted	13	**4.1p**	29.6p

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

Consolidated statement of comprehensive income

Year ended 31 December 2018

	Note	2018 £m	2017 £m
Profit for the year		**1.6**	11.7
Items that will not be reclassified to profit or loss:			
Re-measurement of defined benefit pension schemes	29	**(13.3)**	12.7
Deferred tax credit/(charge) thereon	23	**2.0**	(2.4)
Write (down)/up of investment to market value	17	**(0.5)**	0.6
Other comprehensive (expense)/income		**(11.8)**	10.9
Total comprehensive (expense)/income		**(10.2)**	22.6

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 2018

		Group		Company	
	Note	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Non-current assets					
Intangible assets	15	**1.9**	2.6	**–**	–
Property, plant and equipment	16	**9.8**	8.6	**–**	–
Investments	17	**0.7**	1.4	**48.0**	48.6
Deferred tax asset	23	**19.5**	18.4	**6.7**	5.2
Trade and other receivables	19	**8.2**	8.2	**182.6**	167.5
		40.1	39.2	**237.3**	221.3
Current assets					
Inventories	18	**14.4**	20.6	**–**	–
Trade and other receivables	19	**22.7**	26.7	**76.2**	77.0
Cash and cash equivalents	20	**6.3**	6.1	**–**	–
		43.4	53.4	**76.2**	77.0
Total assets		**83.5**	92.6	**313.5**	298.3
Equity attributable to owners of the parent					
Ordinary shares	25	**19.6**	19.7	**19.6**	19.7
Share premium	25	**101.9**	101.9	**101.9**	101.9
Capital redemption reserve		**0.2**	0.1	**0.2**	0.1
Merger reserve		**173.4**	173.4	**–**	–
Other reserve		**0.8**	0.7	**0.8**	0.7
Accumulated (losses)/profit		**(355.0)**	(334.1)	**77.7**	86.5
Total equity		**(59.1)**	(38.3)	**200.2**	208.9
Non-current liabilities					
Borrowings	22	**42.6**	41.6	**–**	–
Retirement benefit obligations	29	**78.5**	70.6	**40.5**	30.6
Provisions	24	**–**	0.1	**–**	–
		121.1	112.3	**40.5**	30.6
Current liabilities					
Trade and other payables	21	**20.4**	17.5	**72.8**	58.8
Current tax liabilities		**–**	0.9	**–**	–
Provisions	24	**1.1**	0.2	**–**	–
		21.5	18.6	**72.8**	58.8
Total liabilities		**142.6**	130.9	**113.3**	89.4
Total equity and liabilities		**83.5**	92.6	**313.5**	298.3

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 £12.3m (2017: £11.3m).

The consolidated financial statements on pages 71 to 100 were approved by the Board on 12 March 2019 and were signed on its behalf by:

Simon Pitts
Chief Executive Officer

George Watt
Chief Financial Officer

Consolidated and parent company statement of changes in equity

Year ended 31 December 2018

	Equity attributable to owners of the parent						
	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Other reserve £m	Accumulated (losses)/profit £m	Total Equity £m
Group							
Balance at 1 January 2018	19.7	101.9	0.1	173.4	0.7	(334.1)	(38.3)
Profit for the year	–	–	–	–	–	1.6	1.6
Other comprehensive expense	–	–	–	–	–	(11.8)	(11.8)
Total comprehensive expense for the year	–	–	–	–	–	(10.2)	(10.2)
Shares bought back on-market and cancelled	(0.1)	–	0.1	–	–	(0.2)	(0.2)
Acquisition of treasury shares	–	–	–	–	(0.2)	(3.4)	(3.6)
Share based compensation	–	–	–	–	0.3	–	0.3
Deferred tax charge on share based compensation	–	–	–	–	–	(0.2)	(0.2)
Dividends	–	–	–	–	–	(6.9)	(6.9)
Balance at 31 December 2018	**19.6**	**101.9**	**0.2**	**173.4**	**0.8**	**(355.0)**	**(59.1)**
Balance at 1 January 2017	19.8	101.9	–	173.4	0.4	(348.5)	(53.0)
Profit for the year	–	–	–	–	–	11.7	11.7
Other comprehensive income	–	–	–	–	–	10.9	10.9
Total comprehensive income for the year	–	–	–	–	–	22.6	22.6
Shares bought back on-market and cancelled	(0.1)	–	0.1	–	–	(1.0)	(1.0)
Acquisition of treasury shares	–	–	–	–	–	(1.6)	(1.6)
Share based compensation	–	–	–	–	0.3	–	0.3
Deferred tax credit on share based compensation	–	–	–	–	–	0.1	0.1
Issue of treasury shares to employees	–	–	–	–	–	0.5	0.5
Dividends	–	–	–	–	–	(6.2)	(6.2)
Balance at 31 December 2017	**19.7**	**101.9**	**0.1**	**173.4**	**0.7**	**(334.1)**	**(38.3)**
Company							
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	–	–	–	–	–	(6.9)	(6.9)
Balance at 31 December 2018	**19.6**	**101.9**	**0.2**	**–**	**0.8**	**77.7**	**200.2**
Balance at 1 January 2017	19.8	101.9	–	–	0.4	78.5	200.6
Profit for the year	–	–	–	–	–	11.3	11.3
Other comprehensive income	–	–	–	–	–	5.0	5.0
Total comprehensive income for the year	–	–	–	–	–	16.3	16.3
Shares bought back on-market and cancelled	(0.1)	–	0.1	–	–	(1.0)	(1.0)
Acquisition of treasury shares	–	–	–	–	–	(1.6)	(1.6)
Share based compensation	–	–	–	–	0.3	–	0.3
Issue of treasury shares to employees	–	0.1	–	–	–	0.5	0.5
Dividends	–	–	–	–	–	(6.2)	(6.2)
Balance at 31 December 2017	**19.7**	**101.9**	**0.1**	**–**	**0.7**	**86.5**	**208.9**

Consolidated and parent company statement of cash flows

Year ended 31 December 2018

		Group		Company	
	Note	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Operating activities					
Cash generated by operations	26	**23.7**	11.2	**14.8**	12.5
Interest paid		**(0.9)**	(0.7)	**–**	–
Refinancing fees paid		**(0.2)**	(0.3)	**–**	–
Taxes paid		**(0.7)**	(0.3)	**–**	–
Pension deficit funding – recovery plan payment		**(8.8)**	(7.9)	**(4.2)**	(4.1)
Net cash generated by operating activities		**13.1**	2.0	**10.6**	8.4
Investing activities					
Sale of investment		**0.2**	–	**0.1**	–
Sale of STV2 local licence companies		**0.3**	–	**–**	–
Capitalised web development spend		**(0.4)**	(0.5)	**–**	–
Purchase of property, plant and equipment		**(3.0)**	(2.9)	**–**	–
Net cash used in investing activities		**(2.9)**	(3.4)	**0.1**	–
Financing activities					
Purchase of treasury shares		**(3.5)**	(1.4)	**(3.5)**	(1.4)
Share buyback		**(0.6)**	(0.6)	**(0.6)**	(0.6)
Issue of treasury shares to employees		**–**	0.4	**–**	0.4
Net borrowings facility utilised		**1.0**	2.0	**–**	–
Dividends paid		**(6.9)**	(6.2)	**(6.9)**	(6.2)
Net cash used in financing activities		**(10.0)**	(5.8)	**(11.0)**	(7.8)
Net increase/(decrease) in cash and cash equivalents		**0.2**	(7.2)	**(0.3)**	0.6
Cash and cash equivalents at beginning of year		**6.1**	13.3	**(4.1)**	(4.7)
Cash and cash equivalents at end of year	26	**6.3**	6.1	**(4.4)**	(4.1)

Notes to the financial statements

For the year ended 31 December 2018

1. General information

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

2. Adoption of new and revised standards

New and amended standards adopted in the year

New standards, amendments and interpretations effective for the financial year beginning 1 January 2018 are as follows:

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

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

IFRS 9 'Financial Instruments' sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new models for classification of financial assets and accounting for credit losses. Hedge rules have been amended to allow hedge accounting to be applied to more risks. The adoption of IFRS 9 has resulted in a change to accounting policy, but has not had a material impact on the financial statements. The ELM debtor impairment (note 9) has been calculated based on a whole of life weighted probability impairment review in line with the new standard.

IFRS 15 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining how much and when revenue is recognised. The Group has adopted IFRS 15 on a retrospective basis recognising the cumulative effect as an adjustment to retained earnings as at 1 January 2018 and it has not had a material impact on the financial statements.

New standards and interpretations not yet adopted

New standards, amendments and interpretations issued but not yet effective for the financial year beginning 1 January 2018 are as follows:

IFRS 16	Leases
IAS 19	Share based payments (amendments)
IFRIC 23	Uncertainty over income tax treatments

IFRS 16 'Leases' is effective 1 January 2019 and will change lease accounting for lessees under operating leases. Such agreements will require recognition of an asset, representing the right to use the leased item and a liability, representing future lease payments. Lease costs (such as property rent) will be recognised in the form of depreciation and interest, rather than as an operating costs. The Group plans on adopting the retrospective approach recognising the cumulative effect as an adjustment to retained earnings with the right to use asset equal to the lease liability at transition date. The likely impact to Operating costs is expected to be around £0.1m (favourable) with the likely impact to Profit before tax being around £0.2m lower. Non-current assets and gross liabilities are both expected to increase by £14m with net assets remaining unchanged. The Group has elected not to recognise right of use assets for low-value assets. The Group will continue to expense the lease payments associated with these leases on a straight-line basis over the lease term.

IAS 19 (amendments) and IFRIC 23 are either not relevant for the Group and parent company or had no material impact on their financial statements.

3. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

Basis of preparation

The consolidated and parent company financial statements have been prepared in accordance with IFRS and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated and parent company financial statements have been prepared on a going concern basis and under the historical cost convention.

The preparation of the Group and parent company financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

Notes to the financial statements

Continued

Going concern

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

Consolidation

The financial statements comprise a consolidation of the financial statements of the Company and all its subsidiaries up to 31 December each year. Subsidiaries are entities over which the Company has control. The Company controls an entity when the Company has existing rights that give it the current ability to direct the activities that affect the Company's returns and exposure or rights to variable returns from the entity. Subsidiaries are included in the consolidated financial statements of the Company from the date control of the subsidiary commences until the date that control ceases. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Segment reporting

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

Foreign currency translation

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Property, plant and equipment

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

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

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

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

Any impairment in value is charged to the income statement.

Intangible assets

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

Internally generated software	between 10% and 25%

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

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

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

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

Financial instruments
Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are at amortised cost with the exception of investments which are at fair value through other comprehensive income (FVOCI) and derivative financial instruments which are at fair value through profit and loss (FVPL). Financial liabilities are 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 the receivables. The ELM debtor, included in non-current assets, is reviewed at each reporting period. Management perform a whole of life weighted impairment review where 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
Until 31 December 2017, the Group classified its investments as 'available-for-sale'. The initial recognition was measured at fair value, including transaction costs directly attributable to the acquisition of the financial asset. From 1 January 2018, the Group classifies its investments 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.

Under IAS 39, 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 using the effective interest rate method. Finance costs, including premiums payable on settlement or redemption are accounted for on an accruals basis to the income statement and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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

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

Notes to the financial statements
Continued

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 IFRS9 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 on a discounted cash flow basis using market forward rates.

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

Current tax is based on taxable profits for the financial period using tax rates that are in force during the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other financial years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability settled.

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

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

The defined benefit cost is made up of three categories:

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

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

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

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

Share-based payments
The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value of the equity instruments at the grant date. The fair value excludes the effect of non market-based vesting conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit and loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Fair value is measured by use of the Black & Scholes model or Monte Carlo model as relevant. The expected lives used in the model have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Provisions
Onerous contracts
Provisions for onerous contracts are recognised when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

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.

Under IAS 18 revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and VAT.

The adoption of IFRS 15 has not had a material impact on the financial statements.

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 the point that the performance obligation is delivered and control ownership 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 critical accounting estimates note 5).

iii) Lottery service revenues
Revenue is recognised for ongoing lottery costs rebilled to the SCL 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.

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

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

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

Notes to the financial statements

Continued

4. Financial risk management

Capital management

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

The capital structure of the Company consists of debt, which includes the bank loans disclosed in note 22, 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 2018 and 2017 were as follows:

	2018 £m	2017 £m
Total borrowings (note 22)	**42.6**	41.6
Cash and cash equivalents (note 20)	**(6.3)**	(6.1)
Net debt	**36.3**	35.5
Total equity	**(59.1)**	(53.0)
Total capital	**(22.8)**	(17.5)
	(159%)	(203%)

The movement in total equity is largely due a pension remeasurement increase of £11.9m (2017: decrease of £12.7m).

Covenants

The Group is subject to two financial covenants in respect of its committed borrowing facilities at the balance sheet date. The terms of the Facility Agreement contain the following covenants (i) the ratio of average net debt to adjusted earnings (pre exceptional) before interest, tax, depreciation and amortisation (EBITDA) (see note 26) 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 (2017: £15.0m) were entered into on 9 July 2016 and matured on 9 July 2018. The swaps were renewed on similar terms for a further 2 years until 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 2018 the Group had no forward foreign currency contracts in place (2017: £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 £6.6m (2017: £8.2m) debtor due from the SCL. It has policies in place to ensure that sales are made to customers with an appropriate credit history. Independent credit ratings are sought for all potential customers and based on the outcome of the feedback from the ratings agency a judgement is made on the appropriate level of credit to be given. Derivative transaction counterparties are limited to high-credit/quality financial institutions.

iii) Liquidity risk
Liquidity risk is the risk that the Group will be unable to meet its payment obligations. Prudent liquidity management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the nature of the underlying business, the aim is to maintain flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Group's liquidity reserve (comprises of the undrawn borrowing facility (note 22) and cash and cash equivalents (note 20)) 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 2018, a movement of 0.25% in interest rates would change the level of interest paid in the year by +/- £0.1m (2017: £0.1m). 0.25% is considered a reasonably possible change.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowing from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rate directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specific intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. An interest rate swap was entered into on 9 July 2016 and matured on 9 July 2018. The swaps were renewed on similar terms for a further 2 years until 9 July 2020.

5. Critical accounting estimates and judgements

In the application of the Group's accounting policies, which are described in note 3, management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Group
Pension benefits
The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate and mortality rate. Any changes in these assumptions will impact the carrying amount of pension obligations. In the event of the pension liability becoming a surplus, the Company legally has an unconditional right to that surplus and this has been agreed with the scheme trustees.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 29.

Inventory
Deferred production stock forms part of inventory and is stated in the accounts at the lower of cost or net realisable value. Programme costs are expensed in line with expected future revenues which are a judgemental area. A detailed forecast of future secondary sales is prepared by management based on historic experience and expected future trends. £4.9m (including £4.6m exceptional write offs) was expensed through the income statement in the year (2017: £1.4m). Additional information is disclosed in note 18.

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Lottery recoverability

An amount of £6.6m (2017: £8.2m) is included within non-current assets as receivable from the Scottish Children's Lottery. It is due to ELM (the lottery management company) and is expected to be recovered from 2019 onwards. In line with IFRS 9, as a result of recent trends in ticket sales and updated future forecasts, which show a significantly slower repayment profile and a resulting increased credit risk for the debtor than previously anticipated, management has performed a whole of life probability weighted impairment review. The outcome has been to increase the provision by £4.2m to £5.0m.

Company

Carrying value of parent company investments

The Company's policy is to carry out annual reviews of its investments. Based on operating results for the subsidiary undertakings and future forecast cash flows, the Directors consider that the investments' recoverable amount is greater than its carrying value and consequently no impairment is considered necessary. Additional information is disclosed in note 17.

6. Business segments

The Group's Chief Executive, the chief operating decision maker, considers the business primarily from a product perspective. Under IFRS 8, the reportable segments are Broadcast, Digital, Productions and ELM (external lottery management).

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

Since the last annual financial statements, there has been a change in the basis of segmentation. The previous Consumer segment has been further broken down into Broadcast and Digital and as such the 2017 figures have been restated.

	External revenue	
Segment revenues	**2018 £m**	2017 £m
Broadcast	**94.5**	92.0
Digital	**9.6**	8.2
Productions	**16.3**	10.2
ELM	**5.5**	6.6
	125.9	117.0

The Group adopted IFRS 15 during the year. Revenue for 2018 would have been the same under IAS 18. Group revenue is recognised at a point in time except for £9.2m which is recognised over time.

Revenue in 2018 includes £0.5m of revenues from sources outside the UK (2017: £0.8m).

Segment result	**2018 £m**	2017 £m
Broadcast	**15.3**	15.3
Digital	**4.7**	3.7
Productions	**0.1**	–
ELM	**–**	–
Operating profit (pre-exceptionals)	**20.1**	19.0
Exceptional provision attributable to ELM	**–**	(1.6)
Exceptional reorganisation cost attributable to Group	**(8.7)**	–
Exceptional loss on sale of STV2 attributable to Group	**(0.8)**	–
Exceptional GMP equalisation charge attributable to Group	**(1.6)**	–
Operating profit	**9.0**	17.4
Financing	**(2.9)**	(3.5)
Impairment losses – exceptional ELM provision	**(4.2)**	–
Profit before tax	**1.9**	13.9
Tax charge	**(0.3)**	(2.2)
Profit attributable to owners of the parent	**1.6**	11.7

Operating profit in 2018 includes £0.3m arising outside the UK (2017: £0.5m).

Segment assets and liabilities	Assets 2018 £m	Assets 2017 £m	Liabilities 2018 £m	Liabilities 2017 £m
Broadcast	**31.5**	32.4	**13.5**	9.5
Digital	**1.3**	1.1	**0.3**	0.1
Productions	**23.6**	29.4	**4.4**	5.1
ELM	**6.7**	8.2	**0.4**	0.5
Total of all segments	**63.1**	71.1	**18.6**	15.2
Unallocated corporate	**20.4**	21.5	**124.0**	115.7
Consolidated	**83.5**	92.6	**142.6**	130.9

Other segment information	Broadcast 2018 £m	Broadcast 2017 £m	Digital 2018 £m	Digital 2017 £m	Productions 2018 £m	Productions 2017 £m	ELM 2018 £m	ELM 2017 £m
Capital additions	**3.1**	3.3	**0.3**	0.1	**–**	–	**–**	–
Depreciation and amortisation	**2.0**	1.8	**0.4**	0.4	**–**	–	**–**	–

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

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

All the net assets in 2017 and 2018 were held in the UK and therefore operate in a single geographical segment.

7. Operating expenses by nature

	2018 £m	2017 £m
Programming costs	**57.1**	47.9
Staff costs	**30.6**	28.6
Other external charges	**13.7**	16.8
Depreciation and amortisation	**2.4**	2.2
Operating lease charges	**1.8**	2.3
Other operating charges	**0.2**	0.2
	105.8	98.0
Exceptional items	**11.1**	1.6
	116.9	99.6

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

	2018 £000	2017 £000
Group		
Fees payable to Company auditors for the audit of parent company and consolidated financial statements	**115**	110
Fees payable to the Company's auditors and it's associates for other services:		
- The audit of Company's subsidiaries pursuant to legislation	**24**	25
- Audit-related assurance services	**27**	26
	166	161

Included in the audit fees payable is £5,000 (2017: £5,000) paid in respect of the parent company.

Notes to the financial statements

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Fees in respect of STV Group plc pension schemes	2018 £000	2017 £000
Audit	**25**	25

8. Staff

Group

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

	2018 Number	2017 Number
Broadcast, Digital, Productions and ELM		
Established	**457**	480
Contract	**26**	23
	483	503

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

Their aggregate remuneration comprised:

	2018 £m	2017 £m
Wages and salaries	**23.5**	20.4
Social security costs	**2.1**	2.2
Other pension costs	**5.0**	6.0
	30.6	28.6

Details of Directors' remuneration is provided in the Remuneration Report on pages 54 to 61.

Company

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

No director received remuneration from the Company during the year (2017: £nil). The emoluments of the Directors are paid by another Group company which makes no recharge to the parent company.

9. Exceptional items

Reorganisation cost

A provision of £8.7m has been recognised during the year in relation to restructuring within the business. The restructure was mainly as a result of the closure of STV2. The £8.7m includes a £6.0m non-cash writedown of stock (£5.0m) and assets (£1.0m). Included within the stock writedown of £5.0m is £4.6m impairment of deferred production stock due to the reorganisation.

Loss on disposal of STV2

The disposal of the STV2 companies to That's Media Limited on 30 June resulted in a loss on sale of £0.8m. The loss on disposal includes a non-cash writedown of stock and assets of £0.4m. See note 11 for more information.

GMP charge

A past service cost of £1.6m has been included in the measurement of the pension scheme liabilities for Guaranteed Minimum Pension ('GMP') equalisation. This is to equalise the benefits between men and women following a High Court ruling around equalisation of GMP.

ELM debtor

An additional £4.2m provision has been recorded during the year in relation to the ELM debtor.

In line with IFRS 9, as a result of recent trends in ticket sales and updated future forecasts, which show a significantly slower repayment profile and a resulting increased credit risk for the debtor than previously anticipated, management has performed a whole of life probability weighted impairment review. The outcome has been to increase the provision by £4.2m to £5.0m.

In 2017, the £1.6m non-cash charge incurred in the year included the IAS 39 discounting provision of £0.8m (above) and also a £0.8m write off of post-launch non-billable costs.

The tax effect on exceptional items during the year was a credit of £2.6m (2017: £0.1m credit).

10. Finance costs

	2018 £m	2017 £m
Bank borrowings	**1.1**	1.0
IAS 19 pension finance charge	**1.8**	2.5
	2.9	3.5
Impairment losses – exceptional ELM provision (note 9)	**4.2**	–
	7.1	3.5

11. Disposal of subsidiary

On 30 June 2018, the Group sold the STV2 local licence companies to That's Media Limited for a gross cash consideration of £0.3m (£0.2m net of disposal costs) resulting in a £0.8m loss on disposal.

The loss on disposal has been calculated as follows:

	30 June 2018 £m
Exceptional items written off:	
Stock	(0.3)
Pre-launch costs	(0.3)
Redundancy costs	(0.2)
Cost of contract cancellations	(0.1)
Fixed assets	(0.1)
	(1.0)
Disposal expenses	(0.1)
	(1.1)
Total consideration	0.3
Loss on sale of STV2	(0.8)

12. Tax charge

	2018 £m	2017 £m
Corporation tax:		
Current year	**–**	1.2
Adjustments in respect of prior years	**(0.4)**	–
	(0.4)	1.2
Deferred tax (see note 23)	**0.7**	1.0
Tax charge for the year	**0.3**	2.2

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

	2018 £m	2017 £m
Profit before tax	**1.9**	13.9
Tax at the UK corporation tax rate of 19% (2017: 19.25%)	**0.4**	2.7
Tax effects of:		
Other expenses not deductible for tax purposes	**0.1**	0.1
Utilisation of losses not recognised	**0.2**	(0.2)
Impact of changes in tax rates	**(0.2)**	(0.2)
Changes in estimates related to prior years	**(0.2)**	(0.2)
Tax charge for the year	**0.3**	2.2

Notes to the financial statements
Continued

13. Earnings per share

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

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

Adjusted EPS is presented in order to show the business performance of the Group in a consistent manner and reflect how the business is managed and measured on a day-to-day basis. Adjusted EPS reflects the impact of operating and non-operating exceptional items on Basic EPS and also IAS 19 net financing cost adjustment; and the tax adjustments relating to these items. Each of these adjustments is explained in detail in the section below.

The calculation of Basic EPS and Adjusted EPS, together with the diluted impact on each, is set out below:

	2018 £m	2017 £m
Basic earnings per share		
Profit for the year attributable to equity shareholders	**1.6**	11.7
Weighted average number of ordinary shares in issue – million	**38.4**	38.9
Basic earnings per ordinary share	**4.2p**	30.1p

	2018 £m	2017 £m
Diluted earnings per share		
Profit for the year attributable to equity shareholders	**1.6**	11.7
Weighted average number of ordinary shares in issue – million	**38.4**	38.9
Dilution due to share options	**0.8**	0.6
Total weighted average number of ordinary shares in issue – million	**39.2**	39.5
Diluted earnings per ordinary share	**4.1p**	29.6p

	Ref	2018 £m	2017 £m
Adjusted earnings per share			
Profit for the year attributable to equity shareholders		**1.6**	11.7
Exceptional items (net of tax)	(a)	**9.2**	1.6
Exceptional impairment losses (net of tax)	(b)	**3.5**	–
Profit for the year before exceptional items		**14.3**	13.3
Adjustment for IAS 19 financing cost (net of tax)	(c)	**1.5**	2.1
Adjusted profit		**15.8**	15.4
Weighted average number of ordinary shares in issue – million		**38.4**	38.9
Adjusted earnings per ordinary share		**41.1p**	39.6p

	2018 £m	2017 £m
Diluted adjusted earnings per share		
Adjusted profit	**15.8**	15.4
Weighted average number of ordinary shares in issue – million	**38.4**	38.9
Dilution due to share options	**0.8**	0.6
Total weighted average number of ordinary shares in issue – million	**39.2**	39.5
Diluted adjusted earnings per ordinary share	**40.3p**	39.0p

Details of the adjustments to earnings are as follows:

(a) Exceptional items (net of tax) £9.2m (2017: £1.6m)
Exceptional items of £11.1m (2017: £1.6m), net of related tax credit of £1.9m (2017: £nil). See note 9 for more details.

(b) Exceptional impairment losses (net of tax) £3.5m (2017: £nil)
Exceptional impairment losses of £4.2m (2017: £nil), net of related tax credit of £0.8m (2017: £nil). See note 9 for more details.

(c) Adjustment for IAS 19 financing cost (net of tax) £1.5m (2017: £2.1m)
An adjustment for the IAS 19 financing cost of £1.8m (2017: £2.5m), net of a related tax credit of £0.3m (2017: £0.4m).

14. Dividends

	2018 £m	2017 £m
Equity dividends on ordinary shares		
Declared and paid during the year:		
Final for 2017: 12.0p (2016: 11.0p) per share	**4.6**	4.3
Interim for 2018: 6.0p (2017: 5.0p) per share	**2.3**	1.9
Dividends paid	**6.9**	6.2

A final dividend of 14.0p per share (2017: 12.0p per share) has been proposed and is subject to approval by the Board of Directors. It is payable on 31 May 2019 to shareholders who are on the register at 12 April 2019. The ex-dividend date is 11 April 2019. This final dividend, amounting to £5.3m has not been recognised as a liability in these financial statements.

15. Intangible assets

	Web development and branding £m
Cost	
At 1 January 2017	3.2
Additions	0.5
At 1 January 2018	3.7
Additions	0.4
Disposals	(0.7)
At 31 December 2018	**3.4**
Accumulated amortisation and impairment	
At 1 January 2017	0.5
Amortisation	0.6
At 1 January 2018	1.1
Amortisation	0.7
Disposals	(0.3)
At 31 December 2018	**1.5**
Net book value at 31 December 2018	**1.9**
Net book value at 31 December 2017	2.6

Notes to the financial statements
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16. Property, plant and equipment

	Leasehold buildings £m	Plant, technical equipment and other £m	Assets under construction £m	Total £m
Cost				
At 1 January 2017	0.1	22.3	0.2	22.6
Additions	0.3	–	2.6	2.9
Transfers	–	1.9	(1.9)	–
Disposals	–	(0.1)	–	(0.1)
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 31 December 2018	**0.4**	**25.7**	**2.1**	**28.2**
Accumulated depreciation and impairment				
At 1 January 2017	0.1	15.2	–	15.3
Charge for year	–	1.6	–	1.6
Disposals	–	(0.1)	–	(0.1)
At 1 January 2018	0.1	16.7	–	16.8
Charge for year	–	1.7	–	1.7
Disposals	–	(0.1)	–	(0.1)
At 31 December 2018	**0.1**	**18.3**	**–**	**18.4**
Net book value at 31 December 2018	**0.3**	**7.4**	**2.1**	**9.8**
Net book value at 31 December 2017	0.3	7.4	0.9	8.6

17. Investments

	2018 £m	2017 £m
Group		
Listed	**0.1**	0.8
Other	**0.6**	0.6
	0.7	1.4

The Group holds investments in a number of different entities. These investments are categorised as equity investments and are measured at fair value through the Statement of Other Comprehensive Income.

The movement of £0.7m during the year relates to Mirriad plc, one of STV Group's investments. 324,203 shares were sold in the year for £0.2m and the value of the remaining investment was written down by £0.5m to market value.

	2018 £m	2017 £m
Company		
Share in Group undertakings	**47.3**	47.3
Other investments		
Listed	**0.2**	0.8
Other	**0.5**	0.5
	48.0	48.6

Impairment testing
Investments in subsidiaries is monitored by management to ensure that it has not suffered any impairment. In order to assess whether the investment in subsidiaries was subject to impairment, a valuation assessment was performed using a DCF model. The cash flow projections for the model were based on a 3 year plan approved by the Board in October 2018 which supported moderate growth in the Group through the period from 2019 to 2021 and a terminal value thereafter based on 3% growth. The resulting valuation provided significant headroom against the 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 2019 of 10% and then flat growth. Both scenarios still left the Group with significant headroom. The discount rate applied was 7.85% (2017: 7.95%).

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 2018 is as follows:

Undertaking	Principal activity	Registered address
STV News Services Limited *	Investment holding undertaking	(1)
STV Television Limited	Investment holding undertaking	
STV Central Limited	Television broadcasting	
STV North Limited	Television broadcasting	
STV Productions Limited	Programme production	
STV Drama Productions Limited	Programme production	
Ginger Television Productions Limited	Programme production	(1)
SKA Ginger Productions Limited (50%)	Programme production	(1)
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	
STV SIP Trustees Limited	Dormant	
Rise & Shine (Television) Limited *	Investment holding undertaking	
STV Publishing Limited	Dormant	
STV Out of Home Limited	Dormant	
Peopleschampion Limited	Dormant	
Scottish Media Group (Jersey) Limited	Dormant	(2)
The Ginger Media Group Limited	Dormant	(1)
STV Appeal *	Holding undertaking for charity	
STV Appeal Trading Company Limited	Trading undertaking for charity	
STV Elm Limited *	Group services undertaking	

* directly held

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

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

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

Notes to the financial statements

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18. Inventories

	Group	
	2018 £m	2017 £m
Deferred programme production	**10.3**	14.8
Programme production work in progress	**3.9**	4.9
Recorded programmes	**0.2**	0.9
	14.4	20.6

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

Deferred programme production stock is classified as a current asset even though it will be realised into cash over several years due to the homogeneous nature of the inventory which would result in an arbitrary split between the current and non-current categories and to be consistent with practice elsewhere in the industry. It is anticipated that £1.0m is likely to be realised within 12 months.

At 31 December 2018, 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 £14.0m (2017: £24.7m), with the net book value of £10.3m representing 46% (2017: 54%) of the future sales gross of discounting. A discount rate of 6.0% (2017: 6.0%) was applied. Revenues in 2019 are expected to be £2.0m.

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

Assumption	Change in assumption	Impact on NPV
Discount rate	Increase/decrease by 0.25%	Decrease/increase by £0.2m
Rate of price inflation (RPI)	Increase/decrease by 0.25%	Increase/decrease by £0.2m
Sales	Increase/decrease by 10.00%	Increase/decrease by £1.3m

19. Trade and other receivables

	Group				Company			
	Current		Non-current		Current		Non-current	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Trade receivables	**11.9**	15.4	**–**	–	**–**	–	**–**	–
Amounts owed by group undertakings	**–**	–	**–**	–	**75.2**	75.9	**182.6**	167.5
Prepayments	**2.0**	2.4	**–**	–	**–**	–	**–**	–
Contract assets	**8.4**	8.5	**–**	–	**–**	–	**–**	–
Other receivables	**0.2**	0.4	**8.2**	8.2	**1.0**	1.1	**–**	–
Corporation tax debtor	**0.2**	–	**–**	–	**–**	–	**–**	–
	22.7	26.7	**8.2**	8.2	**76.2**	77.0	**182.6**	167.5

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:

	2018		2017	
	Gross £m	Provision £m	Gross £m	Provision £m
Less than 30 days	**11.4**	**–**	15.1	–
Past due	**0.5**	**0.1**	0.3	–
	11.9	**0.1**	15.4	–

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.

Group other receivables of £8.2m (31 December 2017: £8.2m), included within non-current assets, relates mainly to debt due to ELM (the lottery management company) from the Scottish Children's Lottery and will be recovered from 2019 onwards. The £6.6m (2017: £8.2m) ELM debtor is net of an expected credit loss impairment of £5.0m. In line with IFRS 9, as a result of recent trends in ticket sales and updated future forecasts, which show a significantly slower repayment profile and a resulting increased credit risk for the debtor than previously anticipated, management has performed a whole of life probability weighted impairment review. The outcome has been to increase the provision by £4.2m to £5.0m.

	£m
Opening provision under IAS 39 (included in operating expenses) and IFRS 9	**0.8**
Increase in provision under IFRS 9	**4.2**
	5.0

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

A loan to a subsidiary undertaking of £80.0m (2017: £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.

20. Cash and cash equivalents

	Group	
	2018 £m	2017 £m
Cash and cash equivalents	**6.3**	6.1

Notes to the financial statements
Continued

21. Trade and other payables

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Current				
Trade payables	**6.1**	4.3	**–**	–
Accrued expenses	**9.8**	7.4	**0.1**	0.5
Contract liabilities	**1.9**	2.1	**–**	–
Amounts owed to group undertakings	**–**	–	**68.3**	54.2
Bank overdraft	**–**	–	**4.4**	4.1
Social security and other taxes	**2.6**	3.7	**–**	–
	20.4	17.5	**72.8**	58.8

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:

	2018 £m	2017 £m
Balance at 1 January	**2.1**	1.1
Revenue recognised in the year	**(2.1)**	(1.0)
Cash received	**1.9**	2.0
Balance at 31 December	**1.9**	2.1

22. Borrowings

	Group	
	2018 £m	2017 £m
Bank loans	**42.6**	41.6

The borrowings are repayable as follows:

Expiring in 2 to 5 years	**42.6**	41.6

All undrawn committed borrowing facilities are repayable within 2 to 5 years (2017: 2 to 5 years).

The amount of bank loans is net of £0.4m unamortised borrowing costs (2017: £0.4m).

The effective interest rates were as follows:

	2018 %	2017 %
Bank loans (floating)	**2.2**	2.0

At 31 December 2018, the Group had revolving credit and overdraft bank facilities in place totalling £60.0m (£60.0m at 31 December 2017). At 31 December 2018, £43.0m (£42.0m at 31 December 2017) of the facility was drawn down.

The £60.0m revolving credit and overdraft facility has a maturity date of June 2022. Security is provided to the debt providers by way of cross guarantees and a share pledge.

The Group has hedged its exposure to fluctuations in interest rates with interest rate swaps of £15.0m (2017: £15.0m). The notional principal amount of the outstanding interest rate swap contracts at 31 December 2018 was £15.0m (2017: £15.0m). A fair value on the interest rate swaps of £nil (2017: £nil) has been recognised at 31 December 2018.

23. Deferred tax

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

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Deferred tax asset:				
Deferred tax to be recovered after more than one year	**(19.5)**	(17.0)	**(6.7)**	(4.7)
Deferred tax to be recovered within one year	**–**	(1.4)	**–**	(0.5)
	(19.5)	(18.4)	**(6.7)**	(5.2)
Net deferred tax asset	**(19.5)**	(18.4)	**(6.7)**	(5.2)
Deferred tax asset not recognised	**(1.8)**	(1.9)	**–**	–

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

The deferred tax asset of £1.8m (2017: £1.9m) which has not been recognised relates to a combination of trading tax losses and non-trade debits.

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

	Tax trading losses £m	Other temporary differences £m	Accelerated tax depreciation £m	Retirement benefit obligations £m	Total £m
Group					
At 1 January 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 31 December 2018	**(3.9)**	**(0.5)**	**(1.9)**	**(13.2)**	**(19.5)**
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 31 December 2018	**–**	**–**	**–**	**(6.7)**	**(6.7)**

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

Notes to the financial statements

Continued

24. Provisions

	Reorganisation provisions		Onerous lease provisions		Total provisions	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
At 1 January	**–**	–	**0.3**	0.5	**0.3**	0.5
Provided during the year	**1.7**	–	**–**	–	**1.7**	–
Utilised during the year	**(0.7)**	–	**(0.2)**	(0.2)	**(0.9)**	(0.2)
At 31 December	**1.0**	–	**0.1**	0.3	**1.1**	0.3
The provisions are expected to be utilised:						
Within one year	**1.0**	–	**0.1**	0.2	**1.1**	0.2
Greater than one year	**–**	–	**–**	0.1	**–**	0.1
	1.0	–	**0.1**	0.3	**1.1**	0.3

25. Share capital and premium

	Number of shares (thousands)	Ordinary shares £m	Share premium £m	Total £m
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 31 December 2018	**39,192**	**19.6**	**101.9**	**121.5**

The total authorised number of ordinary shares is 63 million shares (2017: 63 million shares) with a par value of £0.50 per share (2017: £0.50 per share). All issued shares are fully paid.

The Group commenced a share buyback programme in 2017 which ceased in April during the year. During 2018 175,000 shares were purchased and cancelled (2017: 181,000 shares).

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

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Operating profit/(loss)	**9.0**	17.4	**(1.7)**	(0.8)
Adjustments for:				
Depreciation (note 16)	**1.7**	1.6	**–**	–
Amortisation (note 15)	**0.7**	0.6	**–**	–
Share based payment	**0.3**	0.3	**0.3**	0.3
Reorganisation exceptional	**8.7**	–	**–**	–
Sale of STV 2 exceptional	**0.8**	–	**–**	–
GMP exceptional	**1.6**	–	**1.1**	–
ELM exceptional	**–**	1.6	**–**	–
EBITDA	**22.8**	21.5	**(0.3)**	(0.5)
Decrease/(increase) in inventories	**0.7**	(1.1)	**–**	–
Decrease/(increase) in trade and other receivables (excluding ELM)	**2.2**	(3.9)	**0.1**	(0.1)
Increase/(decrease) in trade and other payables (excluding ELM)	**3.1**	(1.4)	**0.2**	–
Increase in ELM trade and other receivables	**(2.6)**	(3.9)	**–**	–
Decrease in ELM trade and other payables	**(0.1)**	–	**–**	–
Increase in intra group balances	**–**	–	**14.8**	13.1
	26.1	11.2	**14.8**	12.5
Exceptional reorganisation cash costs	**(2.4)**	–	**–**	–
Cash generated by operations	**23.7**	11.2	**14.8**	12.5

Reconciliation of movement in net debt

	At 1 January 2018 £m	Cash flows £m	Non-cash changes £m	At 31 December 2018 £m
Share buy-back	(0.4)	0.6	(0.2)	**–**
Long-term borrowings	(41.6)	(1.0)	–	**(42.6)**
Total liabilities from financing activities	(42.0)	(0.4)	(0.2)	**(42.6)**
Deduct: Share buy-back	0.4	(0.6)	0.2	**–**
Cash and cash equivalents	6.1	0.2	–	**6.3**
Net debt	(35.5)	(0.8)	–	**(36.3)**

The share buy-back liability included within Trade and other payables on the balance sheet in 2017 and relating to a contract to purchase our own shares as part of the share buy-back scheme was reversed in 2018.

The long-term borrowings non-cash changes relate to the amortisation of borrowing costs.

27. Operating lease commitments

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

	2018 £m	2017 £m
Within one year	**1.7**	2.1
Between two and five years	**8.0**	8.0
After five years	**4.1**	6.1
	13.8	16.2

28. 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:

	2018 £m	2017 £m
Short-term employee benefits*	**2.4**	1.4

* See Remuneration Report pages 56 to 57 for details

Other related party transactions

During the year £3,700 (2017: £3,700) of fee income was received from the Group's investment companies and a balance of £1,110 owed at 31 December 2018 (31 December 2017: £2,220).

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 £32,758 during the year (2017: £32,683) with an outstanding receivable of £nil at 31 December 2018 (31 December 2017: £25,610).

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

Notes to the financial statements

Continued

29. Retirement benefit schemes

Defined contribution schemes

The Group operates two money purchase schemes, the STV Pension Scheme and the Pearl & Dean Cinemas Pension Scheme, for which the pension cost charge for the year amounted to £1.5m (2017: £1.5m).

Defined benefit schemes

The Group operates two defined benefit pension schemes. The schemes are trustee administered and the schemes' assets are held independently of the Group's finances. Pension costs are assessed in accordance with the advice of an independent professionally qualified actuary.

The schemes are the Scottish and Grampian Television Retirement Benefit Scheme and the Caledonian Publishing Pension Scheme. Both are closed schemes and accounted for under the projected unit method.

Defined benefit pension deficit

Group

The net pension deficit at 31 December 2018 was £78.5m (2017: £70.6m).

Company

The net pension deficit was £40.5m (2017: £30.6m).

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

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Total defined benefit scheme obligations	**(421.9)**	(440.0)	**(180.3)**	(182.2)
Total defined benefit scheme assets	**343.4**	369.4	**139.8**	151.6
Net pension deficit	**(78.5)**	(70.6)	**(40.5)**	(30.6)

A related offsetting deferred tax asset for the Group of £13.2m (2017: £12.0m) and the Company of £6.7m (2017: £5.2m) is included under non-current assets. Therefore the pension scheme deficit net of the related deferred tax asset for the Group amounts to £65.3m at 31 December 2018 (£58.6m at 31 December 2017) and the Company amounts to £33.8m (2017: £25.4m).

Total defined benefit scheme obligations

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

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Defined benefit obligation at 1 January	**440.0**	448.2	**182.2**	186.6
Past service cost – GMP equalisation	**1.6**	–	**1.1**	–
Interest cost	**11.0**	12.2	**4.5**	5.1
Remeasurement (gains)/losses	**(10.6)**	0.4	**1.9**	(0.2)
Benefits paid from plan	**(20.1)**	(20.8)	**(9.4)**	(9.3)
Defined benefit obligation at 31 December	**421.9**	440.0	**180.3**	182.2

Assumptions used to estimate the scheme obligations

The 1 January 2015 valuation has been updated to 31 December 2017 by a qualified independent actuary and reflect recent market movements in corporate bond yields and inflation. The major assumptions used by the actuary were:

	Group		Company	
	2018	2017	**2018**	2017
Rate of increase in salaries	**nil%**	nil%	**nil%**	nil%
Rate of increase of pensions in payment	**3.30%**	3.21%	**3.30%**	3.21%
Discount rate	**2.75%**	2.55%	**2.75%**	2.55%
Rate of price inflation (RPI)	**3.30%**	3.20%	**3.30%**	3.20%

Assumptions regarding future mortality experience are set based on advice, published statistics and experience in each scheme and are reflected in the table below (average life expectations of a pensioner retiring at age 65). As part of the 1 January 2015 valuation process, a detailed research project on the health of approximately 40% of the two schemes' pensioners was undertaken. The outcomes of this study have been reflected in the mortality assumptions used at both 31 December 2017 and 2018.

	Group		Company	
	2018 Years	2017 Years	**2018 Years**	2017 Years
Retiring at balance sheet date:				
Male	**19.4**	18.8	**19.1**	18.5
Female	**21.6**	20.8	**21.3**	20.6
Retiring in 25 years:				
Male	**21.4**	20.6	**20.8**	20.1
Female	**23.1**	22.3	**23.3**	22.5

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 1%
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 4%

The analysis above has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period assuming that all other assumptions are held constant.

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

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Fair value of scheme assets at 1 January	**369.4**	359.4	**151.6**	147.4
Interest income	**9.3**	9.9	**3.8**	4.0
Return on plan assets excluding interest income	**(22.5)**	13.1	**(9.0)**	5.4
Contributions from the employer	**10.0**	9.4	**4.5**	4.2
Administrative expenses paid from plan assets	**(2.7)**	(1.6)	**(1.7)**	(0.1)
Benefits paid from plan	**(20.1)**	(20.8)	**(9.4)**	(9.3)
Fair value of scheme assets at 31 December	**343.4**	369.4	**139.8**	151.6

Scheme assets
At 31 December 2018 the Scheme's assets were invested in a diversified portfolio that consisted primarily of investment funds and debt instruments. The fair value of the Scheme's assets are shown below:

	At 31 December 2018			At 31 December 2017		
Group	**Quoted £m**	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Investment funds	**36.1**	**110.4**	**146.5**	109.7	144.2	253.9
Debt instruments	**184.0**	**–**	**184.0**	100.3	–	100.3
Cash and cash equivalents	**13.1**	**–**	**13.1**	8.9	–	8.9
Derivatives	**–**	**(0.2)**	**(0.2)**	–	6.3	6.3
	233.2	**110.2**	**343.4**	218.9	150.5	369.4

Notes to the financial statements

Continued

Company	At 31 December 2018 Quoted £m	Unquoted £m	Total £m	At 31 December 2017 Quoted £m	Unquoted £m	Total £m
Investment funds	**14.8**	**45.2**	**60.0**	44.7	59.5	104.2
Debt instruments	**75.1**	**–**	**75.1**	41.4	–	41.4
Cash and cash equivalents	**5.0**	**–**	**5.0**	3.6	–	3.6
Derivatives	**–**	**(0.3)**	**(0.3)**	–	2.4	2.4
	94.9	**44.9**	**139.8**	89.7	61.9	151.6

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

	2018 £m	2017 £m
Amount charged to net operating expenses:		
Current service cost – defined benefit expenses	**(1.8)**	(1.9)
Past service cost – GMP equalisation	**(1.6)**	–
	(3.4)	(1.9)
Amount charged to finance costs:		
Net interest expense	**(1.8)**	(2.5)
Total charged in the consolidated income statement	**(5.2)**	(4.4)

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

	2018 £m	2017 £m
Remeasurement (losses)/gains:		
Return on plan assets excluding interest income	**(22.5)**	13.1
Actuarial (losses)/gains on liabilities arising from change in:		
– demographic assumptions	**(19.0)**	11.8
– financial assumptions	**8.1**	(12.2)
– experience adjustments	**20.1**	–
Total recognised in the consolidated statement of comprehensive income	**(13.3)**	12.7

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

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

The estimated total employer contributions in 2019 are £10.2m which reflects the deficit funding payments described above.

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

30. Share-based compensation

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

The Company has the following plans currently operating:

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

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

Share-based compensation costs were £0.3m (2017: £0.3m).

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

The performance measures are agreed by the Remuneration Committee based on which they consider to be aligned with the delivery of strategy and long term shareholder value. The Committee has discretion to use different or additional measures or weightings to ensure that the LTIP remains appropriately aligned to the business strategy and objectives. The performance measures are based on a combination of earnings growth and total shareholder return and are valued based on Monte-Carlo simulation.

The assumptions used in Monte-Carlo simulation for the 2018 LTIP valuation are:

	%
Risk-free interest rate	0.65
Expected dividend yield	5.45
Expected share price volatility	29.62

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

Year awarded	Market price on grant date pence	2018 Number	2017 Number
2013 VCP	1.00	376,735	470,205
2014 LTIP	3.40	1,875	20,040
2015 LTIP	4.25	1,607	302,473
2016 LTIP	3.67	306,395	324,265
2017 LTIP	3.65	264,647	292,888
2018 LTIP	3.23	348,025	–
2018 LTIP – Chief Executive	3.10	210,662	–

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 £3.34 to £3.60. At 31 December 2018 there were 428,886 (2017: 452,030) options outstanding under the plans. The employee share plans are valued using the Black and Scholes model.

31. Reconciliation of statutory results to adjusted results

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

	2018			2017		
	Profit before tax £m	**Basic EPS pence**	**Diluted EPS pence**	Profit before tax £m	Basic EPS pence	Diluted EPS pence
Post-exceptional	**1.9**	**4.2p**	**4.1p**	13.9	30.1p	29.6p
Add back: exceptionals	**15.3**	**33.0p**	**32.4p**	1.6	4.1p	4.1p
Pre-exceptional	**17.2**	**37.2p**	**36.5p**	15.5	34.2p	33.7p
Add back: IAS 19	**1.8**	**3.9p**	**3.8p**	2.5	5.4p	5.3p
Adjusted results	**19.0**	**41.1p**	**40.3p**	18.0	39.6p	39.0p

Five year summary

For the year ended 31 December 2018

	IFRS				
	2014 £m	2015 £m	2016 £m	2017 £m	**2018 £m**
Results					
Revenue	120.4	116.5	120.4	117.0	**125.9**
Profit from operations before exceptional items	19.5	20.3	19.7	19.0	**20.1**
Profit on ordinary activities before taxation and exceptional items	17.3	18.6	18.5	15.5	**17.2**
Assets					
Non-current assets	26.9	22.3	38.4	39.2	**40.1**
Current assets	61.2	55.0	55.6	53.4	**43.4**
Total assets	88.1	77.3	94.0	92.6	**83.5**
Equity and liabilities					
Current liabilities	19.7	18.6	18.1	18.6	**21.5**
Non-current liabilities	64.9	47.8	128.9	112.3	**121.1**
Equity	3.5	10.9	(53.0)	(38.3)	**(59.1)**
Total equity and liabilities	88.1	77.3	94.0	92.6	**83.5**
Key statistics					
Earnings per ordinary share – basic	38.7p	29.8p	32.5p	30.1p	**4.2p**
– diluted	37.6p	29.0p	31.9p	29.6p	**4.1p**
Dividends per ordinary share	8.0p	10.0p	15.0p	17.0p	**20.0p**

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
Fax: +44 (0) 1484 601 512
Email: enquiries@linkgroup.co.uk
Website: 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

Shareholder information

Annual Report on internet
The 2018 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:
Katie Martin
Communications Executive
STV Group plc
Pacific Quay
Glasgow G51 1PQ
Tel: 0141 300 3109
Email: katie.martin@stv.tv

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

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

Dividend Reinvestment Plan
STV Group plc operates a Dividend Reinvestment Plan to provide United Kingdom shareholders with a facility to invest cash dividends by purchasing further STV Group plc shares. Further details are available from the Registrar on: +44 (0) 371 664 0381.**

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

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

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

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

Notice of Annual General Meeting

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

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

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

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

Notice is hereby given that the Annual General Meeting of the Company will be held at Pacific Quay, Glasgow G51 1PQ on Tuesday 23 April 2019 at 11 am for the purpose of considering and, if thought fit, passing the resolutions below.

Resolutions 1 to 10 (inclusive) will be proposed as ordinary resolutions and Resolutions 11 to 13 (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 2018 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 56 to 61 of the Annual Report and Accounts for the financial year ended 31 December 2018.

   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 14.0p per ordinary share for the year ended 31 December 2018.

   The Board proposes a final dividend of 14.0p per ordinary share for the year ended 31 December 2018 which, if approved, will be paid on 31 May 2019 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 12 April 2019.

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

   David Bergg is standing for election following his appointment as a Non-Executive Director on 1 May. The Articles of Association require that a Director appointed by the Board since the last Annual General Meeting should retire at the next Annual General Meeting and stand for election to the Board in order to give shareholders a chance to confirm the appointment. Biographical details of David Bergg can be found on page 43.

Resolutions 5 to 7

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

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

   Biographical details of Christian Woolfenden can be found on page 42 and the Board confirms that he meets the independence criteria as set out in B.1.1 of the UK Corporate Governance Code.

   Following formal performance evaluation, Mr Woolfenden's performance continues to be effective and to demonstrate commitment to the role.

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

   Biographical details of Anne Marie Cannon can be found on page 42 and the Board confirms that she meets the independence criteria as set out in B.1.1 of the UK Corporate Governance Code.

   Following formal performance evaluation, Ms Cannon's performance continues to be effective and to demonstrate commitment to the role.

Notice of Annual General Meeting

7. To re-elect Simon Miller as a Director of the Company.

   Biographical details of Simon Miller can be found on page 43 and the Board confirms that he meets the independence criteria as set out in B.1.1 of the UK Corporate Governance Code.

   Following formal performance evaluation, Mr Miller's performance continues to be effective and to demonstrate commitment to the role.

8. To re-appoint PricewaterhouseCoopers LLP as the auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid.

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

10. That for the purpose of Section 551 of the Companies Act 2006, the Directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities (within the meaning of Section 560 of that Act):

    (a) up to an aggregate nominal amount of £6,532,022; 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 14 March 2019, 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 14 March 2019, 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 2020. The Directors do not have any present intention of exercising this authority except to satisfy awards of shares under the Company's employee share schemes and no issue of ordinary shares will be made which would effectively alter control of the Company without the prior approval of the Company in general meeting.

Special resolutions

11. That subject to the passing of Resolution 10, the Directors be and are hereby empowered, pursuant to Section 570 of the Companies Act 2006 to allot equity securities (within the meaning of Section 560 of that Act) for cash either pursuant to the authority conferred by Resolution 10 or by way of a sale of treasury shares as if Section 561 of that Act did not apply to any such allotment, provided that this power shall be limited to:

    (a) the allotment of equity securities in connection with an offer of securities (but in the case of the authority granted under paragraph (b) of Resolution 10 by way of rights issue only) in favour of ordinary shareholders of the Company and other persons entitled to participate therein where the equity securities respectively attributable to the interest of all such holders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares held or deemed to be held by them, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or any stock exchange or by virtue of shares being represented by depositary receipts or any other matter; and

    (b) the allotment of equity securities (otherwise than pursuant to paragraph (a) above) having a nominal value not exceeding in the aggregate £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 14 March 2019.

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 2020. 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.

12. 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 14 March 2019. The maximum price, which may be paid per Share, amounts to not more than 5% above the average of the middle market quotations of the Company's shares for the five business days immediately preceding the date of purchase. The power will only be used if the Board is satisfied that it will be in the best interests of the shareholders generally.

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

The Company announced a share buyback programme on 22 September 2017 and as at 14 March 2019 the Company has completed the buyback of 356,094 ordinary shares of 50p each, the aggregate consideration of which was £1,243,569. Each of these shares was cancelled upon purchase. Consequently, on 14 March 2019 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 14 March 2019 warrants and options to subscribe for 2,692,500 ordinary shares in the capital of the Company were outstanding, representing 6.87% of the Company's issued ordinary share capital as at 14 March 2019 (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 7.63% of the issued ordinary share capital of the Company (excluding treasury shares held by the Company).

Notice of Annual General Meeting

13. 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

14 March 2019

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 21 April 2019 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 21 April 2019 (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 14 March 2019 (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 14 March 2019 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 21 April 2019 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 23 April 2019 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.

Notice of Annual General Meeting

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.

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.

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Designed and produced by Thunderbolt Projects

STV Group plc
Pacific Quay
Glasgow G51 1PQ
Tel: 0141 300 3000
www.stv.tv

Company Registration Number SC203873

The Victim – STV Productions four-part contemporary thriller for BBC One. Starring leading Scottish actors Kelly Macdonald, John Hannah and rising star James Harkness.

children's appeal

Shining a light on the causes and impact of child poverty

£19m
raised so far

1,102
projects supported

79,000
children and young people helped

100%
of Scotland's local authorities reached

To get involved with the 2019 Appeal visit www.stv.tv/appeal