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SMG

INFLUENTIAL RELEVANT INNOVATIVE TRUSTED

2007
Annual Report & Accounts

OUR VISION IS TO BE SCOTLAND'S MOST INFLUENTIAL, RELEVANT, INNOVATIVE AND TRUSTED MEDIA BRAND.

ENTERTAINING SCOTLAND FOR 50 YEARS ..

On 31 August 2007, stv celebrated its 50th year of commercial broadcasting in Scotland. We celebrated with all our audiences – onscreen we commissioned programmes to celebrate 50 years in broadcasting, staff took part in a special photo shoot which captured all staff in a large 's' shape (p21) and we celebrated with our communities

26%
PEAK TIME AUDIENCE SHARE ON stv

103
TAGGART EPISODES COMMISSIONED OVER 25 YEAR HISTORY

260,000
VIDEO VIEWS PER MONTH ON stv WEBSITES

BROADCASTING

Guardians of the stv brand, the commercial revenue around the TV channel and the PSB requirements for the TV output including *Scotland Today*, *North Tonight* and *the five thirty show*

CONTENT

Creates programming for stv, ITV and for other TV channels Famous brands include *Taggart*, *Rebus* and *Jack Osbourne Adrenaline Junkie*

VENTURES

Develop digital platforms and new online commercial activities to ensure a compelling online experience

2007 SUCCESSES

- Turnaround Plan introduced with broadcasting business at the core
- Restructured business and strengthened management team with focus on delivery
- 12 Key Performance Indicators embedded in the business and on track
- Identified £5.0m operational cost savings in TV to benefit 2007 and 2008
- Disposal of Primesight, outdoor advertising business
- Rights Issue completed raising £95.1m gross to pay down debt
- Negotiated a new five year bank deal with HBOS

CONFIDENCE IN OUR VISION

2007 has been a transformational year for the Company. Since the appointment of your new board of directors in February 2007 much has happened in the wider media industry and a number of important actions have been taken within SMG to re-create a financially stable company able to more fully develop and build on its broadcasting assets.

The management team, led by Rob Woodward, have made enormous progress in turning around the fortunes of the Company and 2008 will see a stronger and revitalised broadcasting unit moving forward with confidence

The first step that the new regime had to take was a 100 day strategic review of the operations and the serious debt position, which was a debilitating drain on the Company's financial resources, management time and an inhibitor to any aspirations the Company might have had to develop its core broadcasting operations

Our turnaround plan placed the television business at the centre and has been founded on a three pillar strategy of the sale of non core assets, restructuring, debt and cost reduction, and revenue maximisation Within that, our aim has and continues to be to provide a solid platform for organic growth while eliminating loss making operations and uneconomic contractual arrangements This strategy is fully embedded in the Company's operating ethos and is already showing significant results which will lead to an improvement in shareholder value going forward

Reducing debt was obviously a priority for the new board and we are pleased to have achieved this in our first few months through the sale of Primesight and then, just before Christmas, a successful Rights Issue, which raised a gross £95 1m We achieved these two successful outcomes in market conditions that have rarely been so challenging

As a consequence of the regularisation of our debt position we have been able to close down our arrangements with the banking consortium which held the Company's debt and move to a new and more normalised relationship with HBOS It also results in us no longer being perceived a 'forced' seller of those assets we do not consider to be part of the core business and are able to make disposals as and when the time and price is considered right

2007 was a milestone for our broadcasting business, stv, which celebrated its 50th year of broadcasting in Scotland We are proud of our heritage in Scotland and it is on this that we will rebuild stv into Scotland's broadcaster of choice once again

Before I move onto the 2007 business performance I want to acknowledge our staff, all of whom have shown great resilience and loyalty to the Company, the new management team and board While the last few years have been difficult for the shareholders it has been equally so for our staff who's livelihoods and careers are bound to the Company On behalf of my Board colleagues I would like to thank each one of them for their commitment and support

01 stv news teams captured the 2014 Commonwealth Games bid announcement in a live one-hour special from Sri Lanka

01

BUSINESS PERFORMANCE

The restructuring of the Company and changes in strategic direction together with the debt burden, now thankfully alleviated, has had some impact on the results for the period 1st January to 31st December 2007 but the full beneficial effects, particularly financial, will come through during 2008 and beyond

Group revenue fell 4% to £184 0m (2006 £191 2m) mainly due to the disposal of Primesight in October Excluding Primesight, revenues were down 2% due to lower national airtime sales affecting our television Broadcasting business and lower secondary sales income in the Content division There was strong revenue growth in Virgin Radio, up 11% (£2 3m), and growth in Pearl & Dean (£1 5m) due to an increase in screen numbers

Exceptional items were a major feature of 2007 including writedowns to the carrying value of Virgin Radio (£49 2m) and a provision for the onerous Pearl & Dean advertising contract with the Vue Cinema chain (£15 4m) There was also a £5 7m provision for the essential and extensive restructuring of the business along with staff reductions and £11 4m of costs relating to debt arrangement fees and short term increased interest costs

DIVIDEND

As we advised shareholders at the interim results in October, the Board do not believe it prudent to recommend a dividend payment for 2007 Dividend payments will recommence when the Board believes it wise to do

OUTLOOK

Our regional sales team have had a strong 2008 so far with expectations for continued growth going into April and May National advertising is down but remains a better performance than ITV The Board remains cautious for the future however we have put in a de risking process should the market deteriorate In Radio, we are already seeing a strong performance however there is variability across the months and we expect the market to slow slightly going into May In Cinema, the Q1 revenues were down 13% with poor film products during the first quarter however, this quarter traditionally generates less revenue and there are strong films expected for the busy summer market

The Board remains totally committed to delivering its strategy and restoring shareholder value While the macro and media environment remains challenging we have addressed the Company's historic problems, we have made excellent progress in stabilising, re focusing and changing the structure of the business While we are pleased with our progress to date we appreciate much remains to be done however, the tools and the talent are now in place to complete the task before us with confidence

Richard Findlay
Chairman

DELIVERING ON PROMISES

On becoming Chief Executive in February 2007, I said that my priority was to rebuild SMG into an independently-owned, vibrant Scottish-based media business. One year on, we've made huge progress in laying strong foundations for the turnaround and future growth of the Company.

From the outset, I confirmed that the turnaround would take between two and three years We've laid a path, with clear milestones to measure our progress As I described last year the debt burden being carried by the Company was simply unsustainable My number one priority was to return our balance sheet to a sustainable position Therefore at the end of 2007 we announced the completion of a successful Rights Issue that has normalised our balance sheet and removed the single biggest risk facing the Company At the same time we have refinanced our debt through a new loan facility with HBOS In order to pay down debt we announced the sale of Primesight, our outdoor advertising business

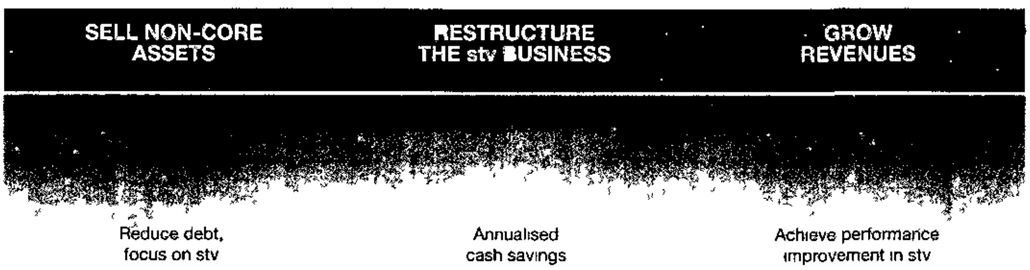
We also announced our intention to focus on television as the core business for the future We have a strong management team leading three distinct functions – broadcasting, content and ventures – with clear plans to build a thriving business that will position stv as the broadcaster of choice in Scotland

This is a challenging and exciting time for the broadcasting industry There are a number of regulatory initiatives currently underway including the renewal of CRR (Contract Rights Renewal) and Ofcom's review of Public Service Broadcasting which will determine the market context in which we are operating Closer to home, the Scottish media landscape will be influenced by the Scottish Broadcasting Commission appointed by the Scottish Government to advise on the future of media in a dynamic and changing Scotland We understand the significance of our role as a public service broadcaster and we are fully committed to maximising our unique position as the leading commercial Scottish based television company

THE JOURNEY TO RECOVERY

In June 2007 we announced the detail of a 100 day strategic review which set out a cohesive and transparent turnaround plan for the TV business with twelve measurable Key Performance Indicators (KPIs) on which we would regularly report progress

THE THREE PILLAR TURNAROUND PLAN



KEY PERFORMANCE INDICATORS

broadcasting	content	ventures
– Regional Advertising Market Share – Regional Sponsorship Growth – Broadcasting Margin	– Production Hours – Library Content Management – Rights Exploitation Growth – Content Margin	– Online Visitor Growth at stv.tv – Online Advertising – Regional Transaction Based Revenues – Classified Advertising Ventures Margin

SALE OF NON CORE ASSETS

The reduction of debt was the key objective in 2007 The non-core businesses – Primesight, Pearl & Dean and Virgin Radio – were all confirmed for sale The disposal of Primesight for a headline figure of £62 0m and a successful Rights Issue, which raised a gross £95 1m, have transformed our balance sheet and put the Company into a sustainable financial position We will keep the market updated as we progress with the disposals of Virgin Radio and Pearl & Dean during this year

RESTRUCTURING stv

The broadcasting business is the core of stv We are intent on *building a television business acknowledged* as the broadcaster of choice and Scotland's most influential, relevant, innovative and trusted media brand At the heart of our broadcasting business is our unparalleled ability in reaching Scottish audiences It is this advantage that will form the cornerstone of our growth plans

At the end of May we confirmed the leadership team of Bobby Hain, Managing Director of Broadcasting, David Archer, Managing Director of Ventures and Elizabeth Partyka, Acting Managing Director of Content who are supported by George Watt, Chief Financial Officer, Suzanne Burns, HR Director and Anmar Kawash, Director of Strategy and Planning This new simplified management structure has ensured clear focus and accountability, as well as promoting collaboration and teamwork The culture of the television business is being transformed around a single company ethic with a single brand, an accountable leadership team and engaged staff The cultural shift in the business has been very significant and is a central component of the successful turnaround

It was clear that the cost base was out of line with the revenue potential of the business A core focus in preparing the Company for growth has been to significantly reduce our operating costs Savings have come mainly through simplifying and de layering the television business At the same time we have brought in a number of new people to refresh the skills mix required to succeed in a digital environment As targeted last summer we have achieved our cost reduction goals and reduced costs by over £5 0m representing over 20% of our controllable cost base to benefit 2007 and 2008

Going forward we continue to target further efficiency savings as a way of de risking our 2008 plan and underpinning our 2009 performance

We have instigated a 'need to have' versus 'nice to have' attitude on all expenditure We have embedded the attitude of operating with a start up mentality throughout the Company with the aim of ensuring that stv operates as a nimble organisation fit for purpose for the challenges of today's digital media marketplace We need to do whatever it takes to challenge how to maximise our efficiency and we will benefit from numerous initiatives Through staff reductions and better utilisation of our Glasgow and Aberdeen offices, we have freed up significant floor space and are in discussions with prospective tenants Converging our data and broadcast networks into a single network has resulted in improved data network standards and significant cost savings

REVENUE GROWTH

The third pillar of the turnaround plan is revenue growth in our three business divisions – Broadcasting, Content and Ventures – each of which is charged with exceeding their KPI targets We are making encouraging progress against all of our KPIs, as outlined above and on page 11 17

broadcasting

stv continues to be the most popular peak time broadcaster in Scotland with a share of 26% versus BBC1 at 22%. In 2007, stv broadcast 49 of the top 50 commercial programmes in Scotland and our commercial impacts were up 1.5%, outperforming the network at 1.1%

stv

There has been notable success in ratings for our news output We've developed new programmes and taken control of the schedule to ensure that we deliver content that our audiences want We've also taken steps to better serve local advertisers and simplify our relationship with ITV

BETTER SERVING OUR ADVERTISERS

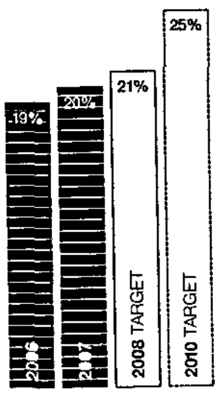
Increasing regional advertising share and sponsorship is a priority for the sales team The emphasis is on performance, excellence in servicing agencies and clients and winning share from competitors The feedback from the market was clear in that we needed to revamp the way we sold airtime to our advertisers and we needed to promote the benefits of TV versus other media Therefore in September 2007, David Connolly, the former Ofcom CRR adjudicator and previous Vice Chairman of Starcom, joined as Commercial Director In addition, John MacDougall of The Union advertising agency has been appointed Client Services Director from May 2008 to ensure that we continue to improve our service to existing clients and agencies and to seek new business from across the UK

We are improving commercial production quality and introducing a new premium audience airtime package for Scottish advertisers We have merged our commercial production and local advertising sales teams so that responsibility for the success of campaigns is in one place with a focus on increasing advertiser loyalty and retention The sales team values its relationships with advertisers and media buyers and recently hosted a Thinkbox session examining independent research into TV advertising effectiveness and viewer behaviour

In 2007, the local sales team were up 12% on target and outperforming the market In line with our KPI target we have increased our share of the Scottish display market to 20% In addition 2008 has continued this positive trend with quarter 1 some 16% higher than 2007

BROADCASTING KPIs

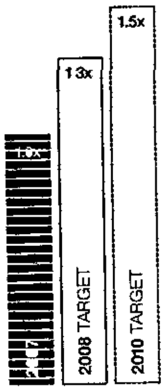
Regional Advertising Market Share (%)



Why it's important
Television advertising is core to our broadcast business and our regional advertising sales team are employed by stv, as opposed to our national sales which are outsourced to ITV sales

How we measure it
Using MMS data we compare stv's regional sales with the total display advertising market for Scotland The target is to grow to 25% from 19% in 2006

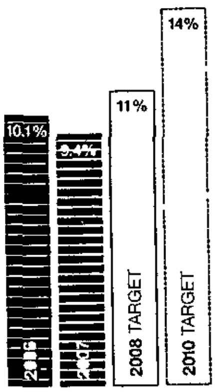
Regional Sponsorship Growth



Why it's important
Sponsorship packages are increasingly attractive to advertisers as they enable a closer association with a programme for their product They are also a fast growth segment of advertising spend

How we measure it
2007 is the base level for sponsorship revenues and these are targeted to grow by 50% over the period to 2010

Broadcasting Margin (%)



Why it's important
Margin improvement across the period provides evidence of profitable growth in the Broadcast business

How we measure it
It is calculated as operating profit divided by turnover and expressed as a percentage with a 2010 target of 14%

01 stv's election coverage kicked off with the first live head to head debate between Scotland's four main political leaders in a unique broadcast on stv

01

BETTER SERVING OUR AUDIENCES

Advertising only works if stv is serving its audiences with a compelling content offering

News sits at the heart of our identity and is pivotal in defining the relationship with our audience Our news programmes *North Tonight* and *Scotland Today* go from strength to strength with annual audience ratings at 25%, up two share points or a 9% increase on 2006 against the network share of 20% In January 2007, we introduced four new regional bulletins within our two 6pm news programmes These micro regions (west central Scotland, east central Scotland, Tayside Angus and Fife, and north Scotland) now benefit from local newsgathering resources and a dedicated five minute weekday news service supported by additional local content on our website stv tv These bulletins often attract the highest audience shares of the programme across the five minute period This reinforces our belief about the importance of serving local audiences Our lunchtime bulletin, part of the ITV half hour news programme, continues to reflect our first in depth look at the main news of the day We continue to broadcast bulletins across weekdays, including morning, lunchtime and early evening at weekends Our news teams consistently delivered high quality news coverage from across Scotland, offering balanced reporting by recognised, authoritative and respected journalists based in our production centres in Aberdeen, Dundee, Edinburgh, Glasgow, Holyrood, Inverness and Westminster

In 2007, we responded quickly and successfully to a number of breaking news events There were many events of significant Scottish interest in 2007 including the Scottish Parliamentary elections, the successful Commonwealth Games Bid announcement and the terrorist attack on Glasgow airport The Scottish elections, an historic occasion for the Scottish National Party, was captured in a live one hour special broadcast at 6pm where we opted out of the ITV main news programme to bring viewers across Scotland comprehensive coverage of the vote and comment on the implications of the Poll results The programme was supported by production staff and resources from both *Scotland Today* and *North Tonight* teams It achieved an impressive 30% share and was the most watched news programme in Scotland that day It concluded an election campaign in which *Scotland Today* and *North Tonight* had consistently been the most popular news programmes throughout the election period

The news team broadcast a special live one hour show to capture the moment of Glasgow's success in its bid to host the 2014 Commonwealth Games, with crews reporting live from Sri Lanka, the Glasgow studios and at celebrations around Glasgow The terrorist attack at Glasgow Airport in June demanded the mobilisation of a large number of resources at short notice in difficult circumstances As well as providing coverage for local audiences, stv's news team supported ITN and international broadcasters in delivering compelling coverage on this international story A series of news updates were provided throughout the Saturday night peak time schedule and a special half hour programme was aired the following day

To build on the success of these news programmes we introduced a new half hour daily news driven magazine show called *the five thirty show* in January 2008 This, coupled with the main news programmes, ensures that we dedicate thirteen and a half hours of live Scottish news and content every week across Scotland The ratings have proved it successful with an increase in audience share which regularly wins against Channel 4's *Richard & Judy* The online success of the show is due to the programme's editorial focus and on air web references The most popular online content has been a web exclusive track recorded by musician Amy MacDonald and a full 18 minute version of the interview with former Death Row inmate, Kenny Richey

2007 was also a year of celebration for stv, as we celebrated our 50th anniversary of commercial broadcasting in Scotland To mark the occasion we invested in three dedicated programmes *50 Years of Scotsport*, from *SR to Lavvie Heid* and stv *Gold*

02 In its 25th year, *Taggart* received its largest commission from ITV for 10 episodes for 2008

02

content

Our aim in the Content business is to create and build new programme brands, enhance our relationship with commissioners and other broadcasters and deepen our connection with talent, on and off screen.

2007 was a successful year in production hours The current total of 72 hours is significantly ahead of the 18 month KPI target In drama, six new *Taggart's* and four new *Rebus* episodes were commissioned and delivered during the year In February 2008 we secured our biggest ever commission from ITV to produce ten *Taggart* episodes for delivery in 2008 This takes the total number of episodes to over one hundred in the programme's 25th anniversary year UKTV also commissioned a one hour *Taggart* documentary to mark the anniversary

We are continuing to develop our BAFTA winning drama *Rebus* brand and will unveil our plans later in the year The Ginger Productions team, based in London, had commissions in 2007 from Living, ITV2 and Virgin 1 with offerings including *Jack Osbourne, Adrenaline Junkie* and *Take me to the Edge*, with extreme adventurer Leo Houlding

We have also secured a collaborative agreement with Alexander McCall Smith to bring his work to TV and we have secured a major drama development deal with Channel 4 working with an internationally renowned Hollywood director

In addition we are launching a £2 5m investment fund to work with Scottish talent in order to help stimulate the Scottish production market and increase the supply of high quality network projects We will announce details of this in due course

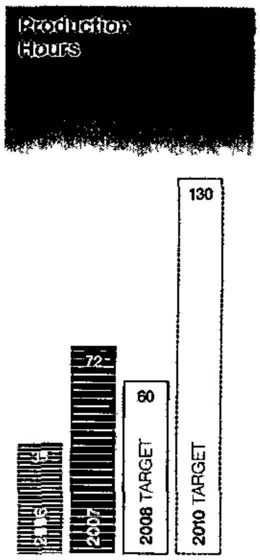
Advertising funded programming will be an important theme for the future I am delighted to report that our first major fully funded regional programme – *Postcode Challenge* – launched in early December 2007 for a run of 40 shows This weekly half hour peak time, general knowledge quiz show hosted by Carol Smillie is funded in partnership with the Dutch organisation, The People's Postcode Lottery This innovative, long term relationship where stv is the TV partner for a third party organisation is a unique commercial partnership creating compelling content for our viewers and a media platform for the launch of The People's Postcode Lottery The show, which has had robust ratings in an important Monday evening slot, is complemented by a website featuring exclusive film material We are currently discussing plans for 2008 with our partners We have also secured a further ad funded series featuring the Merchant Navy and 'life at sea' These programmes are due for transmission in 2008

In factual, a three part hard hitting crime series, *Badlands Britain*, was commissioned by Bravo We also co produced a 12 part fly on the wall series *Conquer the Castle*, following six city dwellers charged with running a Scottish castle estate in Blair Atholl The series aired in January 2008 on stv and Sky Travel Other factual commissions included a six part series for stv and UK History on the story of the Highland Clearances

We have also been working closely with Gaelic Media Service and are in production of five new series for the launch of the new Gaelic digital channel in 2008

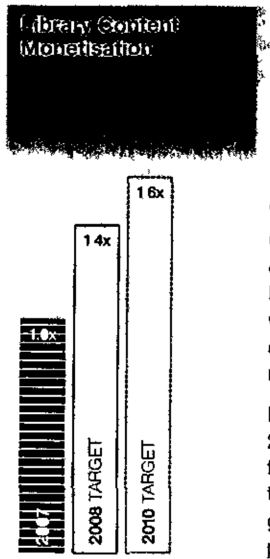
Our productions continue to sell well internationally, with *Taggart, Rebus, Jack Osbourne, Unsolved* and *Jetset* popular around the world We are seeking opportunities for our back catalogue and recently sold 75 episodes of Scottish favourite *Take the High Road* to One Life as well as the complete *Dr Findlay* series Also in 2007, 27 back catalogue *Taggart* episodes were added to our deal with UKTV

CONTENT KPIs



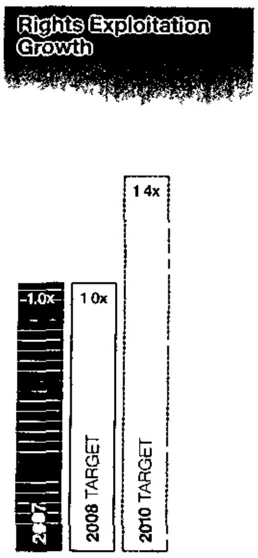
Why it's important
A key strategic objective is to grow our content business and this provides clear evidence of that growth

How we measure it
It is the total of all hours of new production delivered in the financial year to broadcasters



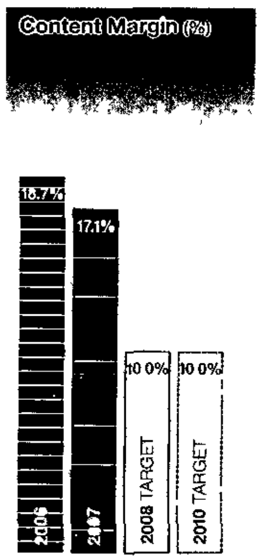
Why it's important
Our content library contains over 200,000 hours of production which is a valuable catalogue to be monetised

How we measure it
2007 is the base level for library revenues and these are targeted to grow by 60% over the period to 2010



Why it's important
Secondary sales in the UK market and to overseas broadcasters provide additional revenues and margin

How we measure it
2007 is the base level for content rights revenues and these are targeted to grow by 40% over the period to 2010, with most growth in 2010 when our major drama series are re sold in the UK market



Why it's important
Margins provide evidence of the level of profit being achieved in the business

How we measure it
It is calculated as operating profit divided by turnover and expressed as a percentage The target is to maintain 10% in the context of talent inflation and broadcaster tariff deflation

01 The Edinburgh Festival Fireworks saw its first ever live web streaming on stv tv

01

ventures

Our ventures business manages all online activity and our resource based solutions business. Our aim is to exploit our unrivalled regional position through the stv brand, to dominate the Scottish new media market

In 2007 we refocused our online activity and concentrated on developing unique content for our online audience 2007 was a transitional year We have been laying the foundations for rapid growth in this area and will re launch our online offerings later this year Even before re launch there are some early encouraging signs Unique users to our main website, stv tv are steady at 8,000 a day, with noticeable increasing volumes when we seed unique content We expect to see this increase when we re launch the site this year

In January 2008, we appointed Alistair Brown as Head of New Media Alistair led the successful online development and launch of online services at thelist co uk and scotsman com He will lead the commercialisation of the stv tv and drive our daily visitor numbers to 200,000 by 2010

Unique user numbers are key to increasing advertising revenues from the site Alistair Brown and David Connolly, our Commercial Director are implementing a strategy that will maximise our earnings through online banner and sponsorship and video display advertising Classified advertising is another area of revenue potential The Scottish classified market is worth around £200m and our aim is to capture 3% of that by 2010 I will report on progress with this later in the year

In 2007, we incorporated exclusive live streaming onto stv tv, a move that proved successful during the Rugby World Cup, The Champions League and Edinburgh Festival finale Another development has been the introduction of 'catch up' on *Postcode Challenge* and *the five thirty show* Each has a dedicated presence on stv tv where viewers can watch shows again Both sites also have exclusive material including uncut interviews and behind the scenes footage A new web chat feature was introduced for our property programme, *Safe as Houses*, where the presenter was live online to answer viewers' questions after each show

Our other main online service, ScotlandonTV tv, has attracted visitors from around the world since its launch in November 2006 A third of registered users are from the USA The site originally streamed archive footage using stv's extensive library and in 2007, we added commissioned original content to the site This addition has proved successful with a 70% increase in video streaming in the second half of 2007 to 46,000 video views per month

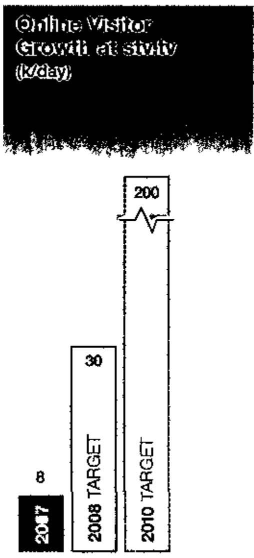
Whilst many other PRTS (Premium Rate Telephony Services) offerings are under pressure, our onscreen weekly interactive service *Watch to Win* has bucked the national trend and we have grown the number of weekly users through consistent scheduling, large cash prizes and regular seasonal offerings

Our Bingo gaming site at stv tv/bingo has performed well in a highly competitive marketplace The site was re launched in August 2007 with an onscreen and online advertising campaign featuring Scottish favourites, The Krankies This raised registration figures by 75%

Our price comparison websites, peopleschampion com and smartycars com are part of our new media offering and as we've said previously, both are currently under review

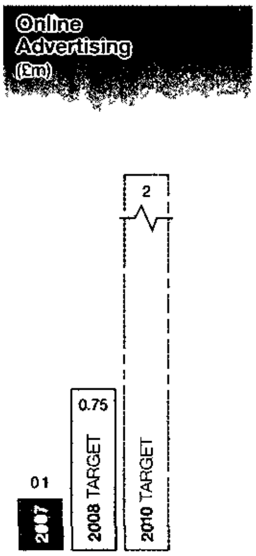
Our solutions business continues to provide outside broadcast and post production facilities to a number of clients In 2007, the team won an Emmy for the post production work carried out on *'Stephen Fry – The Secret Life of a Manic Depressive'* We continue to work with sports broadcaster Setanta and are currently in discussions about future work beyond the existing contract which expires at the end of the 2007/08 season

VENTURES KPIs



Why it's important
Unique visitors to stv tv are key to driving advertising revenues from the site

How we measure it
Using analytical tools, the number of unique visitors can be identified and collated across each 24 hour period



Why it's important
The business model for our online activities is built around visitor growth generating online advertising which is the fastest growth area of advertising spend

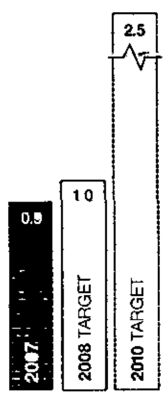
How we measure it
This represents banner and sponsorship display advertising on stv tv

01 stv tv has seen much innovation in 2007 with investment in content and functionality

02 Our quiz show *Postcode Challenge* benefits from a dedicated website featuring a catch up service and exclusive web material

VENTURES KPIs

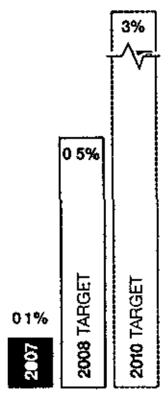
Regional Transaction Based Revenues (£m)



Why it's important
Another key online revenue stream comes from consumer transactions on our websites eg through bingo games This is a high growth revenue segment

How we measure it
This represents the revenue earned directly through transaction based services

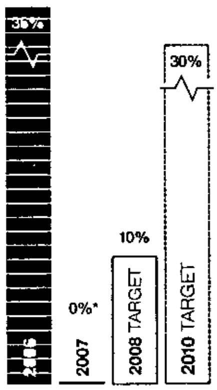
Classified Advertising (%)



Why it's important
Classified advertising is a large area of advertising revenue which stv has traditionally not been able to access Online opens up this area to stv tv and it is a strategic objective to grow to 3 0% of the available market by 2010

How we measure it
The market share percentage is stv tv's share of the three key largest classified markets (jobs, homes, and cars) in Scotland

Ventures Margin (%)



Why it's important
Margin improvement across the plan period provides evidence of profitable growth in the Ventures business

How we measure it
It is calculated as operating profit divided by turnover and expressed as a percentage with a 2010 target of 30%

* this is a loss of 17%

non-core

VIRGIN RADIO

Virgin Radio is one of the UK's leading commercial radio businesses, with 2 8m regular weekly listeners across analogue, digital and online platforms This is a strong business, performing above the market, with a strengthened management team and exciting growth prospects

In 2007, Virgin Radio saw an 87% increase in operating profit to £4 9m (2006 £2 3m) due to revenue strength and a reduction in AM licence fees Virgin Radio has significantly outperformed the radio advertising market in the past three years enjoying year on year revenue growth of 11% in 2007 against industry growth of 3%

Senior radio figure, Richard Huntingford was appointed Executive Chairman and has full management responsibility for the business as well as overseeing the disposal process Other senior Board appointments included Rosemary Thorne as Senior Independent Director Rosemary has held Board positions at many FTSE 100 PLCs including Ladbrokes and J Sainsbury *David Palmer was also appointed as Chief Financial* Officer The management team has been strengthened more recently by the appointments of David Lloyd former MD of LBC and Galaxy as Programme Director and Channel 4's Andy Grumbridge, as Head of Digital Media

PEARL & DEAN

Our cinema advertising business Pearl & Dean remains non core and a sale process continues In 2007, Pearl & Dean saw revenue growth of £1 5m from a 4% increase in admissions The terms of our contract with our major exhibitor chain, Vue Cinemas, remain onerous and resulted in an exceptional provision of £15 4m being made in 2007 to provide against all future losses under the contract

This remains a difficult business, however, the cinema advertising market is currently in flux driven largely by our main competitor CSA We remain hopeful that these changes in the industry will create a more positive environment for the disposal of Pearl & Dean

PRIMESIGHT

In October, we disposed of Primesight with the proceeds of the sale used to reduce our debt levels

The disposals of our non core businesses Virgin Radio and Pearl & Dean are ongoing Due to our position of financial stability, we are not in a forced seller position The Board will only dispose of these businesses at the right price for shareholders

the future

Although the media market continues to be challenging, the combination of our strategy of putting stv at the heart of our Scottish centric business and our healthy balance sheet provide a sound foundation for our turnaround We continue to seek opportunities in the Scottish media sector to enhance our brand and ensure that we reach our goal as the broadcaster of choice in Scotland The current regulatory initiatives combined with a renaissance of Scottish identity provide both challenges and opportunities for our company

We are doing what we set out to achieve and we are delivering as promised The Company is in a far stronger position than this time last year and we have created a strong platform for the continued turnaround

I look forward to updating you on our progress in the autumn

Rob Woodward
Chief Executive

01-03 stv's marketing team have seen success in 2007 with awards for the press campaign for police drama *Rebus* and a design award for the stv brand.

01

02

03

AWARDS

stv
Scottish Advertising Awards
Best Press Campaign for Rebus

DBA Design Effectiveness Award
Corporate Brand Identity Category
Bronze Award for stv logo

Emmy
Best Documentary Post Production for
Stephen Fry – The Secret Life of a Manic Depressive

SMG PRODUCTIONS
BAFTA Scotland
Best Drama – *Rebus*

SMG
Scotland's Health at Work
Bronze Award

VIRGIN RADIO
Gold Sony Award
Best Competition for Who's Calling Christian

Arquiva Commercial Radio Award
Sales Team of The Year 2007

Media Week Awards 2007
Best Sales Pitch Niche – Churchill Promotion

Institute of Sales Promotion Awards
Silver Award for 24 promotion

Various RAB Planners' Choice Awards in 2007

SOCIAL RESPONSIBILITY

OUR PEOPLE

The passion, energy, creativity and innovation of our people are essential to delivering a successful turnaround strategy of our business

Our 651 people across our television, radio and cinema advertising business are the key to achieving this success We also continue to engage a wide pool of freelance creative talent to support our programming requirements, projects and provide a continued creative input to our business

During 2007, our people strategy has focused on implementing organisational change to establish a business structure which provides our people with the opportunity to contribute to building on our strengths and identifying new growth opportunities

We have established an organisation culture based on open communication, clarity of roles and teamwork and collaboration to deliver success across the business This has involved extensive organisational restructuring to create a business with the required skills, commercial focus and accountability to deliver growth and successfully engage with our audiences and advertisers to become Scotland's broadcaster of choice

Organisational design

We have established an integrated business model with Content at it's heart The establishment of a Ventures division through which our digital business and other emerging business activities can be developed, and a Broadcast business which provides the platform to engage with our audience and advertisers, has enabled the development of a culture based on collaborative working and teamwork

The activities of our Sales and Commercial teams are key to engaging with our advertisers During 2007 we have strengthened the team through the integration of the Commercial Production function with Sales and Commercial functions

Our technical resources functions have also been restructured to achieve flexibility and a skill base aligned with our future production requirements

Key appointments within Virgin Radio have strengthened our capabilities in the development of a digital business and innovation in programming

Communication and engagement

Effective consultation, communication and engagement with our employees is key to implementing organisational change and awareness of the business priorities

Particular emphasis has been placed on engaging our employees in the turnaround strategy and encouraging participation in consultation on organisational change A high level of participation from employees, trade unions and employee representatives has effectively delivered organisational change which is supported by employees

Engaging employees within the Television business in the turnaround of the business has been supported through the recognition of discretionary effort and celebration of success in a weekly "Making a Difference" newsletter An extensive programme of staff roadshows have also been delivered across the business aimed at engaging staff in the turnaround plan and priorities

The "Open Forum", our employee information and consultation forum comprising representatives from our Television business, has continued to evolve and has made a significant contribution to the consultation process to achieve business restructuring within Television The "Open Forum" has successfully supported charities and good causes with employees undertaking fundraising activities

01 To mark the 50th anniversary of broadcasting in Scotland, stv staff formed a human 'S' at the Company's headquarters

01

Reward and recognition

Attracting and retaining employees of the highest calibre is essential to maintain our position as broadcaster of choice During 2007 we implemented a salary, grading and career structure benchmarking our employees remuneration to a range of UK media companies This reward framework will be progressed over the next three years to ensure that our reward and benefits structure enable us to secure and motivate employees of the highest calibre

Performance management, learning and development

Effective performance management and provision of opportunities to enable personal development are key to SMG's people strategy Our business wide performance management processes link individuals' performance and reward to the business objectives and key performance indicators

Business objectives and key performance indicators are cascaded down to each manager's annual business objectives in the form of SMART (Specific, Measurable, Achievable, Realistic and Timely) objectives

Role specific technical competencies are aligned to our salary and grading framework and staff and management behavioural competencies are aligned with our people strategy Performance management coaching for managers continued to emphasise the importance of performance differentiation against a five point performance rating scale

Training and development needs and actions recorded at both the interim and year end performance reviews are reviewed and form the basis of the Company's training plan Additionally, during 2007 the learning and development processes applied within the Television and Radio businesses were externally audited by PwC on behalf of the Broadcasting and Training Skills Regulator

In particular, the integrated performance management processes operating across the business were commended as excellent examples of good practice within the broadcasting sector

As a broadcaster and production business, trust and integrity are essential to engage with our audiences During the year, workshops have been delivered to employees within these areas to ensure that we continue to achieve the highest standards of compliance and maintain our position as the trusted broadcaster of choice

Developing new creative talent

Attracting creative talent at all levels is key to the success of our people strategy We remain committed to providing support and opportunities for new creative talent to acquire relevant industry experience During 2007 we provided over 80 work experience placements within our Radio and Television businesses to graduates and people undertaking media related studies from across the UK

Our support for Television and Young People ('TVYP"), the educational arm of the Edinburgh International Television Festival, continued during 2007 with placements being provided to students within our successful News and Current Affairs team

Equal opportunities and diversity

SMG is committed to maintaining a working environment where all employees are treated with respect and dignity and realisation of their full potential can be achieved We continue to monitor our performance against our polices to ensure that our approach enables us to effectively engage with our audiences and ensure a diverse pool of creative talent is attracted to our business

Applications are encouraged from disabled candidates (internally and externally) who meet the minimum criteria required for any vacancy Candidates are requested to make us aware of any special arrangements they may require in order to participate in the selection process on account of a disability Line manager training is provided to ensure their equal opportunity for all In 2007, we only received one application form one registered disabled candidate

During 2007, no employees became disabled during their employment

During 2007, managers have been provided with coaching sessions to continue to raise awareness of our equal opportunities and diversity obligations Our bi annual performance management process is firmly embedded as a mechanism to ensure development needs of all staff are identified

Healthy Working Lives
The positive benefits of a healthy lifestyle on employee performance and creativity are recognised and we continue to encourage health promotion in the workplace During 2007 we were awarded a Bronze Award through the "Healthy Working Lives" initiative supported by the Scottish Government Additionally, the Company supports employees' health and welfare at work through an Occupational Health service providing specialist support and advice on work related medical matters and supporting and employees with rehabilitation following absences from work

COMMUNITY RELATIONS

As a broadcaster, SMG is present in the communities and homes of the people it entertains and informs on a daily basis We work hard to ensure that we are part and parcel of the fabric of these communities SMG takes it responsibilities to its staff, the community, the environment, suppliers and its audiences very seriously SMG plc is included in the FTSE4Good Series Index, a body set up to measure the performance of companies that meets standards in Corporate Social Responsibility SMG is currently reviewing its overall CSR strategy with plans to implement the new strategy in 2008

Community engagement is very important to stv across the country and we actively support our local communities and educational institutions Since moving to our new studios at Pacific Quay, we have opened our doors and welcomed students, charities and organisations from across the world In 2007, we welcomed visitors from Korean Television and students from Canada, as well as a range of institutions and groups across the whole of Scotland In 2007 we supported the Summer Academy at Strathclyde University by running a workshop for students stv North has supported student placements from the Robert Gordon University in 2007, as well as accommodating visits from various educational institutions across the region

In September 2007 stv took part in Glasgow's Doors Open Day for the second year running, offering members of the public a behind the scenes look at stv's studios In July 2007 stv offered people guided tours as part of The Glasgow River Festival – Glasgow's land and water festival on the Clyde Also in 2007 stv continued its relationships with Glasgow's Tron Theatre, the Assembly Rooms in Edinburgh and the Royal Scottish National Orchestra, highlighting our commitment to the arts in Scotland

SMG's people give a lot of their time to fundraising for their chosen charities To support this effort, SMG launched a match funding initiative called Charity Challenge which matches donations raised by staff pound for pound Since its launch, Charity Challenge has matched individual staff fundraising as well as company wide staff events

In 2007 stv was the media partner for ChildLine Scotland's annual charity five a side tournament, World Footie As media partner, stv promoted and supported the tournament on programmes *Scotsport* and *Scotland Today*, and on stv tv *Scotsport* presenters Andy Walker and Grant Stott presented prizes and provided pitch side interviews Commentator Archie Macpherson provided match commentary

In October all staff supported Breast Cancer Awareness month by taking part in 'Wear it Pink' Day, with all the funds raised going to help continue researching the cure for breast cancer

For the sixth year running, Virgin Radio has teamed up with the Teenage Cancer Trust Legends from the music and comedy industry put on a week of fundraising concerts at the Royal Albert Hall to raise

01 stv sports presenters and staff took part in the annual ChildLine Footie Tournament in 2007 and are in the planning stage for the 2008 tournament

01

millions to provide young cancer sufferers access to specialist teenage units within NHS hospitals Virgin Radio raised the profile of the charity using on air competitions for tickets and exclusive interviews with the stars of the gig

Pearl & Dean, along with Vodafone and Bliss Magazine supported the Anti Bullying campaign by sponsoring people to make a short film about anti bullying, with the winning film being screened on digital

PROGRAMMING

Malawi 2007

stv's Christmas Appeal for Malawi in December 2006 helped raise three quarters of a million pounds to build a maternity hospital in Malawi The appeal, which was launched on *Scotland Today* and *North Tonight* in December 2006, was backed by former First Minister Jack McConnell MSP, former American President Bill Clinton and Sir Tom Hunter, who matched the money raised In 2007 the *Scotland Today* team travelled back to Malawi to follow the progress of the maternity hospital The *Scotland Today* team filmed material for two programmes stv will continue to bring future updates on this project

Talking Scotland

In 2007, we produced *Talking Scotland* – a series of programmes, sponsored by the Scottish Government These programmes are a platform for a range of people to communicate issues of social and cultural importance In spring 2007, stv introduced six one minute films entitled *Inspiring Scotland* which provided an opportunity for entrepreneurs and individuals involved in business to tap into business intelligence across a range of subjects

Our *Inspiring Women* series, comprised of seven one minute programmes, featured women working across different disciplines talking about how they develop their business and tackle various challenges and issues in their working lives Both educational and informative, these series provide air time for parts of the community who don't normally receive such exposure

Media Literacy

stv is an active member of the Media Literacy Forum in Scotland, ensuring representation at meetings throughout the year In 2007, stv established a relationship with Common Purpose, a group which runs an educational programme for schools around Glasgow stv hosted a day long event, at which four senior members of staff presented to a group of young people about the power of the media and its role in society Areas covered included news and current affairs, sport, general production and the stations presence, work and position in Scotland stv continued its relationship with the Scottish Learning Partnership in 2007, providing resources and presenters for their annual awards, thus helping to raise their profile within Scotland

Our Viewers

Feedback from our audiences is key to our strategy and in 2007, we reviewed the feedback mechanism We re vamped and re branded our viewer enquiries service as Your View, encompassing a number of changes to the way we gather public input We broadcast regular on air announcements directing viewers to the Your View webpage as an immediate and direct way of gaining public input

CHARITABLE DONATIONS

The following cash donations were made during the year

	2007 £000	2006 £000
Charitable, arts and sciences	25	41
Other	4	2
Total	29	43

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

THE ENVIRONMENT

We recognise that our day to day activities can, and do have an effect on the environment and SMG's environmental policy recognises our responsibilities towards the environment We actively seek ways to improve our performance where we have an impact on the environment We work hard to minimise any damage we do whenever and wherever practical, while receiving business benefits from the protection of the environment We are committed to continuously improving our environmental performance and to reducing pollution We view environmental regulations, laws and codes of practice as the minimum standards for us to meet and beat

PRINCIPLES

Our environment principles outline our commitment to improving our performance

- Only use environmentally safe and sustainable energy sources to meet our needs wherever possible
- Conserve resources and save energy through their efficient use and careful planning
- Recycle material wherever possible
- Minimise waste, especially hazardous waste, and dispose of it through safe and responsible methods
- Work with suppliers to ensure they recognise and reduce the impact of their products and transportation on the environment
- Engage and involve staff fully in our environmental efforts
- Set targets and goals designed to improve our environmental performance
- Through the development of a Green Transport Plan realise the dual benefits of reduced fuel consumption and lower exhaust emissions
- At least every year, check our performance in putting these principles into practice and in complying with all applicable laws and regulations

This policy applies to all staff and all sites SMG is listed in the FTSE4Good Series Index as a low impact company

01 SMG is listed in the FTSE4Good Index as a low impact company

01

RESOURCE USAGE AND WASTE MANAGEMENT

During 2007 we continued to raise staff awareness and encourage participation in our recycling schemes through the use of the intranet, email and posters During the year an average monthly recycling of 34% was achieved up from 25% in 2006 In 2006 we worked with our property landlords in London and Edinburgh to introduce the recycling of all waste paper This is proving successful and we have managed to recycle approximately 18 tonnes of waste between these sites throughout 2007 (14 tonnes in 2006)

We have continued to recycle cans, glass and plastics in our offices, which has proved successful and we have managed to recycle almost 16 tonnes throughout 2007 We receive a rebate for this recycling which we donate to charity SMG also donates toner cartridges and redundant mobile phones to various charities throughout the UK, who benefit financially from this initiative

Since 2006 SMG has operated a Green Travel Plan in Glasgow We encourage staff to use more sustainable means of transport to get to and from work We provide shower facilities, cycle parking and lockers We also manage a Car Sharing initiative matching employees living in the same area to travel to work together We actively monitor SMG's emissions and seek to reduce these We will continue to take advice from the Carbon Trust on our energy use and promote any recycling/environmental Schemes throughout the business

HEALTH AND SAFETY

SMG is committed to conducting our business in compliance with all workplace health and safety laws and regulations We continue to strive to provide a safe and healthy working environment for our employees and anyone we work with We continue to monitor employee ill health and accidents closely and we have proactively undertaken health promotion programmes designed to reduce health risk and enhance employee well being We continue our proactive approach to improve the Company's management documentation systems to provide suitable and sufficient information, instruction, training and supervision The Group has procedures in place for the management of occupational road risk which is monitored and reviewed on a regular basis The number of accidents caused by driver error reduced to 21 (2006 28)

Health and safety performance in 2007

SMG report work related accidents, diseases and dangerous occurrences in compliance with the Reporting of Injuries, Diseases and Dangerous Occurrences Regulation 1995 ("RIDDOR")

	2007	2006
RIDDOR three-day reportable accidents	0	0
Total of all accidents	19	26

* Accidents requiring three or more days off work

Analysis of the causes of accidents provides valuable information for implementing improvements, if and when required, in working practices and procedures

The Group Facilities Manager is responsible for health and safety matters

Rob Woodward
Chief Executive

A YEAR OF TRANSFORMATION

The restructuring of the Group and change in strategic direction had a significant impact on the results for the year and the financial structure of SMG.

Several important events occurred including the sale of Primesight and a successful rights issue which raised £95 1m gross (net £91 0m) which resulted in a refinancing in December of the Group's remaining debt into a new £90 0m, five year bank facility This gives the Group the financial stability and solid platform necessary for the turnaround of the business to occur

Increased interest costs and the continuing effects of lower national ITV airtime revenues due to CRR resulted in profit before tax, exceptional items and the benefit under IFRS 5 from not depreciating assets held for sale, declining to £4 4m (2006 £10 0m) However, the cost saving actions and growth initiatives implemented in 2007, together with interest cost savings following the debt reduction during the year, will assist in turning around the financial performance of SMG

REVENUE

Total revenue, which comprises both continuing and discontinuing activities, decreased by £7 2m to £184 0m (2006 £191 2m) due mainly to the sale of Primesight in October Excluding Primesight, revenue was down 2% with declines in Broadcasting (£3 9m), mainly due to lower national airtime revenues, and Content (£3 3m), due to lower secondary sales income, offset by strong growth at Virgin Radio – up £2 3m or 11% – and growth in Pearl & Dean (£1 5m) due to increased screen numbers

OPERATING PROFIT

Group operating profit, which comprises both continuing and discontinued activities before exceptional items and IFRS 5, fell by £2 0m to £16 4m (2006 £18 4m)

Television operating profits fell by £4 7m to £11 1m (2006 £15 8m) reflecting the revenue decline in Broadcast and Content noted previously combined with the Ventures business moving from a profit of £1 8m in 2006 to a loss of £1 0m in 2007 This reflected a significant decline in the profitability of the Setanta contract

The comparison with last year was also impacted by the sale of Primesight (£2 8m impact) and the utilisation of the onerous contract provision in Pearl & Dean which saw the loss in this business reduce from £4 2m in 2006 to £0 7m this year The other discontinued activity of Virgin Radio saw an 87% increase in operating profit to £4 3m (2006 £2 3m) reflecting strong revenue growth and lower AM license fees

INTEREST COSTS

Net interest expenses increased by £3 6m to £12 0m (2006 £8 4m) due to higher average debt levels and increased interest margins prior to rebanking The IAS 19 non cash finance credit was broadly similar to the prior year at £2 8m Interest costs are expected to fall significantly in 2008 following the Primesight disposal and Rights Issue

EXCEPTIONAL ITEMS

Exceptional items resulted in a net charge of £91 9m (2006 £84 0m) with the major items being the non cash writedown to the carrying value of goodwill at Virgin Radio (£49 2m) and the onerous contract provision related to the Vue cinema advertising contract at Pearl & Dean (£15 4m)

In addition, there were a number of other items principally related to headcount reductions following the restructuring of the television business, (£5 6m), ITV Network stock writedowns (£2 2m), onerous property leases following the business restructuring (£2 0m), the loss on sale of Primesight (£5 7m), which reflects the £5 0m contingent loan note not crystallising due to weak trading performance in Q4 2007 The non contingent £5 0m loan note remains payable In addition, significant costs were incurred relating to the Group's high debt levels and refinancing during the year (£11 4m)

The statutory loss for the year after tax and exceptional items and including IFRS 5 benefits amounted to £84 6m (2006 £74 5m)

EARNINGS PER SHARE

EPS, pre exceptional items and IFRS 5 impacts decreased by 60% to 1 2p (2006 3 0p) This decrease was slightly larger than the decline in profit before tax on the same basis due to an increase in the Group's effective tax rate to 10% (2006 5%) Both years have benefited from releases of prior year tax provisions EPS on a statutory basis, including exceptional items and IFRS 5 benefits, was a loss of 25 0p (2006 23 6p loss) with the IFRS 5 benefit through not depreciating assets which are held for sale amounting to £3 7m

BALANCE SHEET

Balance sheet movements mainly reflected the significant strategic restructuring actions completed during the year – the sale of Primesight and the Rights Issue – combined with the writedown to Virgin Radio goodwill These resulted in significant movements in the assets "held for sale" category under IFRS 5 and also to the Group's share capital and share premium reserves

The net IAS 19 pension deficit decreased to £9 1m (2006 £32 8m) reflecting an increase in the discount rate used to value the schemes' liabilities and cash contributions made by the Group Since the ten year deficit funding pattern was agreed with the schemes' trustees in January 2007, gross payments of £9 7m have been made into the two pension schemes £5 8m in 2007 and a further £3 9m in Q1 2008 There have been no changes made to mortality assumptions during the year and the next formal actuarial valuation is due on 1 January 2009

CASH FLOW

Net debt reduced by £110 2m in the year to £47 1m (2006 £157 3m) reflecting the disposal proceeds from the sale of Primesight (£47 3m of net cash) and the successful Rights Issue (£91 0m net of £4 1m issue costs)

Working capital reduced in the continuing television business by £3 3m and increased by £3 9m in discontinued activities, mainly due to their sales growth Capital expenditure fell significantly to £2 7m (2006 £9 7m) reflecting the disposal of Primesight, which incurred high levels of expenditure to fund panel estate expansion and the prior year including the final expenditure, on the new television facility in Glasgow Capital expenditure will continue at the lower level seen during 2007 in 2008 and future years with the focus being on investment in new media activities

This also resulted in free cash flow conversion rates of 111% for the Group as a whole and a very strong 130% for television

Other significant cash items in the year related to exceptional items such as debt negotiation fees and re organisation costs

DIVIDENDS

The Board has previously decided that no dividends will be declared for 2007 and that dividend payments will only recommence when there is evidence of the success of the Group's turnaround plan

PRINCIPAL ACTIVITIES

The principal activities of the Group are currently in the production and broadcasting of television programmes, local and national radio production and broadcasting, the sale of advertising airtime and space in these media and in cinema and internet services However, in line with the Board's strategy announced in June 2007, the Group is focussing upon stv's television and new media business

SHARES AND OTHER INTERESTS

As at 3 April 2008 the Company's issued share capital was 951,173,627 fully paid ordinary shares of 2 5p each, having no special rights and ranking equally in all respects Also at this date, the Company had been notified of the following interests of 3% or more in its ordinary shares

	Total Shares	%
UBS Global Asset Mgt	165,386,333	17 39
Hanover Investors Partners	115,676,518	12 16
Fidelity International (UK)	103,371,179	10 86
Artemis Investment Mgt	62,979,581	6 62
Granada Media plc	53,019,236	5 57
Legal & General Inv Mgt	43,528,819	4 58
SISU Capital	38,135,363	4 01
DC Thomson	36,798,936	3 87
Murray International Holdings Ltd	29,307,666	3 08

No person holds securities carrying special rights affording control of the Company

No purchases of own shares were made during the year

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 regulation

Company law requires the directors to prepare the financial statements for each financial year Under that law the directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union In preparing these financial statements the directors have also elected to comply with IFRSs issued by the International Accounting Standards Board (IASB) The financial statements are required by law to give a true and fair view of the state of the affairs of the Company and the Group and the profit and loss of the Group for that period

In preparing these financial statements the directors are required to

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State that the financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by the IASB
- Prepare the financial statements on the going concern basis

The directors confirm that they have complied with the above requirements in preparing the financial statements

01-02 *Take me to the Edge*, fronted by extreme adventurer Leo Houlding, was one of the first commissions by the new Virgin 1 channel

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The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Director's Remuneration Report comply with the applicable company law, 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 as well as taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are also responsible for the maintenance and integrity of the website Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

AUDITORS AND DISCLOSURE OF INFORMATION

So far as each director is aware at the date of the accounts there is no relevant audit information (that is information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are not aware Each director has taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

GOING CONCERN

After making appropriate enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future The financial statements are therefore prepared on a going concern basis

RISKS AND UNCERTAINTIES

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

Regulatory environment

Our television and radio broadcast businesses are operated under licences, regulated by Ofcom, which extend until 2014 and 2012 respectively These licences contain conditions relating to such issues as regional television programme production, radio station format and matters of taste and decency It is the responsibility of the executive named on each television licence and the Chief Executive of Radio to ensure that the terms of these licences are adhered to and they put measures in place internally to ensure that this occurs However, it is possible that in certain circumstances these terms may be inadvertently breached and sanctions imposed by Ofcom In the most serious of circumstances it is within the remit of Ofcom for licences to be withdrawn

Dependence on advertising

SMG'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 of SMG's control These factors include general economic conditions, conditions specific to display and general advertising markets including the commercial television and radio broadcasting markets and the cinema and outdoor advertising markets, trends in sales, capital expenditure and other costs, and the introduction of new services and products by us or our competitors In response to an ever changing operating and competitive environment, we may elect from time to time to make certain pricing, service or marketing decisions that could have a material adverse effect on sales, results of operations and financial conditions

Performance of the ITV Network

stv is a major part of the Group and, as such, our fortunes are linked with those of the ITV Network as a whole The programming provided by the ITV Network, 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 SMG's UK national airtime to advertisers – are factors that affect the performance of stv and, therefore, the Group as a whole This relationship is managed closely, with regular updates on programme and schedule developments being provided via ITV Council, on which SMG is represented, and through senior SMG staff with responsibility to manage the sales relationship with ITV

01 New programme, *the five thirty show* benefits from our integrated approach to onscreen and online viewing, with a content rich website featuring catch up and exclusive material

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Pension scheme shortfalls

We believe that the SMG pension schemes are currently strong, and the 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

Financial

The overall financial position of SMG may be constrained by our leverage and other debt arrangements An increase in interest rates could have an adverse impact on our financial position and business results We are exposed to a variety of financial risks that arise from and apply to our activities 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 financial performance SMG has used derivative financial instruments to hedge certain risk exposures where appropriate

Risk management is carried out under policies approved 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 These are described in more detail in note 2 of the Notes to the Financial Statements

George Watt
Chief Financial Officer

BOARD OF DIRECTORS

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1| RICHARD FINDLAY
Chairman (64) 3
Appointed to the Board on 28 February 2007 Richard is the former Chief Executive of Scottish Radio Holdings plc, which he ran for 10 years building it into a portfolio of 22 radio services and 45 regional newspapers, and consistently delivering to shareholders returns that outperformed peer companies In August 2005, Scottish Radio Holdings plc was sold to EMAP plc Richard has strong links in the Scottish arts and political establishments He also chairs the new National Theatre for Scotland a growing life sciences company and has served on various boards including that of a leading law firm, a Scottish University and as chair of the Lothian NHS Board

2| ROB WOODWARD
Chief Executive (48)
Appointed to the Board on 28 February 2007 Previously Rob was Commercial Director of Channel 4 Television Corporation and on the main board He was formerly CEO of 4Ventures and achieved a dramatic turnaround of legacy businesses and built a set of successful new media and digital businesses Rob was previously an MD of UBS Warburg and global COO of corporate finance in Media and Communications He was formerly Managing Partner of Deloitte's European Telecoms Media and Technology business and UK strategy consulting practice

3| GEORGE WATT
Chief Financial Officer (40)
Appointed to the Board in February 2001 as Group Finance Director George joined the Company in 1998 as Group Financial Controller and Treasurer Prior to joining SMG George worked with KPMG s audit and assurance services practice in the UK and also in the US George is a Member of the Institute of Chartered Accountants in Scotland and an Executive Committee Member of the Scottish Council for Development and Industry

4| DAVID SHEARER
Senior Independent Director (49) 1,3
Appointed to the Board on 28 February 2007 David is an experienced corporate financier and was previously Senior Partner of Deloitte & Touche for Scotland and Northern Ireland and a UK Executive board member He is Chairman of Crest Nicholson plc Senior Independent Director of Renold plc and Superglass Holdings plc and a non executive director of Aberdeen New Dawn Investment Trust plc, Mithras Investment Trust plc Martin Currie Limited and Scottish Financial Enterprise He is also a Governor of the Glasgow School of Art and was previously a non executive director of HBOS plc

5| LORD WAHEED ALLI
Non Executive Director (43) 2
Appointed to the Board on 5 March 2007 Lord Alli is currently Chairman of Chorion Ltd and of AIM listed Asos plc He is also a Director of Olga Television Ltd He was previously Managing Director of Planet 24 Productions Ltd and Managing Director of Carlton Television Productions Ltd

6| VASA BABIC
Non Executive Director (41) 1 2
Appointed to the Board on 28 February 2007 Vasa is a partner in Hanover Investors Previously, he was Group Director of Business Integration at Vodafone plc, leading major global programmes of change and restructuring Prior to that he was a strategy consultant for 15 years in the London office of Mercer Management Consulting and for a number of those years, the youngest senior partner in the firm worldwide He worked in a broad range of sectors, with a focus on sectors including the Telecoms Internet Media and Technology industries Vasa has an MA in Economics from King s College Cambridge

7| JAMIE MATHESON
Non Executive Director (53) 1 2
Appointed to the Board on 5 March 2007 Jamie is Executive Chairman of Brewin Dolphin Holdings PLC a leading private client investment manager and stockbroker He was previously a non executive director of Scottish Radio Holdings plc until its sale to EMAP plc and is currently a non executive director of AIM VCT2 plc

8| MATTHEW PEACOCK
Non Executive Director (46) 3
Appointed to the Board on 28 February 2007 Matthew is the founding partner of Hanover Investors He has led investments for over 16 years in amongst other sectors manufacturing outsourced business services chemicals financial services textiles and logistics Prior to this he ran the international M&A team in London at BZW having started his career at Credit Suisse First Boston in New York He holds an LLM from Cambridge University He is currently non executive Chairman of Renold PLC and a non executive director of Cosalt PLC

KEY
1| Audit Committee
2| Remuneration Committee
3| Nomination Committee

CORPORATE GOVERNANCE

SMG plc is committed to the highest standards of corporate governance The new 2006 Combined Code on Corporate Governance which applies to reporting years beginning on or after 1 November 2006, supersedes and replaces the Code issued in 2003

Having reviewed the 2006 Code carefully the Board believes that it is fully compliant with 47 out of the 48 provisions The provision with which it does not fully comply relates to the constitution of the Audit Committee as not all of the members are classed as independent

This section, together with the report by the directors on remuneration, set out on pages 40 to 53, describes how, in respect to the financial year ended 31 December 2007, the Company has applied the principles of good corporate governance and has complied with the principles set out in the revised Combined Code

The Board and its procedures
The membership of the Board during the year was as follows

Chairman
Chris Masters (resigned 28 February 2007)
Richard Findlay (appointed 28 February 2007)

Independent non executive directors
David Dunn (resigned 28 February 2007)
Tim Gardam (resigned 28 February 2007)
Steve Maine (resigned 28 February 2007)
MT Rainey (resigned 28 February 2007)
Martyn Smith (resigned 28 February 2007)

Chief Executive
Rob Woodward (appointed 28 February 2007)

Executive director
George Watt
Donald Emslie (resigned 11 April 2007)

David Shearer (appointed Senior Independent Director 28 February 2007)
Matthew Peacock (appointed 28 February 2007)
Vasa Babic (appointed 28 February 2007)
Jamie Matheson (appointed 5 March 2007)
Lord Waheed Alli (appointed 5 March 2007)

Donald Emslie was Acting Chief Executive from 18 July 2006 until 28 February 2007

The Board has considered the independence of the non executive directors and has confirmed that while all the directors are considered to be of independent character, only Richard Findlay, David Shearer, Jamie Matheson and Lord Waheed Alli would be considered independent as defined by the revised Combined Code The wide ranging experience and backgrounds of all the non executive directors ensure that they can debate and constructively challenge management in relation to both 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
Attendance of Board members at Board and Committee meetings is set out below

	BOARD	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE
Number of meetings held:	27	4	5	-
Number attended:				
Chris Masters (resigned 28/2/07)	6			
David Dunn (resigned 28/2/07)	4	1	1	
Tim Gardam (resigned 28/2/07)	6		1	
Donald Emslie (resigned 11/4/07)	10			
Steve Maine (resigned 28/2/07)	6	1		
MT Rainey (resigned 28/2/07)	6		1	
Martyn Smith (resigned 28/2/07)	5	1		
Richard Findlay (appointed 28/2/07)	[illegible]			
David Shearer (appointed 28/2/07)	16	3		
Rob Woodward (appointed 28/2/07)	19			
George Watt	27			
Matthew Peacock (appointed 28/2/07)	17			
Vasa Babic (appointed 28/2/07)	17	3	4	
Jamie Matheson (appointed 5/3/07)	13	3	4	
Waheed Alli (appointed 5/3/07)	9		2	

The number of Board meetings held from 28 February 2007 was 20

Non executive directors are appointed for a specified period of three years and re appointment is not automatic Directors also stand for election by shareholders at the first AGM following their appointment and subsequently every three years The report from the Nomination Committee contained in this report explains the process for selection of directors and succession planning

There is a well established division of authority and responsibility at the most senior level within the Company through the separation of the roles of Chairman and Chief Executive The Senior Independent Director is available to shareholders for concerns which cannot be resolved by contact with the Chairman or Chief Executive

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 incurs in defending any proceedings brought against him (provided that judgement is not given against him) All directors have access to the advice and service of the Company Secretary and, at the Company's expense, the Group's legal advisers The Company Secretary is an employee of the Company and attends all meetings of the Board and its committees and is responsible for ensuring that all Board procedures are observed and for advising the Board on corporate governance matters

The Board meets regularly, at least nine times a year with additional meetings taking place as required The Board has adopted a schedule of matters reserved for its decision, 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, and terms and conditions of non executive and executive directors
- The Group's long term objectives and commercial strategy, annual operating and capital expenditure budgets
- Material contracts and significant variations in terms of the Group'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 Group's pension schemes, share schemes, and treasury policy
- Internal control and corporate governance arrangements and to act as a court of the last resort in relation to any investigations undertaken by the Audit Committee

Board meetings involve reviews of financial and business performance against the plan and budgets approved by the Board, both at a Group and divisional level The Board also receives regular presentations from each of the divisions, enabling it to explore specific issues and developments in more detail Any matter requiring a decision by the Board is supported by a paper analysing all relevant aspects of the proposal including potential risks and proposed management action

Throughout the year, the Company also had a Management Team, which included the executive directors, the human resources director, the director of strategy & planning and the managing directors of the Broadcasting, Content and Ventures divisions The Management Team met weekly and ensured executive focus on group wide performance and risk management

The Board has undertaken a formal and rigorous annual evaluation of its own performance and that of its Committees and individual directors This was conducted using a detailed questionnaire and amongst the areas reviewed were 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 The performance evaluation questionnaire was followed by meetings of the full Board, the Chairman with the non executive directors, and non executive directors only On completion of the evaluation process the directors have concluded that the Board is effective in meeting its objectives and fulfilling its duties and obligations The directors are also satisfied that the Audit, Remuneration and Nomination Committees all carry out their respective delegated duties effectively and efficiently

The Board is supported by the Nomination, Remuneration and Audit Committees Reports from the Nomination and Audit Committees are contained within this report, on pages 36 to 38

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

Chris Masters (Chairman)
David Dunn
Tim Gardam
Steve Maine

These members resigned on 28 February 2007 and the current membership is

Matthew Peacock (Chairman)
Richard Findlay
David Shearer

Remuneration Committee
The members of the Committee during the year were

David Dunn (Chairman)
MT Rainey
Tim Gardam

These members resigned on 28 February 2007 and the current membership is

Vasa Babic (Chairman)
Lord Waheed Alli
Jamie Matheson

The activities of the Remuneration Committee are described within the report by the directors on remuneration on pages 40 to 53

The Committee has written terms of reference Its principal duties are to

- Regularly review the structure, size and composition of the Board and evaluate the balance of skills, knowledge and experience
- Regularly review plans for succession of executive and non executive directors and make recommendations to the Board
- Identify and nominate candidates for approval of the Board using, if appropriate, external recruitment and search advisers employing objective and industry recognised selection criteria
- Recommend to the Board membership of the Audit and Remuneration Committees, in consultation with the chairmen of those Committees

The full terms of reference of the Committee are available on request and on the Company's website www smg plc uk

There is a formal and transparent procedure for the appointment of new directors to the Board As part of the annual performance evaluation conducted by the Board a review is conducted of the Board's size, composition, diversity and balance of skills The outcome of the review is used by the Committee to determine the selection criteria and role specification of non executive directors External selection consultants are retained to conduct searches and a shortlist created in consultation with the Committee and, where appropriate, the executive directors The Committee reviews the profiles of candidates and conducts interviews prior to making recommendations to the Board for approval

All directors are given a comprehensive introduction to the Group's various businesses and continuing development is provided through briefing sessions in the course of regular Board meetings, covering business specific and broader regulatory issues and including presentations from members of senior management

Report from the Audit Committee

The members of the Committee during the year were

Martyn Smith (Chairman)
David Dunn
Steve Maine

These members resigned on 28 February 2007 and the current membership is

David Shearer (Chairman)
Vasa Babic
Jamie Matheson

The Audit Committee, chaired by David Shearer, who has recent and relevant financial experience, is authorised by the Board to investigate any activity within its terms of reference and to seek any information it requires from any employee All employees are directed to co operate with any request made by the Committee

Amongst others, the duties of the Committee are to

- Assist the Board in ensuring that the Company's published financial statements comply with statute and all applicable accounting standards and good practice
- Review the effectiveness of the Company's internal financial controls and audit arrangements and investigate and advise on these or related matters which are referred to it or that it considers necessary
- Review the Company's statement on internal control systems prior to endorsement by the Board
- Consider the major findings of any internal investigations on control and management's response
- Discuss with the Company's auditors, matters arising from their work (in the absence of management where necessary) and encourage and monitor compliance with relevant codes of best practice in corporate governance
- Keep under review the scope and results of the annual audit, its cost effectiveness and the independence and objectivity of the auditors
- Consider the appointment of the external auditors, the audit fee, their independence and objectivity and any matters relating to the resignation or dismissal of the external auditors
- Review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrong doing in financial reporting or other matters

The full terms of reference of the Committee are available on request and on the Company's website www smg plc uk

Meetings of the Committee are normally attended by the Chief Executive, Chief Financial Officer and representatives of the external auditors The Committee also meets separately with senior management and the external auditors

The Audit Committee and Board place great emphasis on the objectivity of the Group's auditors PricewaterhouseCoopers LLP in their reporting The audit partner and manager attend 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 Audit Committee monitors fees paid to the auditors for non audit work and during the year under review, the non audit work consisted of advice in connection with (i) the amendment to the rules of the 2005 Long Term Incentive Plan, (ii) the disposal of Primesight, (iii) the potential disposal/flotation of Virgin Radio and (iv) the Rights Issue circular The Committee believes that it is cost effective and therefore in the best interests of shareholders for the auditors to carry out these services and that the nature of such work does not impair the independence and objectivity of the auditors

A policy has been put in place to provide that before the auditors carry out any non audit work, the approval of either the Chairman of the Audit Committee or another Committee member must be given An explanation as to why there is a preference for using the auditors is also required and it is felt that this process ensures that shareholders receive value for money A resolution to re appoint the auditors will be put before the shareholders at the Annual General Meeting

The Committee has reviewed the Company's interim and full year results prior to publication, as well as the Group's risk management procedures and risk register, incorporating relevant social, ethical and environmental risks

During the first quarter of 2007, the Company's Internal Auditor retired and as a result of the ongoing restructuring of the business, a replacement has not yet been appointed However, the Audit Committee have this under review and the intention is that once the restructuring exercise has concluded later this year, a third party firm will be engaged to carry out the internal audit function

Internal control and control environment

The directors of SMG plc have overall responsibility for establishing and maintaining an adequate system of internal controls and for reviewing the effectiveness of the system The system of internal control is designed to manage rather than eliminate risk and in pursuing these objectives, internal control can only provide reasonable and not absolute assurance against material misstatement or loss

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

- A comprehensive financial review cycle, which includes annual budgeting approved by the Board, monthly reporting of trading results for review and, where necessary, corrective action as well as detailed and regular reforecasting
- Defined organisational structures with appropriate delegation of authority
- Regular reviews of key performance indicators and business risks and consequent steps to manage any matters arising
- Provision to the Board and management of relevant, accurate, timely information based on comprehensive management information systems, which are continually being improved and updated

The Company has in place a formal procedure by which staff can, in confidence, raise concerns about possible improprieties in financial and other matters The Audit Committee has reviewed and approved this procedure No such concerns were raised by staff during the year

The executive group is responsible for implementing the risk management strategy, ensuring that an appropriate risk framework is operating effectively across the Group, embedding a risk culture throughout the Group, and providing the Board and Audit

Committee with an overall view of the Group's risk profile, identifying any major exposures and mitigating actions

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

The Board has reviewed the effectiveness of the system of internal control and considers that the Group has an established system of internal control which the directors believe to be appropriate to the business

Relationship with shareholders

The Chairman meets with major shareholders on a periodic basis with the Senior Independent Director and all other non executive directors available for meetings on request In addition, institutions are offered the opportunity to meet new non executive directors following their appointment to the Board, as part of their induction Furthermore, feedback from major shareholders is regularly sought and reviewed by the Board

Communication with major shareholders, analysts and the financial press is maintained throughout the year with, in addition, detailed presentations made at the time of the interim and full year results Detailed reviews of the performance and financial position of each division are included in the Chairman's statement, the Chief Executive's and Chief Financial Officer's reviews, which the Board uses to present a balanced and understandable assessment of the Group's position and prospects Such communication is designed to establish a mutual understanding of objectives In addition, the Group has introduced an electronic communication facility to allow shareholders to receive information more quickly and in a manner more convenient for them The Board also welcomes and encourages the participation of all shareholders at the Company's AGM

Suppliers

Creditor payment policy

The Company's policy is to settle the terms of payment with suppliers when agreeing terms of payment by inclusion of the relevant terms in contracts, and to pay in accordance with its contractual and other legal obligations Trade creditors of the Company at 31 December 2007 were equivalent to 46 days of purchases (2006 44 days)

Compliance

Part of the information that fulfils the Companies Act requirements of the Business Review can be found on pages 2 to 31 The Group's principal operating subsidiaries are listed in note 2 to the Company's financial statements and details of the principal risks and uncertainties facing the Company can be found in the Finance Director's report on pages 30 and 31 The Key Performance Indicators for the Group can be found on pages 11, 14, 16 and 17

Disclosures required under Part VIII to schedule 7 of the Companies Act 1985

Appointment/Replacement of Directors

In accordance with the Articles of Association of the Company, the Board of directors and/or the shareholders of the Company can appoint a director either to fill a vacancy or as an additional director, who shall hold office until the next following general meeting No person may be appointed as a director unless he is recommended by the Board or advance notice of that person's proposed appointment has been given to the shareholders The minimum number of directors is three

The office of a director shall be vacated if

(a) he ceases to be a director or becomes prohibited by law from being a director, or

(b) he becomes bankrupt, makes any arrangement or composition with his creditors or becomes insolvent,

(c) he is, or may be, suffering from mental disorder and either

  (i) he is admitted to hospital in pursuance of an application for admission for treatment, or

  (ii) an order is made for his detention or for the appointment of a receiver, curator bonis or other person to look after his affairs, or

(d) he resigns or his term of office expires, or

(e) the Board resolves that his office be vacated due to his absence from meetings for more than six consecutive months without permission, or

(f) he is requested to resign in writing by not less than three quarters of the other directors

The shareholders of the Company may also by ordinary resolution remove any director from office and appoint another person in his place

Additionally, in accordance with the Articles of Association of the Company and corporate governance principles, at every Annual General Meeting of the Company, one third of the directors are required to retire from their office Such directors can be reappointed at the relevant Annual General Meeting

Directors powers

Subject to company law, the Memorandum of Association and Articles of Association of the Company and any special resolutions of the shareholders, the directors are empowered with the management of the Company's business and have the usual powers granted to them which are necessary for the operation of a company of this size There are no unusual or exceptional powers

Included in the directors powers is the power of the Board to allot, grant options over, or otherwise dispose of the unissued shares in the capital of the Company to such persons on such terms and conditions and at such times as it thinks fit This power is subject to company law and any resolution of the Company's shareholders

The Board of directors may, subject to company law, purchase any of the Company's shares in any way and at any price (whether at par or above or below par) and may hold such shares as treasury shares provided that the purchase has been sanctioned by an extraordinary resolution of the Company's shareholders

There are no significant agreements to which the company is party which take effect, alter or terminate upon a change of control of the company

Amendment to the Company's Articles

The Company has no specific rules regarding amendments to its Articles and any such amendments require to be put before shareholders to approve by special resolution in accordance with company law

REMUNERATION COMMITTEE REPORT

Introduction
This report has been prepared in accordance with The Directors' Remuneration Report Regulations 2002, (the "Regulations") The report also meets the relevant requirements of the Listing Rules of the UK Listing Authority and describes how the Board has applied the principles and complied with the provisions of the revised Combined Code (the "Code") on Corporate Governance relating to directors' remuneration As required by the Regulations, an advisory resolution to approve the report will be proposed at the AGM of the Company at which the financial statements will be approved

The auditors are required to report on the 'auditable' part of this report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations) The report is therefore divided into separate sections for audited and unaudited information

Part 2 of the Regulations – Unaudited information
Remuneration Committee
The directors who were members of the Remuneration Committee during the year are shown on page 36 in the section on Corporate Governance

Following the resignation of the Company's non executive directors in February 2007, a new Remuneration Committee was formed

The responsibility for the establishment of a remuneration policy and its cost is a matter for the full Board, on the advice of the Remuneration Committee The recommendations of the Remuneration Committee have been approved without amendment by the Board for submission to shareholders

The Remuneration Committee is responsible for developing policy on remuneration for executive directors and senior management and for determining specific remuneration packages for each of the executive directors The Remuneration Committee members have no personal financial interest other than as shareholders in matters to be decided, no potential conflicts of interests arising from cross directorships and no day to day involvement in running the business

During the period under review, the Remuneration Committee sought the assistance of the Chairman and Chief Executive on matters relating to directors' performance and remuneration The Chairman, Chief Executive and Suzanne Burns, Human Resources Director, attend meetings by invitation except when their individual remuneration arrangements are discussed No director takes part in discussions relating to their own remuneration and benefits The Remuneration Committee appointed and received wholly independent advice on executive compensation and associated share scheme administration from Halliwell Consulting No other services were provided to the Company by Halliwell Consulting during the year

The Remuneration Committee is formally constituted with written terms of reference with the full remit of the Committee role described A copy of the terms of reference is available to shareholders on request by writing to the Company Secretary whose contact details are set out on page 95 of the Annual Report and on the Company's website, www smg plc uk

Philosophy behind Remuneration Committee's Approach

The policy is designed to encourage, reward and retain the executives and the Remuneration Committee believes that shareholders' interests are best served by remuneration packages which have a large emphasis on performance related pay Emphasis on performance should encourage executives to focus on delivering the business strategy and by providing meaningful incentives to executives ensures that the appropriate balance between fixed and performance related pay is maintained

Remuneration Policy 2006 and 2007

The Remuneration Committee's policy during the year (approved by shareholders at the Extraordinary General Meeting in June 2007) was to set the main elements of the remuneration package at the following quartiles in comparison to the Company's Comparator Group

BASE SALARY	ANNUAL BONUS POTENTIAL	PENSION	BENEFITS IN KIND	POTENTIAL TOTAL SHORT-TERM REMUNERATION AVAILABLE	POTENTIAL ANNUAL SHARE AWARDS	POTENTIAL COMPENSATION VALUE
Median to upper quartile	Median to upper quartile	Median	Market practice	Median to upper quartile	Upper quartile	Median to upper quartile
There will be no increase to base salary levels awarded in 2008	Maximum bonus payouts are only earned by executives for achieving upper quartile performance			The remuneration package will provide lower quartile total short term remuneration unless bonus payments are earned by executives Maximum bonus payments will only be earned for upper quartile performance	The remuneration package will only provide a lower quartile total compensation value unless executives earn their bonus payouts and satisfy the performance conditions attached to their share incentives Maximum bonus and share incentive payments will only occur for upper quartile performance	

Remuneration Policy 2008

Every year, the Remuneration Committee reviews whether its remuneration policy remains appropriate for the relevant financial year Factors taken into account by the Remuneration Committee include

- market conditions affecting the Company,
- the recruitment market in the Company's sector,
- changing market practice, and
- changing views of institutional shareholders and their representative bodies

As part of the general review, this year the Committee specifically considered how the SMG plc 2005 Long Term Incentive Plan would be operated during 2008 Following the review the Committee concluded that

- for awards made in 2008, the most appropriate performance criteria given the Company's current circumstances and prospects, are for
- 50% of awards to be based on a comparative Total Shareholder Return (TSR) performance condition, and
- 50% of awards to be based on Return on Capital Employed (ROCE) performance targets

- The individual maximum award under the LTIP in 2008 will be 200% of salary

In all other respects the policy applied during 2007 will continue to apply for 2008

Remuneration Report

2007/2008

The following companies make up the Comparator Group (CG) used for benchmarking in 2007 and 2008
The Comparator Group has been revised during 2007 to take account of changes to the Company during 2007

Bloomsbury Publishing Plc	Chrysalis Group plc	Johnston Press plc
Informa plc	Mecom Group PLC	ITV plc
Daily Mail & General Trust plc	Emap plc	Pinewood Shepperton plc
Entertainment Rights Plc	RDF Media Group plc	Eros International plc
Trinity Mirror plc	Euromoney Institutional Investor PLC	United Business Media plc
Future plc	UTV Media plc	Wilmington Group plc
GCap Media plc	Centaur Media PLC	

The chart below demonstrates the balance between fixed and variable performance based compensation for each executive director for the year ended 31 December 2007

Rob Woodward

61% Performance compensation
39% Fixed compensation

George Watt

55% Performance compensation
45% Fixed compensation

Key
Fixed compensation is calculated as
Salary
Benefits

Performance compensation is calculated as
Bonus Available
Fair market value of LTIP and share option awards on grant

Elements of Executive Directors' Remuneration

Basic Salary

Policy 2007 and 2008 Median to Upper Quartile

For 2008 the Remuneration Committee has applied the criteria set out below to determine the salaries payable and no increases to base salary will be awarded in 2008

NAME	2007 SALARY	2008 SALARY	RISE	MEDIAN RISE IN CG
Rob Woodward Chief Executive	£380,000	£380,000	0%	5 2%
Upper Quartile	£527,000	£595,000		
Median	£362,000	£409,000		
George Watt Chief Financial Officer	£214,200	£214,200	0%	5.3%
Upper Quartile	£345 000	£387,000		
Median	£240,000	£267,000		

References to quartiles are to quartiles in the Comparator Group

When determining the salary of the executives the Committee takes into consideration

- the levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity, in particular the median and upper quartile salary levels of those comparable companies within the media sector and the Comparator Group,
- the performance of the individual executive director,
- the individual executive director's experience and responsibilities, and
- pay and conditions throughout the Company

Annual Performance Related Bonus

Policy 2007 and 2008 Median to Upper Quartile Bonus Potential

Bonus payments are not pensionable The following tables summarise the main features of the Company's executive bonus plan

NAME	ROB WOODWARD	GEORGE WATT
Maximum Annual Bonus Potential (% of Salary)		
Company	100%	100%
Upper Quartile	100%	100%
Median	100%	100%
2007 Bonus Paid		
Actual bonus	No bonus payment	No bonus payment
% of salary	n/a	n/a
Median Bonus Payments in the Comparator Group as a % of Salary	69%	50%
Maximum Bonus Potential for 2008	100%	100%

References to quartiles are to quartiles in the Comparator Group

The targets for the annual bonus plan are reviewed and agreed by the Remuneration Committee at the beginning of each financial year to ensure that they are appropriate to the current market conditions and position of the Company in order to ensure that they continue to remain challenging

After reviewing the bonus targets the Remuneration Committee has set the following performance conditions for the executive bonus plan for 2008

BONUS TARGET	% OF MAXIMUM BONUS POTENTIAL SUBJECT TO THE TARGET
Financial Performance	75%
Group PBT	
TV Operating Profit	
EPS	
Personal Objectives	25%
TOTAL	100%

Share Incentives

Policy 2007 and 2008 Upper Quartile

The Remuneration Committee's policy is to provide annual share grants to executives at the upper quartile level compared to the Comparator Group Share incentives, excluding all employee plans, are provided to the executives solely through 'the SMG plc 2005 Executive Long Term Incentive Plan" (the "LTIP") No further grants will be made under any other discretionary share plan

The Remuneration Committee believes that share awards under the LTIP enable the Company to provide a competitive incentive and retention tool which is also cost effective in respect of both shareholder dilution and P&L cost

2007 Performance Conditions

The 2007 awards under the LTIP have absolute share price targets attached to them In addition, the Committee will ensure that the underlying financial performance of the Company is consistent with its share price performance and report the reasons for its belief at the time of release

The performance conditions for the 2007 LTIP grant are as follows

- the Award is split into three Parts,

PART OF THE AWARD	MEASUREMENT POINT	% OF AWARD CAPABLE OF RELEASE
Part 1	Share price 12 months after grant	33%
Part 2	Share price 24 months after grant	33%
Part 3	Share price 36 months after grant	34%

- the performance conditions for each Part of the Award are as follows

ELEMENT	SHARE PRICE TARGET	% OF PART OF AWARD CAPABLE OF RELEASE
Part 1	52p 87p	0%* 100%*
Part 2	70p 105p	0%* 100%*
Part 3	87p 122p	0% 100%*

* Each Part of the Award will become capable of release proportionately between points depending on the Company share price at the relevant measurement point

- any Part of the Award capable of release in accordance with the above schedule will be "banked" Banked Parts of the Award will be released on the third anniversary of the date of grant provided the participant remains employed by the Company (the actual value of the banked Parts of the Award to the participant will depend on the share price of the Company at the end of the three year holding period),
- any Part of the Award not capable of release at a particular measurement point will be rolled over into the next Part of the Award For example if 20% of the 33% of the Award subject to Part 1 was deemed capable of release and banked the balance of 13% would be added to Part 2,
- for the purposes of determining the extent to which the relevant Share Price Targets have been met, the Company share price will be based on the average of the closing prices of a Company share over the 30 days ending on the date of the relevant measurement point (set out above)

The rationale behind the selection of absolute share price targets as a performance measure for the 2007 LTIP grant was as follows

- the Committee considered that share price growth was a transparent and accurate measure of the Company's performance at that time,
- it is a measure that was requested by some of the Company's larger shareholders,
- it is a measure that is comprehensively understood by the executive team and is something over which they have a direct line of sight, and
- a share price target ensures that executives only derive value from the LTIP where significant value is generated for shareholders

2007 LTIP Grant

BONUS	ROB WOODWARD (% OF SALARY & FMV)	GEORGE WATT (% OF SALARY & FMV)
Face Value of LTIP award granted by the Company as % of Salary & FMV	300% (£234,706)	200% (£88,118)
Total Face Value of LTIPs granted as % of Salary & FMV at the Upper Quartile in the 2007 Comparator Group	153% (£492 000)	152% (£289,000)
Executive Shareholding Requirement as a % of Salary (current shareholding in bold)	100% (9 62%)	100% (15 64%)
Proposed Grants for 2008 Face Value as a % of Salary	200%	200%

1 Fair Market Value ("FMV") for an award under the LTIP is based on the value of the shares at the date of grant discounted to take into account the probability of the performance conditions being satisfied

2 The Remuneration Committee is keen to encourage executive directors and other members of the executive management group to build significant shareholdings in the Company in relation to their remuneration A shareholding requirement was therefore introduced in 2005 which will ensure that over a 5 year period a minimum holding is built up by all members of the executive management group

It should be noted that the real value received by the executive directors under the share incentive arrangements will be dependent upon the degree to which the associated performance conditions have been satisfied at the end of the three year performance period and the share price of the Company at this time

2008 Performance Conditions

It is currently intended that 2008 LTIP Grants will be made under the SMG plc 2005 Executive Long Term Incentive Plan (the "LTIP") and will be structured as follows

- 50% of awards to be based on a comparative Total Shareholder Return (TSR) performance condition, and
- 50% of awards to be based subject to Return on Capital Employed (ROCE) performance targets

Basis of Performance Condition Selection and Measurement

The Remuneration Committee will take the following factors into account when deciding the appropriate ROCE performance condition for the 2008 awards

- the median and upper quartile historic levels of ROCE for the Comparator Group companies, and
- the projected ROCE for the Company provided by external analysts

It is the view of the Committee that ROCE is an appropriate performance condition for part of the awards granted under the LTIP because

- it is one of the key investment criteria used throughout the business and a consistent return enhances shareholder value over the medium to longer term,
- ROCE measures consistent value creation and is, therefore, a particularly valuable measure in a highly cyclical business, and
- ROCE is a measure well understood by the executive team and something that they can directly influence

Comparative TSR is viewed as an appropriate performance condition for part of the awards to be granted by the Remuneration Committee as it ensures that the executives have outperformed their peers over the measurement period in delivering shareholder value before being entitled to receive any of their awards irrespective of general market conditions In terms of the Comparator Group, the Board believes it is appropriate to make part of the award conditional on the Company's performance compared to a wider group of companies from the Media Sector Prior to release the Remuneration Committee will also ensure that the underlying financial performance of the Company is consistent with its TSR performance The Remuneration Committee will provide a full explanation and justification at the time of the release of the element of the award subject to TSR and why it believes that the underlying financial performance of the Company is consistent with this TSR performance

The Remuneration Committee determines whether the performance conditions for share awards or options are satisfied Where the performance requirements are based on ROCE the Committee will use the principles behind the audited figures disclosed in the Company's financial statements, and may take advice from independent advisors as to whether any adjustments are required to ensure consistency in accordance with the terms of the performance conditions Where the performance measure is Total Shareholder Return, Halliwell Consulting, the Remuneration Committee's advisors, shall calculate the TSR in accordance with the rules of the LTIP and sign off these figures prior to the release of any award

Dilution

The following table sets out the current level of dilution against the ABI limits for all share plans and discretionary plans (principally executive plans) 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	1 45%	1 18%
5% dilution in ten years	1 11%	1 06%

Pension

Policy 2007 and 2008 Median

Final salary scheme

George Watt is the only current executive director who is a member of the Group's principal pension scheme, the Scottish and Grampian Television Retirement Benefits Scheme, which is an Inland Revenue approved defined benefit occupational pension scheme In common with all members, George Watt made contributions of 7% of salary from 1 January 2007 until 5 April 2007 and 9% from 6 April 2007 until 31 December 2007 to the scheme (2006 7%)

Remuneration Report

Subject to Inland Revenue limits the scheme provides members with a pension of two thirds of final basic salary upon reaching normal retirement at age 65 (2006 65) The principal features of the pension benefit accrued by each executive director are noted below These are

- the annual accrued pension payable from normal retirement age, calculated as if he had left service at the period end,
- the increase in the accrued pension attributable to service as a director during the year,
- the transfer value of the accrued benefit at the end of the period, calculated in accordance with the actuarial Guidance Note GN11,
- the transfer value of the accrued benefit at the end of the previous period, calculated in accordance with the actuarial Guidance Note GN11, and
- the increase in the transfer value over the period net of employee contributions

Members of the scheme have the option of paying Additional Voluntary Contributions, but these and the resulting benefits are not included in the table shown on page 50

The Company agreed with the Scheme's trustees a new current benefit structure for active members and this resulted in active member pension contributions increasing to 9% of salary (up from 7%) and a reduction in future service accrual rate from 50ths to 60ths which was effective from 6 April 2007

Money purchase scheme
As a consequence of A Day pension legislation the Company closed down its Funded Unapproved Retirement and Death Benefit Scheme (FURDBS) Thereafter, members who had accrued pension benefits above the lifetime allowance would no longer be able to remain as active members of the final salary scheme In lieu of pension scheme benefits the executive directors receive a cash pension payment equal to 20% of base salary Furthermore, following the retention of the earnings cap within the final salary scheme, executive directors receive as a cash pension supplement 20% of their salary in excess of the earnings cap This pension supplement will be excluded from the calculation of any other benefit provided by the Company Executives will not be compensated for any loss of tax relief arising from the change in pension legislation

Benefits in Kind

Policy 2007 and 2008 Market Practice
The Company provides a cash benefits allowance in lieu of normal benefits in kind for executives of this level in a company of this size, such as company cars, healthcare and post A Day pension benefits The Company actively reviews the levels of benefit received to ensure that they remain market competitive This cash benefits allowance is excluded from the calculation of any other benefit provided by the Company

Total Compensation

Policy 2007 Median to Upper Quartile depending on Performance
The following table shows the value of each of the main elements of the remuneration package provided to the executive directors during the year ended 31 December 2007 It should be noted that the FMV of LTIP awards are not the value that will be received by the executives but represent the accounting cost to the Company of providing these share incentives under IFRS 2 and therefore represent the 'cash value' of those grants at the date of grant The FMV calculation is based on a series of assumptions and may not equate to the actual value received by the executive directors on release

In addition, no benefit under the LTIP will be provided unless the attached performance conditions are satisfied and will also depend on the share price on release

NAME	SALARY	BONUS PAID	BENEFITS	TOTAL PAYMENTS	FMV LTIP	TOTAL ACTUAL & FMV
Rob Woodward Chief Executive	£318,250*	£0	£57 606	£375 856	£234 706	£610,562
George Watt Chief Financial Officer	£214,200	£0	£36,620	£250,820	£88 118	£338 938

Pro rated for period 28 02 07 31 12 07

Termination Package provided to Donald Emslie

The following table summarises the payments and entitlements received by Donald Emslie on the termination of his employment

	SALARY & BENEFITS IN KIND	BONUS	TERMINATION OF CONTRACT PAYMENT	TOTAL PAYMENTS	LTIPS RELEASED	OPTIONS VESTED	TOTAL VALUE
Amount	£450,684	£0	£85,000	£535,684	£30,502	£0	£566,186
Basis of Payment /Entitlement	12 month's salary and cash value of the benefits payment in lieu of notice in line with contractual provisions		Payment in consideration of the Executive waiving all statutory and further legal rights against the Company		Awards released in line with the rules of the Plan (See notes below)	No options vested in line with the rules of the Schemes	

Notes

The Remuneration Committee applied the following principles in determining the termination package provided to Donald Emslie

1 The payments made should only be those that the Company was legally obliged to make due to the Executive's contractual rights

2 The Board determined that the Executive was a "good leaver" for the purposes of the Company's discretionary share plans and therefore the Remuneration Committee applied the relevant "good leaver" provisions

3 The Remuneration Committee applied the rules of the relevant discretionary share plan and did not exercise any discretion (other than the designation of good leaver) in favour of the Executive

4 In all cases where the rules of the discretionary share plan allowed performance conditions were applied

Other Remuneration Matters

All Employee Share Arrangements

The following table summarises the main features of the Company's all employee share arrangements and their current status

NAME	STATUS	ELIGIBILITY	MAIN FEATURES	% OF EMPLOYEES PARTICIPATING
SIP*	Operated during 2007 and will be operated for 2008	All employees of the Company including the executive directors	The Plan provides employees with the opportunity of purchasing £1,500 of shares a year out of pre-tax salary and providing additional matching shares with a maximum matching ratio of 2:1 These matching shares will be normally released three years after they have been awarded provided that the associated shares purchased by the employee have been retained and provided the employee is still employed by a Group Company at this time For 2007 the matching ratio was set at 1 matching share for every two employee purchased shares	16%
Sharesave Scheme+	The Plan is in the run-off stage with no new invitations It is not currently intended to operate the Plan in the future	All employees of the Company including the executive directors	Options are granted over Company shares at a discount of up to 20% to the market value on the date of grant which subject to the satisfaction of conditions can be exercised after either three or five years	N/A

* The SMG plc Buy! & Match! Plan ("SIP")

+ SMG plc Sharesave Scheme

Executive Directors' Contracts

Details of the service contracts of the executive directors of the Company are as follows

NAME	COMPANY NOTICE PERIOD	CONTRACT DATE	UNEXPIRED TERM OF CONTRACT	POTENTIAL TERMINATION PAYMENT
Rob Woodward Chief Executive	12 months	28 02 07	Rolling contract and benefits	12 months salary
George Watt Chief Financial Officer	12 months	27 02 01	Rolling contract and benefits	12 months salary

All executive directors' contracts are for a fixed period of one year from date of appointment, and will continue thereafter unless terminated by at least 12 months written notice This arrangement is in line with best corporate practice for listed companies In the event of the termination of an executive's contract, salary and benefits will be payable during the notice period (there will, however, be no automatic entitlement to bonus payments or share incentive grants during the period of notice other than where normal good leaver provisions apply) All executive directors will be expected to mitigate their loss in accordance with general legal principles in the event of their cessation of employment The Remuneration Committee will ensure that there have been no unjustified payments for failure on an executive director's termination of employment There are no special provisions in the contracts of employment extending notice periods on a change of control, liquidation of the Company or cessation of employment

Non Executive Directors

The remuneration of the non executive directors is determined by the Board based upon recommendations from the Chairman and Chief Executive (or, in the case of the Chairman, based on recommendations from the senior independent non Executive director and the Chief Executive) and is within the limits set by the Articles of Association The individual basic and committee fees are as follows

NAME	2007			
	BASIC FEE £	COMMITTEE CHAIR £	COMMITTEE FEE £	TOTAL £
Richard Findlay	£100,000	n/a	£5 000	£105,000
David Shearer	£34,500	£7,500	n/a	£42,000
Matthew Peacock	£27,000	£7 500	n/a	£34,500
Vasa Babic	£27,000	£7 500	n/a	£34,500
Waheed Alli	£27 000	n/a	£5 000	£32 000
Jamie Matheson	£27 000	n/a	£5 000	£32 000

For non executive directors, the basic fee only is paid in cash Non executive directors do not participate in any bonus plan or share incentive programme operated by the Company and are not entitled to pension contributions or other benefits provided by the Company The non executive directors do not have service contracts, but their appointments are for fixed terms of three years, subject to the terms of the Company's Articles of Association, the Companies Act and shareholder approval The basis of fees paid to the non executive directors is as follows

- a basic fee of £27,000 for carrying out the duties of a non executive director,
- a basic fee of £34,500 for carrying out the duties of senior independent non executive director
- a fee of £5 000 for carrying out the specific duties of sitting on the Company's Audit and/or Remuneration Committees,
- an additional fee of £2,500 on top of the Committee fee to reflect the additional duties involved in Chairing that Committee

The remuneration of the non executive directors will not be changed in 2008 with the exception of the Chairman's fee which has reduced to £85,000 with effect from 1 January 2008

NAME	EFFECTIVE DATE OF APPOINTMENT
Richard Findlay	Appointed 28 February 2007
David Shearer	Appointed 28 February 2007
Matthew Peacock	Appointed 28 February 2007
Vasa Babic	Appointed 28 February 2007
Waheed Alli	Appointed 5 March 2007
Jamie Matheson	Appointed 5 March 2007

Directors' interests in shares

The beneficial interests of the directors and their families in the ordinary shares of the Company as of 1 January 2007 (or their date of appointment if later) and as at 31 December 2007 (or their date of resignation) were, other than in respect of options or other rights to acquire ordinary shares, as follows

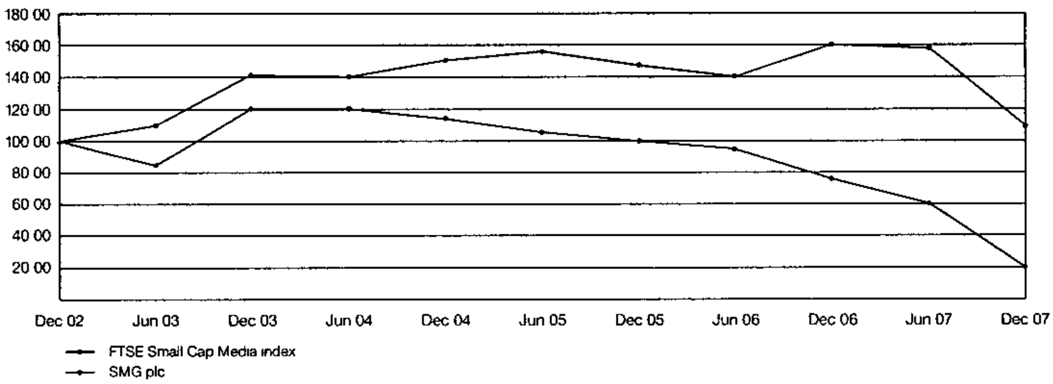
	1 JANUARY 2007 (OR DATE OF APPOINTMENT)		31 DECEMBER 2007 (OR DATE OF RESIGNATION)	
	ISSUED	SHARE INCENTIVE PLAN	ISSUED	SHARE INCENTIVE PLAN
Executive Directors				
Rob Woodward	-	-	225,000	-
George Watt	62,232	10,532	189,909	15,815
Donald Emslie	74,283	10,532	75,655	11,890
Non-Executive Directors				
Richard Findlay			300,000	
David Shearer			250 000	
Jamie Matheson				
Waheed Alli				
Vasa Babic*	5,845,147		115 676 518	
Matthew Peacock*	5 845 147		115,676,518	
Former Directors				
Chris Masters	31,410		31 410	
David Dunn	10 720		10,720	
Steve Maine	19,302		19,302	
Tim Gardam	3,606		3 606	
MT Rainey	6 618		6,618	
Martyn Smith	5 943		5 943	

* These shares are held by Hanover The interests of both Matthew Peacock and Vasa Babic are by reference to the same shareholding

Total Shareholder Return Performance Graph

The graph shows the Company's performance, measured by total shareholder return ("TSR"), compared to the constituents of the FTSE Small Cap Media Index over the last five years

Cumulative Total Shareholder Return from 31 December 2002



Audited Information

The total of directors' emoluments in the year was £1,600,000 (2006. £1,864,000)

The remuneration of each director, excluding long term incentive awards and pensions, during the year ended 31 December 2007 compared with 2006 is set out in the table below

	SALARY/FEES		BENEFITS (1)		ANNUAL PERFORMANCE RELATED BONUS		COMPENSATION FOR LOSS OF OFFICE		TOTAL	
	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000
Executive directors										
Rob Woodward (2)	318	–	57	–	–	–	–	–	375	–
George Watt	214	204	36	35	–	12	–	–	250	251
Non-executive directors										
Richard Findlay (2)	87	–	–	–	–	–	–	–	87	–
David Shearer (2)	35	–	–	–	–	–	–	–	35	–
Matthew Peacock (2)	28	–	–	–	–	–	–	–	28	–
Vasa Babic (2)	28	–	–	–	–	–	–	–	28	–
Waheed Alli (3)	26	–	–	–	–	–	–	–	26	–
Jamie Matheson (3)	26	–	–	–	–	–	–	–	26	–
Former directors										
Donald Emslie (4)	119	286	30	51	–	24	535	–	684	361
Chris Masters (5)	25	110							25	110
David Dunn (5)	8	40							8	40
Tim Gardam (5)	7	31							7	32
Steve Maine (5)	7	32							7	32
MT Rainey (5)	7	32							7	32
Martyn Smith (5)	7	35							7	35
Andrew Flanagan (6)		257		50				650		957
Allan Shiach (7)		15								15
Total (£000)	942	1 042	123	136	0	36	535	650	1 600	1,854

(1) This is an allowance to cover standard company benefits such as a car and medical insurance and post A Day pension benefits

(2) Appointed 28 February 2007

(3) Appointed 5 March 2007

(4) Resigned 11 April 2007

(5) Resigned 28 February 2007

(6) Resigned 18 July 2006

(7) Resigned 26 May 2006

Pension

For further information on pensions please see the unaudited part of the Remuneration Report

Final salary scheme

	CHANGE IN ACCRUED PENSION OVER THE YEAR (1) £000	ACCRUED PENSION AT 31 DECEMBER 2007 £000	TRANSFER VALUE AT 31 DECEMBER 2007 (2) £000	TRANSFER VALUE TO 31 DECEMBER 2006 £000	CHANGE IN TRANSFER VALUE OVER THE YEAR LESS DIRECTOR'S CONTRIBUTIONS £000
George Watt	2	19	163	140	15
Donald Emslie	33	130	1 911	1,363	549

(1) Pension accruals shown are the amounts that would be paid annually on retirement based on service at the end of the current year

(2) Transfer values have been calculated in accordance with Guidance Note GN11 issued by the Faculty and Institute of Actuaries
The transfer values represent the actuarial liability of the pension plan and not the sum paid or due to an individual

Directors' interests in the Company's share plans

Share Option Schemes

Options to acquire shares in the Company, granted to directors under the Inland Revenue approved and unapproved Share Option Schemes or under the Sharesave Scheme but not exercised, as at 31 December 2007 are

	NOTE	NUMBER OF OPTIONS AT 1 JAN 2007	RIGHTS ISSUE ADJUSTMENT	LAPSED DURING THE YEAR	NUMBER OF OPTIONS AT 31 DEC 2007	DATE OF GRANT	PERFORMANCE CONDITION	EXERCISE PERIOD (FROM – TO)	EXERCISE PRICE (p)
George Watt	B	14,556	2,101		16,657	12 03 99	1	12 03 02 – 12 03 09	180 019
	C	40,676	–	40,676	–	23 02 00	1	23 02 03 – 23 02 07	306 675
	C	20,000	–	20,000	–	22 08 00	1	22 08 03 – 22 08 07	324 50
	C	175,084	–	175,084	–	19 04 02	2	19 04 05 – 19 04 09	148 50
	C	155,725	22,475		178,200	10 03 02	2	10 03 06 – 10 03 10	57 239
	C	109 914	15,864		125,778	12 03 04	2	12 03 07 – 12 03 11	101 37
Donald Emslie	A	25,076		25,076		04 04 03		01 07 08 31 12 08	65 50
	B	17 284		17,284		10.06 97	1	10 06 00 10 06 07	173 55
	C	262,626		262,626		19 04 02	2	19 04 05 19 04 09	148 50
	C	219 847		219,847		10 03 03	2	10 03 06 10 03 10	65 50
	C	206 897		206 897		12 03 04	2	12 03 07 12 03 11	116 00
Andrew Flanagan	A	25 076				04 04 03		01 07 08 31 12 08	65 60

Scheme and performance conditions

Note Type of Scheme

A SMG Sharesave Scheme

B SMG Company Option Scheme (Approved)

C SMG Executive Option Scheme (Unapproved)

1 Options vest if earnings per share (EPS") growth exceeds the Retail Price index ("RPI) by 12% on a three year rolling basis

2 Options vest if EPS growth exceeds RPI by 3% p a

The market price of the Company's shares at the end of the financial year was £0 16 per share and the range of market prices during the year was between £0 72 per share and £0 13 per share

1999 Long Term Incentive Plan

Approved by shareholders on 7 May 1999

	INTERESTS AT 1 JAN 2007	RELEASED IN YEAR	LAPSED IN YEAR	31 DECEMBER 2007	AWARD DATE	RELEASE DATE
George Watt	69 815		69 815		12 03 04	12 03 07
Donald Emslie	98 563		98,563		12 03 04	12 03 07

There were no awards granted or during the year and no further awards will be made

Performance condition

15% of the Award will vest if the Compounded Annual Growth Rate (CAGR) of the Companies Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) is 4% Above 4% CAGR the Award will vest on a straight line basis with 50% of the full Award vesting at a CAGR of 10%

15% of the Award will vest if the Company's Total Shareholder Return (TSR) is at least equal to the median of the Comparator Group 50% of the total Award will vest if the TSR is greater than or equal to the upper quartile of the Comparator Group The Award will vest on a straight line basis in between

2005 Long-Term Incentive Plan

Approved by shareholders on 3 June 2005

	INTERESTS AT 1 JANUARY 2007	AWARDED IN YEAR	RIGHTS ISSUE ADJUSTMENT	EXERCISED IN YEAR	LAPSED IN YEAR	INTERESTS AT 31 DECEMBER 2007	AWARD DATE	RELEASE DATE
George Watt	201,617		29,099			230,716	06 06 05	06 06 08
	245,783		35,473			281,256	14 03 06	14 03 09
		839,215	121,115			960,330	12 07 07	12 07 10
Donald Emslie	323,450			30,707	292,743		06 06 05	06 06 08
	289,156			16,956	272,200		14 03 06	14 03 09

2007 Long Term Incentive Plan

Approved by shareholders on 3 June 2007

	INTERESTS AT 1 JANUARY 2007	AWARDED IN YEAR	RIGHTS ISSUE ADJUSTMENT	EXERCISED IN YEAR	LAPSED IN YEAR	INTERESTS AT 31 DECEMBER 2007	AWARD DATE	RELEASE DATE
Rob Woodward		2,235,294	322,595			2 557 889	12 07 07	
George Watt		839,215	121,115			960,330	12 07 07	

The market price on 6 June 2005 was £0 93, 14 March 2006 was £0 83, and 12 July 2007 was £0 515

Performance Conditions

2005 and 2006 Award

50% of the Awards are subject to comparative TSR performance ("TSR Award") 50% of the TSR Award is subject to the Company's performance against the Competitor Group and 50% against the Comparator Group 50% of the Awards are subject to the average annual ROCE performance of the Company

COMPETITOR TSR GROUP		COMPARATOR TSR GROUP		AVERAGE ANNUAL ROCE PERFORMANCE	
PLACE	% OF AWARD	QUARTILE	% OF AWARD	GROUP ROCE	% OF AWARD
Position 5	0%	<Median	0%	10%	10%
Position 4	25%	Median	25%	15%	50%
Position 3	50%	Upper Quartile	100%*	20%	100%*
Position 2	75%				
Position 1	100%				

* Straight line release between points

COMPETITOR GROUP

British Sky Broadcasting plc, Capital Radio plc[1], Chrysalis Group plc, EMAP plc GCAP Media plc[2] ITV plc, Maiden Group plc Ulster Television plc

1) 2005 Award only
2) 2006 Award only

COMPARATOR GROUP

Aegis Group plc, Euromoney Institutional Investor plc, ITV plc, St Ives plc, British Sky Broadcasting plc, Future Network plc, Johnston Press plc, T&F Informa plc Capital Radio plc[1], GCap Media plc[2] Maiden Group plc Taylor Nelson Sofres plc, Chrysalis Group PLC, GWR Group plc[3] Photo me International plc, Ulster Television plc EMAP plc, ITE Group plc Scottish Radio Holdings plc[4], United Business Media plc

1) 3) 4) 2005 Award only
2) 2006 Award only

2007 Award
See the unaudited part of the report for detail of the applicable performance conditions

Inland Revenue Approved Share Incentive Plan
Approved by shareholders on 6 April 2001

	2007 NUMBER OF PARTNERSHIP SHARES PURCHASED	2007 NUMBER OF MATCHING/ DIVIDEND SHARES PURCHASED
George Watt	3,391	1,892
Donald Emslie	775	583

Partnership Shares are ordinary shares of the Company purchased on a monthly basis (prices ranged from £0 13 to £0 72) The market price of the Company's shares on 31 December 2007 was £0 16 per share and the high and low share prices during the year were £0 72 and £0 13 respectively The right to the matching shares awarded under the Plan to Donald Emslie lapsed on his cessation of employment

By order of the Board

Vasa Babic
Remuneration Committee Chairman
SMG plc
Pacific Quay
Glasgow G51 1PQ
3 April 2008

Vasa Babic

ACCOUNTS

SMG plc Company Financial Statements – Independent Auditors' Report to the Members of SMG plc

We have audited the Group financial statements of SMG plc for the year ended 31 December 2007 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes These Group financial statements have been prepared under the accounting policies set out therein

We have reported separately on the parent company financial statements of SMG plc for the year ended 31 December 2007 and on the information in the Directors' Remuneration Report that is described as having been audited

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, 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

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit or if information specified by law regarding directors remuneration and other transactions is not disclosed

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code 2003 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group s corporate governance procedures or its risk and control procedures

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements The other information comprises only the other items listed in the contents section of the Annual Report excluding the 2007 audited financial statements and the auditable part of the Directors' Remuneration report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its loss and cash flows for the year then ended,
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the Group financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow
3 April 2008

Consolidated Income Statement

for the year ended 31 December 2007

	Note	2007 Underlying results £m	2007 Exceptional items £m	2007 Results for year £m	2006 Underlying results £m	2006 Exceptional items £m	2006 Results for year £m
CONTINUING OPERATIONS							
Revenue	3	**119 0**	-	**119 0**	125 6		125 6
Net operating expenses before exceptional costs		**(107 9)**		**(107 9)**	(109 8)		(109 8)
Goodwill impairment	6		**(0 6)**	**(0 6)**	–	–	
Cost of change	6		**(5 6)**	**(5 6)**	–	(2 6)	(2 6)
Writedown of inventory	6		**(2 2)**	**(2 2)**		(6 5)	(6 5)
Onerous lease contracts	6		**(2 0)**	**(2 0)**			
Net operating expenses		**(107 9)**	**(10 4)**	**(118 3)**	(109 8)	(9 1)	(118 9)
Operating profit		**11 1**	**(10 4)**	**(0 7)**	15 8	(9 1)	6 7
Gain on disposal of investment	6					0 4	0 4
Loss on disposal of property	6			–		(0 4)	(0 4)
							–
Profit before financing		**11 1**	**(10 4)**	**0 7**	15 8	(9 1)	6 7
Interest income		**0 9**		**0.9**	0 2		0 2
Finance costs	7	**(12 9)**	**(11 4)**	**(24 3)**	(8 6)		(8 6)
(Loss)/profit before tax		**(0 9)**	**(21 8)**	**(22 7)**	7 4	(9 1)	(1 7)
Tax credit	9	**1 8**	**0 5**	**2 3**	0 5	2 5	3 0
Profit/(loss) for the year from continuing operations		**0 9**	**(21 3)**	**(20 4)**	7 9	(6 6)	1 3
DISCONTINUED OPERATIONS							
Profit/(loss) for the year from discontinued operations	8	**6 4**	**(70 6)**	**(64 2)**	1 6	(77 4)	(75 8)
Profit/(loss) for year		**7 3**	**(91 9)**	**(84 6)**	9 5	(84 0)	(74 5)
Attributable to							
Equity holders of the parent		**7 5**	**(91 9)**	**(84 4)**	9 5	(84 0)	(74 5)
Minority interest		**(0 2)**		**(0 2)**			
		7 3	**(91 9)**	**(84 6)**	9 5	(84 0)	(74 5)
Earnings per ordinary share basic and diluted	11	**2 2p**		**(25 0p)**	3 0p		(23 6p)
Earnings per ordinary share from continuing operations basic and diluted	11	**0 3p**		**(6 0p)**	2 5p		0 4p
Underlying (pre IFRS 5)							
Operating profit	35	**16 4**			18 4		
Profit before tax	35	**4 4**			10 0		
Earnings per share basic	35	**1 2p**			3 0p		

Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2007

	2007 £m	2006 £m
Loss for the year	**(84 6)**	(74 5)
Actuarial gain recognised in the pension schemes	**24 7**	4 1
Deferred tax charge to equity	**(7 7)**	(1 2)
Cash flow hedges	**0 3**	0 8
Net profit recognised directly in equity	**17 3**	3 7
Total recognised expense for the year	**(67 3)**	(70 8)
Attributable to		
Equity holders of the parent	**(67 1)**	(70 8)
Minority interest	**(0 2)**	–
	(67 3)	(70 8)

Consolidated Balance Sheet
at 31 December 2007

	Note	2007 £m	2006 £m
ASSETS			
Non current assets			
Goodwill and other intangible assets	12	**8 3**	113 5
Property, plant and equipment	13	**15 3**	18 2
Deferred tax asset	22	**4 9**	14 8
		28 5	146 5
Current assets			
Inventories	14	**40 3**	36 1
Trade and other receivables	15	**35 7**	42 6
Cash and cash equivalents	16	**10 8**	8 7
Short term bank deposit	16	**1 4**	2 5
Derivative financial instruments		**-**	0 3
		88 2	90 2
Non current assets classified as held for sale	8	**79 6**	76 7
Total assets		**196 3**	313 4
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	24	**23 8**	7 9
Share premium	24	**136 3**	60 2
Merger reserve		**173 4**	173 4
Equity reserve		**2 5**	2 5
Other reserve	25	**1 2**	3 2
Hedging reserve	25	**-**	0 3
Minority interest	25	**(0 2)**	
Retained losses	25	**(273 3)**	(202 0)
Total equity		**63 7**	45 5
LIABILITIES			
Non current liabilities			
Borrowings	18	**62 0**	149 3
Trade and other payables		**0 3**	-
Provisions	23	**2 2**	-
Other financial liabilities	20	**-**	1 1
Retirement benefit obligation	33	**14 0**	46 7
		78 5	197 1
Current liabilities			
Trade and other payables	17	**30 7**	35 6
Convertible unsecured loan stock	19		22 5
Current tax liabilities			1 5
Provisions	23	**3 9**	1 4
		34 6	61 0
Liabilities directly associated with non current assets classified as held for sale	8	**19 5**	9 8
Total liabilities		**132 6**	267 9
Total equity and liabilities		**196 3**	313 4

The financial statements on pages 56 to 87 were approved by the Board on 3 April 2008 and were signed on its behalf by

Rob Woodward **Chief Executive** George Watt, **Chief Financial Officer**

Consolidated Cash Flow Statement

for the year ended 31 December 2007

	Note	2007 £m	2006 £m
OPERATING ACTIVITIES			
Cash generated by operations	27	**11 7**	11 8
Taxes received/(paid)		**0 6**	(4 0)
Interest paid		**(30 0)**	(10 6)
Pension deficit funding		**(5 8)**	–
Net cash used by operating activities		**(23 5)**	(2 8)
INVESTING ACTIVITIES			
Interest received		**1 9**	0 2
Disposal of discontinued operations	26	**47 3**	–
Purchase of property, plant and equipment		**(2 7)**	(9 7)
Net cash generated/(used) by investing activities		**46 5**	(9 5)
FINANCING ACTIVITIES			
Dividends paid		**(3 8)**	(5 3)
Net proceeds from rights issue		**91 0**	–
Repayment of existing borrowings		**(149 3)**	–
Repayment of CULS and loan notes		**(23 6)**	–
Net borrowings drawn		**62 0**	0 2
Release of cash on deposit		**1 1**	2 5
Net cash used by financing activities		**(22 6)**	(2 6)
Movement in cash and cash equivalents		**0 4**	(14 9)
Net cash and cash equivalents at beginning of year		**13 1**	28 0
Net cash and cash equivalents at end of year	28	**13 5**	13 1

Reconciliation of movement in net debt
for the year ended 31 December 2007

	Note	2007 £m	2006 £m
Opening net debt		**(157 3)**	(139 1)
Movement in cash and cash equivalents in the year		**0 4**	(14 9)
Decrease/(increase) in debt financing		**87 3**	(0 2)
IFRS increase in CULS liability			(0 3)
Repayment of CULS and loan note liabilities		**23 6**	(0 3)
Net movement in Escrow cash		**(1 1)**	(2 5)
Closing net debt	28	**(47 1)**	(157 3)

Notes to the Financial Statements
for the year ended 31 December 2007

1 General information

SMG plc ("the Company") is a company incorporated in the UK under the Companies Act 1985 The address of the registered office is Pacific Quay, Glasgow, G51 1PQ The nature of the Group's operations and its principal activities are set out in note 3

2 Significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the accounting policies based on International Financial Reporting Standards ("IFRS") and IFRIC interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial instruments

The Group has elected to apply policies based on the amendment to IAS 19 issued in December 2004, which permits actuarial gains and losses to be recognised outside the Income Statement in the Statement of Recognised Income and Expense

At the date of authorisation of these financial statements, the following Standards and Interpretations,
i) which have been applied in these financial statements effective in 2007

IFRS 7 Financial instruments Disclosures
IFRIC 8 Scope of IFRS 2

ii) which have not been applied in these financial statements were in issue but not yet effective

IFRIC 11 IFRS 2 - Group and Treasury Share Transactions
IAS 23 Borrowing costs
IFRS 8 Operating segments
IFRIC 12 Service concession arrangements
IFRIC 13 Customer loyalty programmes
IFRIC 14 IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements when the relevant standards come into effect for periods commencing on or after 1 January 2008

iii) which were effective in 2007 but not relevant

Revised guidance on implementing IFRS 4, Insurance contracts
IFRIC 7 Applying the restatement approach under IAS 29, Financial reporting in hyper inflationary economies
IFRIC 9 Re assessment of embedded derivatives

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates It also requires management to exercise judgement in the process of applying the accounting policies The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the financial statements such us goodwill impairment (note 12) and pensions (note 33)

The principal accounting policies adopted are set out below

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) up to 31 December each year Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the income statement in the period of acquisition The interest in minority shareholders is stated at the minority s proportion of the fair values of the assets and liabilities recognised Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate

Notes to the Financial Statements (continued)
for the year ended 31 December 2007

2 Significant accounting policies (continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity or business at the date of acquisition

Goodwill is recognised as an asset and reviewed for impairment at least annually or whenever there is an indicator of impairment, and is deemed to have an indefinite life Any impairment is recognised immediately in the income statement and is not subsequently reversed

On disposal of a subsidiary, associate or jointly controlled entity or business, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment Goodwill written off to reserves under UK GAAP prior to 1998 has not been restated and is not included in determining any subsequent profit or loss on disposal

Exceptional items

Exceptional items, as disclosed on the face of the income statement, are items which due to their material and non recurring nature have been classified separately in order to draw them to the attention of the reader of the accounts and to show more accurately the underlying profits of the Group

Non current assets held for sale

Non current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification

Non current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell

Impairment

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

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

Impairment losses in respect of goodwill are not reversed

Property, plant and equipment

Land and buildings are stated in the balance sheet at cost less accumulated depreciation

Plant, technical equipment and other assets are stated at cost less accumulated depreciation and recognised impairment loss

Depreciation is charged so as to write off the cost or valuation to residual value of fixed assets over their estimated useful lives, using the straight line method on the following bases

Freehold buildings	between 2% and 4%
Plant and technical equipment	between 2% and 4%
Furniture and fittings	between 10% and 20%
Outdoor panels	between 10% and 33%
Computers and computer related equipment	20%
Vehicles	25%

No depreciation is provided with respect to freehold land

2 Significant accounting policies (continued)

The lives of assets listed are reviewed and adjusted, if appropriate, at each balance sheet date

Assets held under finance leases (including leasehold buildings) are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the lease

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale Rates of capitalisation depend on whether a specific loan has been taken out (when the actual interest rate and interest paid are used) or whether the construction has been financed by general borrowings (when a weighted average is calculated on all non specific borrowings) All other borrowing costs are recognised in the income statement in the period in which they arise

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see above)

Costs in respect of operating leases are charged to the income statement on a straight line basis over the lease term

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term

Inventories

Inventories are stated at the lower of cost and 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

Film rights, recorded programmes and films

Acquired film rights are valued at direct cost less appropriate provisions and are written off at 70% on first transmission and 30% on subsequent transmission For acquired film rights an asset is recognised as payments are made and in full when the acquired programming is available for transmission Recorded programmes are valued at direct cost including labour and overheads less appropriate provisions, and are written off after the first transmission or sale Programming made for third parties is valued at cost, less appropriate provisions, and is charged to the income statement against related income

Foreign currencies

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

2 Significant accounting policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and VAT Revenue from the sale of goods is recognised when the Group has transferred the significant risks and rewards of ownership and control of the goods sold and the amount of revenue can be measured reliably Key classes of revenue are recognised on the following basis

Airtime revenue – on transmission
Sponsorship – evenly over the life of the contract
Programme production – on delivery

Revenue on barter transactions is recognised only when the goods or services being exchanged are of a dissimilar nature

Taxation

The tax expense represents the sum of current tax and deferred tax

The tax currently payable is based on taxable profit for the year 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 years and it further excludes items that are never taxable or deductible The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax is the tax expected to be payable or recoverable on 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 liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

Dividends

The liability for final dividends is recorded when the dividends are approved by the Group's shareholders For interim dividends, the liability is recorded when the dividends are paid

Retirement benefit costs

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

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the projected unit method, with actuarial valuations being carried out at each balance sheet date Actuarial gains and losses are recognised in full directly in retained earnings in the period in which they occur and presented in the statement of recognised income and expense

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets

Provisions

Provisions for reorganisation costs are recognised when the Group has a detailed formal plan for the reorganisation that has been communicated to affected parties

2 Significant accounting policies (continued)

Financial risk factors

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 by a central treasury department (Group Treasury) under policies approved by the Board of Directors Group Treasury identifies, evaluates and hedges financial risks 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 foreign exchange risk, interest rate risk, credit risk, use of financial instruments and investing excess liquidity

(a) *Currency risk*

The Group operates almost wholly within the UK and is exposed to minimal foreign exchange risk Foreign exchange risk arises primarily with respect to the Euro, US dollar and the Swiss franc Foreign exchange risk arises from future commercial transactions and trade assets and liabilities in foreign currencies

(b) *Credit risk*

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

(c) *Liquidity risk*

Liquidity risk it 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, Group Treasury aims 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 18) and cash and cash equivalents (note 16)) 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

(d) *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 fixed rates expose the Group to cash flow interest rate risk Group policy is to maintain between 40% and 60% of its borrowings in fixed rate instruments As the facility was entered into close to the year end, it was borrowed on short term floating rate loans Fixed interest, long term swaps will be entered into in 2008 in line with the Group's Treasury Policy

A monthly sensitivity analysis is carried out and on the level of borrowings at 31 December 2007, a movement of 0 25% in interest rates would change the level of interest paid in the year by +/ £0 2m (2006 £0 4m)

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

2 Significant accounting policies (continued)

(e) *Capital risk management*

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital.

	2007 £m	2006 £m
Total borrowings (note 18)	**62.0**	149.3
Less: cash and cash equivalents (note 16)	**(12.2)**	(11.2)
Net Debt	**49.8**	138.1
Total equity	**63.7**	45.5
Total capital	**113.5**	183.6
Gearing ratio	**44%**	75%

The decrease in the gearing ratio during 2007 resulted primarily from the rights issue and the sale of the Outdoor business which was used to pay off debt financing.

Financial assets and liabilities

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

(a) *Trade receivables*

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. A provision is established for trade receivables if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

(b) *Investments*

Investments are measured at reporting dates at fair value.

(c) *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.

(d) *Bank borrowings*

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(e) *Convertible unsecured loan stock (CULS)*

Convertible unsecured loan stock is recorded within the Balance Sheet at the historic fair value less any conversions to date.

(f) *Secured and unsecured loan notes*

Interest bearing secured and unsecured loan notes are recorded at the proceeds received. The interest expense is accounted for on an accruals basis to the income statement.

(g) *Trade payables*

Trade payables are not interest bearing and are stated at their nominal value.

(h) *Equity instruments*

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

2 **Significant accounting policies (continued)**

(i) *Derivative financial instruments and hedge accounting*

The Group uses derivative financial instruments to hedge its exposures to fluctuations in interest and foreign exchange rates Instruments accounted for as hedges are designated as a hedge at the inception of contracts

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis This effectiveness testing is re performed at the end of each quarter end to ensure that the hedge remains highly effective

The fair value of interest rate swaps is based on the market price (LIBOR) of comparable instruments at the measurement date The fair value of currency swaps is based on forward exchange rates at the measurement date

The fair value of the interest rate swap contract is calculated on a discounted cash flow basis using market forward rates Gains or losses arising from the movement to fair value are taken to the income statement except where designated as a cash flow hedge

For cash flow hedges, the effective part of changes in the fair value of the derivative is recognised in equity The amounts accumulated in equity are transferred to the income statement in the same period as the hedged transaction occurs, for example when interest arising on floating rate debt is paid or the forecast sale or purchase transaction takes place Any movements in fair value occurring after the time when hedging contracts cease to be cash flow hedges are taken directly to the income statement Gains or losses relating to any ineffective part of changes in fair value are taken immediately to the income statement

Share based payments

The Group has not taken the optional exemption under IFRS 1, and on the basis that the fair value of equity instruments has previously been publicly disclosed, IFRS 2 has been fully retrospectively applied to all options granted but not fully vested at the relevant reporting date As a result, the share based payment charge for 2007 includes all options granted and not fully vested at 31 December 2007, rather than only the value of options granted since 7 November 2002 (the effective date of IFRS 2) This approach is encouraged in the standard and gives a better indication of how past and future results are affected by IFRS 2

The Group issues equity settled share based payments to certain employees Equity settled share based payments are measured at fair value at the date of grant 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 shares that will ultimately vest

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

3 **Business segments**

During the year, for management purposes the Group was organised into four operating divisions – Television, Radio, Cinema and Outdoor These divisions are the basis on which the Group reports its primary segment information with the exception of Television which is further broken down into Broadcasting Content and Ventures segments

Principal activities are as follows

Television – the production and broadcasting of television programmes and associated enterprises
Radio the operation of commercial radio in the UK
Cinema the provision of advertising space within cinema complexes
Outdoor the provision of advertising solutions across various outdoor media

On 13 September 2006, the Group put its Outdoor and Cinema businesses up for sale, followed by Radio on 12 April 2007 The completion of the Outdoor disposal occurred on 30 October 2007 Radio and Cinema continue to meet all the conditions to be classified as held for sale and are therefore classed as discontinued operations

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

3 Business segments (continued)

Segment information about these businesses is presented as follows

SEGMENT REVENUES	External sales 2007 £m	External sales 2006 £m
Continuing operations		
Broadcasting	**95 3**	99 2
Content	**18 1**	21 4
Ventures	**5 6**	5 0
Television	**119 0**	125 6
Discontinued operations		
Radio	**24 0**	21 7
Cinema	**22 1**	20 6
Outdoor	**18 9**	23 3
	65 0	65 6
	184 0	191 2

Independent Television Commission ("ITC") qualifying revenue was £94 0m (2006 £97 0m)
Revenue in 2007 includes £1 8m of revenues from sources outside the UK (2006 £2 2m)

SEGMENT RESULT	Underlying segment result 2007 £m	Underlying segment result 2006 £m	Exceptional items 2007 £m	Exceptional items 2006 £m	Segment result 2007 £m	Segment result 2006 £m
Continuing operations						
Broadcasting	**9 0**	10 0	**(5 8)**	(5 9)	**3 2**	4 1
Content	**3 1**	4 0	**(0 6)**	(0 7)	**2 5**	3 3
Ventures	**(1 0)**	1 8	**(3 2)**	(0 3)	**(4 2)**	1 5
Television	**11 1**	15 8	**(9 6)**	(6 9)	**1 5**	8 9
Cost of change attributable to Group					**(0 8)**	(2 2)
Operating profit					**0 7**	6 7
Gain on disposal of investment					**–**	0 4
Loss on disposal of property					**–**	(0 4)
Financing					**(12 0)**	(8 4)
Exceptional financing costs					**(11 4)**	–
Loss before tax					**(22 7)**	(1 7)
Tax credit					**2 3**	3 0
(Loss)/profit for the year from continuing operations					**(20 4)**	1 3
Discontinued operations						
Radio	**4 9**	2 3	**(49 2)**	(59 6)	**(44 3)**	(57 3)
Cinema	**(0 5)**	(4 2)	**(15 7)**	(18 0)	**(16 2)**	(22 2)
Outdoor	**4 6**	4 5			**4 6**	4 5
	9 0	2 6	**(64 9)**	(77 6)	**(55 9)**	(75 0)
Attributable tax (charge)/credit	**(2 6)**	(1 0)		0 2	**(2 6)**	(0 8)
	6 4	1 6	**(64 9)**	(77 4)	**(58 5)**	(75 8)
Loss on disposal of discontinued operations					**(5 7)**	
Loss for the year from discontinued operations					**(64 2)**	(75 8)
Net loss attributable to equity shareholders					**(84 6)**	(74 5)

3 Business segments (continued)

Operating profit in 2007 includes £1 0m arising outside the UK (2006 £1 3m)

The result of discontinued operations for 2007 includes an IFRS 5 adjustment relating to depreciation of £3 7m (2006 nil) which ceased to be charged when the businesses were classified as held for sale

In 2007, the exceptional items in Broadcasting relate to £2 2m for stock writedown, £1 6m for cost of change provision and £2 0m of onerous lease provisions (2006 £5 8m stock writedown and £0 6m cost of change provision), in Content £0 6m for cost of change provision (2006 £0 7m stock writedown) and in Ventures £2 6m cost of change provision and £0 6m for goodwill impairment (2006 £0 3m cost of change provision)

The exceptional items in the Radio division in 2007 relate to goodwill impairment and asset writedown loss of £49 2m (2006 £0 8m Ofcom settlement and goodwill impairment of £58 8m) and in the Cinema division the exceptional items relate to the Vue onerous contract provision of £15 4m and cost of change provision of £0 3m (2006 £18 0m goodwill impairment)

	Assets		Liabilities	
SEGMENT ASSETS AND LIABILITIES	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Broadcasting	**62 3**	64 0	**26 5**	23 9
Content	**32 5**	28 5	**4 9**	6 9
Ventures	**2 7**	3 1	**0 9**	0 8
Radio	**67 4**	111 7	**4 7**	4 0
Outdoor		62 6	–	7 5
Cinema	**12 2**	14 1	**14 8**	2 3
Total of all segments	**177 1**	284 0	**51 8**	45 4
Unallocated corporate	**19 2**	29 4	**80 8**	225 5
Consolidated	**196 3**	313 4	**132 6**	267 9

OTHER SEGMENT INFORMATION	**Broadcasting 2007 £m**	Broadcasting 2006 £m	**Content 2007 £m**	Content 2006 £m	**Ventures 2007 £m**	Ventures 2006 £m	**Radio 2007 £m**	Radio 2006 £m	**Outdoor 2007 £m**	Outdoor 2006 £m	**Cinema 2007 £m**	Cinema 2006 £m
Capital additions	**1 4**	5 0	–		**0 1**	0 2	**0 1**	2 4	**1 0**	2 0		0 1
Depreciation	**2 0**	2 1	–		**0 4**	0 4	–	0 6		2 6	–	0 2
Impairment	–		–		**0 6**	–	**49 2**	58 8		–		18 0

Segment assets consist primarily of goodwill inventories and trade and other receivables They exclude cash and bank deposits and deferred tax assets

Segment liabilities comprise operating liabilities (including trade and other payables and provisions) They exclude Group borrowings, retirement benefit obligations, tax liabilities, dividends payable and other non current liabilities

All the net assets in 2006 and 2007 were held in the UK and therefore it operates in a single geographical segment

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

4 Operating expenses by nature

	2007 **£m**	2006 £m
Changes in inventories	**4 2**	2 3
Other external charges	**124 1**	129 0
Staff costs	**25 9**	29 1
Depreciation	**2 4**	5 9
Operating lease charges		
– plant and machinery	**3 2**	1 9
other	**3 4**	3 4
Other operating charges	**0 7**	1 2
	163 9	172 8

Attributable to		
Continuing	**107 9**	109 8
Discontinued	**56 0**	63 0
	163 9	172 8

Services provided by the Group's auditor

During the year the Group obtained the following Services from the Company's auditor

	2007 **£m**	2006 £m
Group		
Fees payable to company auditor for the audit of parent company and consolidated financial statements	**0 2**	0 2
Fees payable to the Company's auditor and it's associates for other services		
– The audit of Company's subsidiaries pursuant to legislation	**0 1**	0 1
– Other services pursuant to legislation	**0 9**	0 4
– Tax services	**0 2**	0 2
	1 4	0 9

Included in the audit fees payable is £5k (2006 £5k) paid in respect of the parent company The audit of Company's subsidiaries pursuant to legislation includes an amount of £25k (2006 £21k) for the audit of pension schemes

Other non audit services comprise vendor due diligence, reporting accountant and pension advisory services

Accounts

5 Staff costs

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

	2007 Number	2006 Number
Television		
Established	**387**	448
Contract	**132**	175
	519	623
Radio		
Established	**89**	85
Contract	**6**	6
	95	91
Outdoor		
Established	**75**	66
Contract	**2**	–
	77	66
Cinema		
Established	**35**	35
Contract	**2**	1
	37	36
Total	**728**	816

Their aggregate remuneration comprised

	2007 £m	2006 £m
Wages and salaries	**24 3**	26 6
Social security costs	**2 2**	2 5
Retirement benefit obligation (see note 33)	**(0 6)**	
	25 9	29 1

Included within the retirement obligation above is a £2 2m pension cost (2006 £2 7m) and a £2 8m interest credit (2006 £2 7m) The interest element is included within finance costs on the face of the income statement

6 Exceptional items

i) Goodwill impairment
A goodwill impairment loss of £0 6m has been recognised in 2007 in accordance with IAS36 on the carrying value of Peopleschampion

ii) Cost of change
A provision of £5 6m, has been provided in 2007 following the announcement of restructuring plans principally across all areas of the Group's Television business in relation to the execution of the new turnaround strategy

In 2006 a provision of £2 6m was made in relation to headcount reductions in Television following the move to Pacific Quay, Glasgow and in corporate functions following the announcement of the Outdoor and Cinema disposals

iii) Writedown of inventory
During the year a stock writedown of £2 2m has been provided, £2 1m relating to ITV1 network stock write offs and the remaining £0 1m relates to regional drama stock

Notes to the Financial Statements (continued)
for the year ended 31 December 2007

6 Exceptional items (continued)

A stock writedown of £6 5m was provided in 2006 £5 4m related to network stock that had not been transmitted and would not be transmitted on ITV1 in the future £0 8m related to regional drama stock following Ofcom's decision to reduce the future annual commitment for regional transmission The remaining £0 3m related to a writedown of deficit funded stock following a review of the future sales prospects for the deficit funded material

iv) Onerous lease contracts

A provision of £2 0m has been provided in 2007 in respect of the leases on three non core properties

v) Gain on disposal of investment

In 2006, the write back of a provision for legal and professional fees relating to the sale of the Group's stake in Heart of Midlothian plc resulted in a net gain of £0 4m

vi) Loss on disposal of property

A net loss on disposal of £0 4m was recognised in 2006 following the exit from the Group's Cowcaddens, Glasgow property

vii) Financing costs

Exceptional fees and costs of £11 4m incurred as a result of the amended banking agreement dated April 2007 and the costs of the CULS replacement facility entered into in September 2007 were written off in the period

7 Finance costs

	2007 £m	2006 £m
Interest expense		
Bank borrowings	**14 6**	9 8
CULS and loan note interest	**1 1**	1 5
	15 7	11 3
Pension finance income	**(2.8)**	(2 7)
	12 9	8 6
Exceptional financing costs	**11 4**	
Finance costs	**24 3**	8 6

The Group capitalised £nil of interest during 2007 (2006 £0 2m) The rate of capitalisation was 6 25% in 2006

8 Discontinued operations

On 30 October 2007 the disposal of the Group's Outdoor business, Primesight, was completed

	2007 £m	2006 £m
Post tax results from discontinued operations	**(64 2)**	(75 8)

Exceptional items included within the results are as follows

Cost of change provision

A provision of £0 3m has been provided in 2007 within Cinema division

Onerous contract provision

A provision of £15 4m has been made to cover future losses expected from the Vue contract within Cinema division

Goodwill impairment and asset writedown

A further £49 2m goodwill impairment and asset writedown loss has been recognised during the year on the carrying value of Virgin Radio to reflect the current market value

Goodwill impairment losses of £76 6m were recognised in 2006 in accordance with IAS36 on the carrying value of Virgin Radio (£58 8m) and Pearl & Dean (£18 0m) These writedowns were due to weaker trading performance experienced in both businesses in 2006

8 Discontinued operations (continued)

Loss on disposal of discontinued operations

On 30 October 2007, the Group completed the sale of its Outdoor business, Primesight, to GMT Communications Partners ("GMT") for a gross consideration of £62 0m The consideration was made up of £52 0m cash and two £5 0m loan notes payable at the earlier of five years from Completion or an exit from the business by GMT One of the loan notes was contingent on the 2007 results of Primesight and as the performance triggers were not reached this amount will not now be received The remaining deferred loan note has a discounted value of £3 6m resulting in a net consideration of £55 6m and a loss on disposal of £5 7m

Ofcom settlement

In previous years the Group believed that £0 8m of analogue licence fees had been overpaid to Ofcom During 2006 the Group decided to write this amount off following a decision to accept the revised analogue licence terms

Cash flows from discontinued operations	2007 £m	2006 £m
Net cash flows from operating activities	3 9	6 0
Net cash flows from investing activities	1 2	1 9
	5 1	7 9

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows

	2007 £m	2006 £m
Goodwill	55 8	32 4
Property, plant and equipment	3 6	20 4
Inventories	–	0 2
Trade and other receivables	17 5	19 3
Cash and cash equivalents	2 7	4 4
Total assets classified as held for sale	79 6	76 7
Trade and other payables	9 2	8 3
Provisions for liabilities and charges	10 3	–
Tax liabilities	–	1 5
Total liabilities associated with assets classified as held for sale	19 5	9 8
Net assets of disposal group	60 1	66 9

Notes to the Fınancıal Statements (contınued)
for the year ended 31 December 2007

9 Tax

	2007 £m	2006 £m
Current tax		
UK corporatıon tax on profit for the perıod	–	0 6
UK corporatıon tax adjustment ın respect of prıor years	(2 0)	(4 7)
	(2 0)	(4 1)
Deferred tax		
Orıgınatıon and reversal of tımıng dıfferences	2 3	1 9
Tax (credıt)/charge for the year	0 3	(2 2)
Attrıbutable to		
Contınuıng operatıons	(2 3)	(3 0)
Dıscontinued operatıons	2 6	0 8
	0 3	(2 2)

The charge for the year can be reconcıled to the (loss)/profit per the income statement as follows

	2007 £m	2006 £m
Loss before tax from contınuing operatıons	(22 7)	(1 7)
Loss profit before tax from dıscontınued operatıons	(61 6)	(75 0)
Loss profıt before tax	(84 3)	(76 7)
Tax at the UK corporatıon tax rate of 30%	(25 3)	(23 0)
Other expenses not deductıble for tax purposes	0 2	0 2
Adjustments to tax charge ın respect of prevıous perıods	(1 7)	(2 6)
Tax effect of exceptıonal ıtems	271	23 6
Other tımıng dıfferences		(0 4)
Tax (credıt)/charge for the year	0 3	(2 2)

A deferred tax asset of £13 2m (2006 £3 7m), all of whıch ıs due to tax losses, has not been recognısed, as suıtable ıncome may not be avaılable to utılıse thıs asset ın the foreseeable future

10 Dıvıdends

	2007 £m	2006 £m
Amounts recognısed as dıstrıbutıons to equıty holders ın the perıod		
Fınal dıvıdend for the year ended 31 December 2005 of 1 7p	–	5 3
Interım dıvıdend for the year ended 31 December 2006 of 1 2p	3 8	
	3 8	5 3

No dıvıdend ıs proposed by the Board for the year ended 31 December 2007 (2006 1 2p)

11 Earnıngs per share

Basıc earnıngs per share ("EPS"), ıs calculated by dıvıdıng the profıt attrıbutable to equıty shareholders by the weıghted average number of ordınary shares ın ıssue durıng the perıod, excludıng ordınary shares purchased by the Company and held as treasury shares

In order to calculate dıluted EPS, the weıghted average number of ordınary shares ın ıssue ıs adjusted to assume conversıon of all dılutıve potentıal ordınary shares The Company has two types of dılutıve potentıal ordınary shares namely share optıons granted to employees and convertıble unsecured loan stock ("CULS"), the latter ın 2006 only as the CULS were repaıd durıng the year

EPS has been presented below both ıncludıng and excludıng exceptıonal ıtems ın order to provıde a fuller understandıng of the Group s underlyıng performance

11 Earnings per share (continued)

	Earnings £m	2007 Weighted average number of shares (m)	Per share Pence	Earnings £m	2006 Weighted average number of shares (m)	Per share Pence
Underlying EPS						
Basic EPS						
Earnings attributable to ordinary shareholders	**7 5**	**337 4**	**2 2p**	9 5	315 3	3 0p
EPS from continuing operations						
Basic EPS	**7 5**	**337 4**	**2 2p**	9 5	315 3	3 0p
Pre tax (profit) from discontinued operations	**(9 0)**		**(2 7p)**	(2 6)		(0 8p)
Tax relating to discontinued operations	**2 6**		**0 8p**	1 0		0 3p
Basic underlying EPS from continuing operations	**1 1**	**337 4**	**0 3p**	7 9	315 3	3 0p
EPS including exceptional items						
Basic EPS						
Earnings attributable to ordinary shareholders (including exceptional items)	**(84 4)**	**337 4**	**(25 0p)**	(74 5)	315 3	(23 6p)
EPS from continuing operations						
Basic EPS	**(84 4)**	**337 4**	**(25 0p)**	(74 5)	315 3	(23 6p)
Pre tax loss/(profit) from discontinued operations	**61 6**		**18 2p**	75 0		23 8p
Tax relating to discontinued operations	**2 6**		**0 8p**	0 8		0 3p
Basic EPS from continuing operations	**(20 2)**	**337 4**	**(6 0p)**	1 3	315 3	0 4p
EPS from discontinued operations						
Basic EPS						
Pre tax (loss)/profit from discontinued operations	**(61 6)**	**337 4**	**(18 2p)**	(75 0)	315 3	(23 8p)
Tax relating to discontinued operations	**(2 6)**		**0 8p**	(0 8)		(0 3p)
Basic EPS from discontinued operations	**(64 2)**	**337 4**	**(19 0p)**	(75 8)	315 3	(24 0p)

The impact of exceptional items includes a tax credit of £0 5m in 2007 (2006 £2 5m)
There is no difference between basic and diluted EPS as there is no material impact from dilutive share options

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

12 Goodwill and other intangible assets

	Goodwill £m	Other £m	Total £m
Cost			
At 1 January 2007	227 7		227 7
Additions	–	0 4	0 4
Classified as held for sale	(217 1)		(217 1)
At 31 December 2007	**10 6**	**0 4**	**11 0**
Accumulated amortisation and impairment			
At 1 January 2007	114 2	–	114 2
Impairment writedown	49 8	–	49 8
Classified as held for sale	(161 3)	–	(161 3)
At 31 December 2007	**2 7**	**–**	**2 7**
Net book value at 31 December 2007	**7 9**	**0 4**	**8 3**
Net book value at 31 December 2006	113 5	–	113 5

Goodwill comprises capitalised goodwill on acquisitions completed since 1 January 1998 Other intangible assets of £0 4m (2006 nil) relate to capitalised software costs

Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill

	2007 £m	2006 £m
Radio	–	105 0
Multiple units without individually significant goodwill	7 9	8 5
	7 9	113 5

13 Property, plant and equipment

	Land and buildings leasehold £m	Plant, technical equipment and other £m	Total £m
Cost			
At 1 January 2006	0 8	88 0	88 8
Additions	1 7	8 0	9 7
Disposals	–	(3 7)	(3 7)
Classified as held for sale	–	(38 7)	(38 7)
At 1 January 2007	2 5	53 6	56 1
Additions	–	2 6	2 6
Disposals		0 7	0 7
Classified as held for sale	(2 1)	(3 1)	(5 2)
At 31 December 2007	**0 4**	**53 8**	**54 2**
Accumulated depreciation and impairment			
At 1 January 2006	0 6	52 2	52 8
Charge for year	0 4	5 5	5 9
Disposals		(2 5)	(2 5)
Classified as held for sale	–	(18 3)	(18 3)
At 1 January 2007	1 0	36 9	37 9
Charge for year	0 1	2 3	2 4
Disposals	–	0 6	0 6
Classified as held for sale	(1 0)	(1 0)	(2 0)
At 31 December 2007	**0 1**	**38 8**	**38 9**
Net book value at 31 December 2007	**0 3**	**15 0**	**15 3**
Net book value at 31 December 2006	1 5	16 7	18 2

14 Inventories

	2007 £m	2006 £m
Raw material and consumables		0 1
Film rights	**15 1**	15 3
Recorded programmes and films	**25 2**	20 7
	40 3	36 1

Inventories recognised as an expense during the year are included within operating expenses analysed in note 4

Included within the above is £0 2m (2006 £0 3m) of inventories held at fair value less costs to sell

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

15 Trade and other receivables

	2007 £m	2006 £m
Trade receivables	**14 8**	16 7
Less Provision for impairment of receivables	**(0 4)**	(0 3)
Trade receivables net	**14 4**	16 4
Prepayments and accrued income	**17 6**	24 1
Other receivables	**3 7**	2 1
	35 7	42 6

As of the 31 December 2007, trade receivables of £0 7m (2006 £4 4m) are past due but not impaired These relate to a number of independent customers for whom there is no recent history of default The aging analysis of the trade receivables is as follows

	2007 Gross £m	**2007 Provision £m**	2006 Gross £m	2006 Provision £m
Up to 3 months	**13 8**	–	12 7	
3 to 5 months	**0 1**	–	0 4	–
Over 5 months	**0 9**	**(0 4)**	3 6	(0 3)
	14 8	**(0 4)**	16 7	(0 3)

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

16 Cash and cash equivalents

	2007 £m	2006 £m
Cash and cash equivalents	**10.8**	8 7
Short term deposits	**1 4**	2 5

The short term bank deposit relates to £1 4m placed in Escrow for use by GMT in relation to certain planning consents currently being sought by Primesight The remaining £2 5m placed in Escrow in respect of certain of SMG's pension related indemnity obligations given under the sale and purchase agreement of the Publishing division disposed of on 4 April 2003 was released during 2007

17 Trade and other payables

	2007 £m	2006 £m
Amounts falling due within one year		
Trade and other payables	**25 1**	26 0
Social security and other taxes	**2 9**	2 1
Other payables	**2 7**	7 5
	30 7	35 6
Amounts falling due after one year		
Trade and other payables	**0 3**	

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

The aging analysis of the trade payables is as follows

	2007 £m	2006 £m
Within one year	**25 1**	26 0
Due within one to two years	**0 3**	
	25 4	26 0

17 Trade and other payables (continued)
The Company's policy is to settle the terms of payment with suppliers when agreeing terms of payment by inclusion of the relevant terms in contracts, and to pay in accordance with its contractual and other legal obligations Trade creditors of the Group at 31 December 2007 were equivalent to 46 days of purchases (2006 44 days)

18 Borrowings

	2007 £m	2006 £m
Bank loans	**62 0**	149 3

The borrowings are repayable as follows

	2007 £m	2006 £m
Within one year	**-**	15 0
Expiring in one to two years	**-**	134 3
Expiring in two to five years	**62 0**	-
	62 0	149 3

All undrawn committed borrowing facilities are repayable within two to five years (2006 one to two years)

The directors consider that the value of current borrowings approximate their fair value

The effective interest rates were as follows

	2007 %	2006 %
Bank loans (floating)	**8 6**	6 6
Bank loans (fixed)*		6 6
Interest rate swap (floating)	**-**	5 3
Interest rate swap (fixed)	**-**	4 9

*After taking into account interest rate swaps entered into by the Group

A new £90 0m five year credit facility was entered into on 27 December 2007 The facility consists of a £40 0m term facility, £45 0m revolving credit facility and £5 0m overdraft Security has been provided to the debt provider under this new facility by way of cross guarantees and a share pledge

As the facility was entered into close to the year end, it was borrowed on short term floating rate loans Fixed interest, long term swaps will be entered into in 2008 in line with the Group s treasury policy

19 Convertible unsecured loan stock
The CULS were repaid on 28 September 2007

20 Other non current financial liabilities

	2007 £m	2006 £m
Secured loan notes		0 6
Unsecured loan notes	**-**	0 5
	-	1 1

Both secured and unsecured loan notes were repaid during the year

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

21 Financial instruments

In accordance with IAS 39, Financial instruments Recognition and measurement, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard The Group had no such embedded derivatives during the year

Interest rate swaps

In 2006, the derivative financial asset of £0 3m arose as a result of an interest rate swap The notional principal amount of the outstanding interest rate swap contract at 31 December 2006 was £60 0m At 31 December 2006 the fixed interest rates were 4 94% and floating rates were 5 31% (3 month LOBOR)

Foreign exchange

The Group has minimal exposure to foreign exchange risk and it is Group policy to ensure that any material payments or receipts are fully hedged At 31 December 2007 the Group had no forward foreign exchange contracts in place (2006 nil)

22 Deferred tax

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

	Share based payments £m	Accelerated tax £m	Retirement benefit obligations £m	Total £m
At 1 January 2007	(0 7)	(0 2)	(13 9)	(14 8)
Charge/(credit) to income	0 7	0 4	1 3	2 4
Charge to equity			7 7	7 7
		(0 2)	(4 9)	(4 7)
Assets held for resale		(0 2)	–	(0 2)
At 31 December 2007			**(4 9)**	**(4 9)**

	2007 £m	2006 £m
Deferred tax asset		
Deferred tax to be recovered after more than one year	**(4 6)**	(12 7)
Deferred tax to be recovered within one year	**(0 3)**	(2 1)
	(4 9)	(14 8)
Net deferred tax asset	**(4 9)**	(14 8)

Certain deferred tax assets and liabilities have been offset The following is the analysis of the current deferred tax balances (after offset)

23 Provisions

	Cost of change Provision 2007 £m	Cost of change Provision 2006 £m	Other Provision 2007 £m	Other Provision 2006 £m	Total Provisions 2007 £m	Total Provisions 2006 £m
At 1 January	**1 4**	3 3			**1 4**	3 3
Provided during the year	**5 6**	2 6	**3 2**		**8 8**	2 6
Utilised during the year	**(4 0)**	(4 5)	**(0 1)**		**(4 1)**	(4 5)
At 31 December	**3 0**	1 4	**3 1**		**6 1**	1 4

During 2007 a provision was created for cost of change initiatives with Television division and Group See note 6(ii) for details The provision of £3 0m is expected to be utilised within one year

23 Provisions (continued)

Other provisions of £3 2m were created for onerous leases, £1 2m of which is included within the loss on sale of discontinued operations This provision is held within the continuing Group and is expected to be utilised within one to two years

24 Share capital

	Number of shares (thousands)	Ordinary shares £m	Share premium £m	Total £m
At 1 January 2007	315,940	7 9	60 2	68 1
Issued during the year	1,063	0 1	0 9	1 0
Rights issue	633,850	15 8	75 2	91 0
At 31 December 2007	**950,853**	**23 8**	**136 3**	**160 1**

On 19 December 2007, a two for one rights issue was completed resulting in the issue of 633,850,240 ordinary shares of 2 5p each for gross proceeds of £95 1m After deducting costs of £4 1m, net proceeds of £91 0m were raised

The total authorised number of ordinary shares is 951 million with a par value of 2 5p per share All issued shares are fully paid

25 Statement of changes in reserves

	Other reserve £m	Hedging reserve £m	Minority interest £m	Retained earnings £m
At 1 January 2006	3 2	0 3		(202 0)
Net loss	–		–	(84 6)
Dividends	–			(3 8)
Movement in IFRS 2 reserve	(2 0)			
Movement in own shares	–			(0 2)
Acturarial gain	–			24 7
Deferred tax thereon		–	–	(7 7)
Movement in minority interest		–	(0 2)	
Release of hedging reserve		(0 3)	–	0 3
At 31 December 2007	**1 2**	**–**	**(0 2)**	**(273 3)**

	2007 £m	2006 £m
Retained earnings excluding pension liability	**(264 2)**	(169 2)
Amount relating to defined benefit pension scheme liability, net of related deferred tax	**(9 1)**	(32 8)
	(273 3)	(202 0)

There have been no movements in the merger reserve and equity reserve during the year ended 31 December 2007

Notes to the Financial Statements (continued)
for the year ended 31 December 2007

26 Disposal of discontinued operations
As referred to in note 6, on 30 October 2007 the Group disposed of its interest in Primesight

The assets of Primesight at the date of disposal and at 31 December 2006 were as follows

	30 October 2007 £m	2006 £m
Property, plant and equipment	**19.6**	20.4
Inventories	**0.2**	0.2
Trade and other receivables	**5.8**	19.3
Cash and cash equivalents	**(0.3)**	4.4
Trade and other payables	**(0.4)**	(8.3)
Tax liabilities	**(1.8)**	(1.5)
Attributable goodwill	**32.4**	32.4
Working capital adjustment agreed as part of disposal	**1.1**	–
	56.6	66.9
Disposal expenses	**3.3**	
Loss on disposal	**(5.7)**	
Total consideration	54.2	
Satisfied by		
Cash	52.0	
Funds placed in Escrow	(1.4)	
Deferred consideration (discounted £5.0m non contingent deferred loan note)	3.6	
	54.2	
Net cash inflow arising on disposal		
Cash consideration	47.3	

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27 Notes to the cash flow statement

	2007 £m	2006 £m
Continuing operations		
Operating profit (before exceptional items)	**11 1**	15 8
Depreciation and other non cash items	**1 4**	1 6
Operating cash flows before movements in working capital	**12 5**	17 4
Increase in inventories	**(5 6)**	(9 0)
Decrease/(increase) in trade and other receivables	**6 5**	(7 5)
Increase in trade and other payables	**2 4**	7 1
Costs of change costs	**(4 1)**	(4 1)
Cash generated from continuing operations	**11 7**	3 9
Discontinued operations		
Operating profit (before exceptional items)	**9 0**	2 6
Depreciation and other non cash items	**(5 1)**	3 4
Operating cash flows before movements in working capital	**3 9**	6 0
(Increase)/decrease in trade and other receivables	**(2 2)**	2 3
Decrease in trade and other payables	**(1 7)**	–
Costs of change and onerous contract costs	–	(0 4)
Cash flow for discontinued operations		7 9
Cash generated from operations	**11 7**	11 8

28 Analysis of movements in net debt

	At 1 January 2007 £m	Cash flow £m	At 31 December 2007 £m
Cash and cash equivalents	8 7	2 1	**10 8**
Cash and cash equivalents included in the disposal groups held for sale (note 8)	4 4	(1 7)	**2 7**
	13 1	0 4	**13 5**
Bank borrowings	(149 3)	87 3	**(62 0)**
Short term deposits	2 5	(1 1)	**1 4**
Convertible unsecured loan stock	(22 5)	22 5	–
Unsecured loan notes	(0 5)	0 5	–
Secured loan notes	(0 6)	0 6	–
Net debt	**(157 3)**	**110 2**	**(47 1)**

29 Capital commitments

At 31 December 2007 the Group had no contracted for but not provided capital commitments (2006 nil)

Notes to the Financial Statements (continued)
for the year ended 31 December 2007

30 Operating lease commitments

	2007 £m	2006 £m
Minimum lease payments under operating leases recognised in income for the year	**6 6**	5 3

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

	2007 £m	2006 £m
Expiring within one year	–	–
Expiring within two to five years	**0 4**	0 2
Expiring in over five years	**42 5**	47 4
	42 9	47 6

31 Contingent liabilities
The Group has a 100% holding in both Scottish Media Group (Holdings) and Dawn Chorus Holdings, which are unlimited companies

32 Transactions with related parties
There were no transactions with any related parties during the year

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

	2007 £m	2006 £m
Salaries and short term employee benefits	**1 6**	1 9
Share based payments	–	0 3
	1 6	2 2

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

33 Retirement benefit schemes
Defined contribution schemes

The Group operates two money purchase schemes, the SMG Pension Scheme and the Pearl & Dean Cinemas Pension Scheme, for which the pension cost charge for the year amounted to £0 5m (2006 £0 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

33 Retirement benefit schemes (continued)

The schemes are the Scottish and Grampian Television Retirement Benefit Scheme and the Caledonian Publishing Pension Scheme They are closed schemes and therefore under the projected unit method the current service cost will increase as the members of the scheme approach retirement

A full actuarial valuation of the schemes was carried out at 1 January 2007 and updated to 31 December 2007 by a qualified independent actuary The major assumptions used by the actuary were

	At 31 December 2007	At 31 December 2006
Rate of increase in salaries	**3 6%**	3 3%
Rate of increase of pensions in payment	**3 1%**	2 8%
Discount rate	**6 0%**	5 1%
Inflation	**3 1%**	2 8%

Mortality rate

Assumptions regarding future mortality experience are set based on advice, published statistics and experience in each territory

The average life expectancy in years of a pensioner retiring at age 65 is as follows

	At 31 December 2007 Years	At 31 December 2006 Years
Retiring at balance sheet date		
Male	**15 0**	15 0
Female	**17 9**	17 9
Retiring in 20 years		
Male	**16 6**	16 6
Female	**19 5**	19 5

Amount charged to operating profit

	2007 £m	2006 £m
Current service cost defined benefit	**(1 7)**	(2 2)

The total amount charged to profit from operations is £2 2m (2006 £2 7m) which also includes the defined contribution charge of £0 5m (2006 £0 5m)

Actuarial gains and losses have been included in the statement of recognised income and expense

Amount credited to net finance costs

	At 31 December 2007 £m	At 31 December 2006 £m
Expected return on scheme assets	**17 9**	16 6
Interest cost	**(15 1)**	(13 9)
	2 8	2 7

Notes to the Financial Statements (continued)
for the year ended 31 December 2007

33 Retirement benefit schemes (continued)
Amount recognised in statement of recognised income and expense

	2007 £m	2006 £m
Actual return less expected return on pension assets	**(8 2)**	(1 9)
Experience gains and losses	**(32 9)**	(7 1)
Changes in assumptions	**65 8**	13 1
	24 7	4 1

The fair value of the assets in the schemes, the present value of the liabilities in the schemes and the expected rate of return at each balance sheet date was

	At 31 December 2007 £m	At 31 December 2006 £m	At 31 December 2005 £m	At 31 December 2004 £m
Equities	**143 2**	145 9	146 2	131 8
Bonds	**121 9**	114 7	109 6	90 1
Fair value of schemes' assets	**265 1**	260 6	255 8	221 9
Present value of defined benefit obligations	**(279 1)**	(307 3)	(308 8)	(322 1)
Deficit in the schemes	**(14 0)**	(46 7)	(53 0)	(100 2)
Equities	**8 0%**	8 4%	8 0%	8 0%
Bonds	**4 4% 6 1%**	4 6% 5 2%	4 1% 4 9%	4 5% 5 3%

A related offsetting deferred tax asset of £4 9m (2006 £13 9m) is included under non current assets Therefore the net pension scheme deficit amounts to £9 1m at 31 December 2007 (£32 8m at 31 December 2006)

The movement in the aggregate scheme deficits during the year was principally due to high bond yields and cash contributions

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

	2007 £m	2006 £m
At 1 January	**260 6**	255 8
Expected return on plan assets	**17 9**	16 6
Actuarial losses	**(8 2)**	(1 9)
Employer contributions	**6 9**	1 7
Employee contributions	**0 6**	0 6
Benefits paid from plan/Company	**(12 7)**	(12 2)
At 31 December	**265 1**	260 6

Movement in the defined benefit obligation is as follows

	2007 £m	2006 £m
At 1 January	**307 3**	308 8
Current service cost	**1 7**	2 2
Interest cost	**15 1**	13 9
Contributions from plan participants	**0 6**	0 6
Actuarial gains	**(32 9)**	(6 0)
Benefits paid from plan/Company	**(12 7)**	(12 2)
At 31 December	**279 1**	307 3

The actual return on plan assets for the year was £9 7m (2006 £14 7m)

Accounts

33 Retirement benefit schemes (continued)

History of experience gains and losses

	2007	2006	2005	2004
Difference between the expected and actual return on scheme assets				
Amount (£m)	**(8 2)**	(1 9)	22 4	8 9
Percentage of scheme assets	**(3%)**	(1%)	9%	4%
Experience gains and losses on scheme liabilities				
Amount (£m)	**(32 9)**	(7 1)	(22 2)	(4 2)
Percentage of the present value of scheme liabilities	**(12%)**	(2%)	(7%)	(1%)
Total amount recognised in statement of recognised gains and losses				
Amount (£m)	**24 7**	4 1	45 0	(8 6)
Percentage of the present value of scheme liabilities	**9%**	1%	15%	(3%)

The estimated amounts of contributions expected to be paid to the scheme during the current financial year is £1 6m

34 Share based payments

Equity settled share option plans

The Group Executive and Company share option plans provide for a grant price approximately equal to the quoted market price at the date of grant The vesting period is generally three years If the options remained unexercised after a period of seven to ten years from the date of grant, the options expire Furthermore, options are forfeited if the employee leaves the Group before the options vest

	2007 Executive share option scheme Options	Weighted average exercise price (£)	**2006 Executive share option scheme** Options	Weighted average exercise price (£)
Outstanding at 1 January	3,523,657	1 35	7,130,560	1 39
Exercised	–		252,366	0 65
Expired	1,988,302	1 73	3,354,537	1 48
Outstanding at 31 December	**1,535,355**	**0 85**	**3,523,657**	**1 35**
Exercisable at 31 December	1,535 355	0 85	2,725,997	1 40

	2007 Company share option scheme Options	Weighted average exercise price (£)	**2006 Company share option scheme** Options	Weighted average exercise price (£)
Outstanding at 1 January	1,214,976	2 20	1,512,681	2 15
Expired	490,668	1 99	297,705	1 93
Outstanding at 31 December	**724,308**	**2 35**	**1,214,976**	**2 20**
Exercisable at 31 December	724,308	2 35	1 165,317	2 25

The executive scheme options outstanding at 31 December 2007 have a weighted average exercise price of £0 85 (2006 £1 35), and a weighted average remaining contractual life of 12 (2006 24) months

No options were exercised during the year for the Executive share options scheme In 2006, the weighted average share price for options was £0 84

Notes to the Financial Statements (continued)
for the year ended 31 December 2007

34 Share based payments (continued)
The Company scheme options outstanding at 31 December 2007 have a weighted average exercise price of £2 35 (2006 £2 20), and a weighted average remaining contractual life of 24 (2006 36) months

No options were exercised during the current and previous year for the Company share option scheme

The exercise prices for options under both schemes range from £0 65 to £3 25

No new awards were made during 2006 and 2007

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years Expected life is the average expected period to exercise The risk free rate is the yield on zero coupon UK government bonds of a term consistent with the assumed option life Expected dividend yield is based on the average dividend yield over the previous three years prior to the award

Other share based payment plans
The employee sharesave plans (three years and five years) were offered until 2004, at which time they were open to almost all employees They provided for a grant price approximately equal to the quoted market price at the date of grant The shares can be purchased once or twice a year in the six week period following announcement of the annual and interim results The exercise prices for options under both sharesave schemes range from £0 65 to £2 60 At 31 December 2007, there were 342,382 (2006 664,645) options outstanding under the schemes with a weighted average exercise price of £0 78 (2006 £0 86) per option During the current period, 322,263 options expired The sharesave plans were replaced in 2005 by the Share Incentive Plan

The long term incentive plan is for executive directors and other senior executives The performance criteria for this scheme are based on a combination of earnings growth and total shareholder return and as such have been valued using both Black & Scholes and Monte Carlo models respectively The Group issued options over 4,884,309 ordinary shares in 2007 (2006 2,237,136) At 31 December 2007, there were 5,748,894 (2006 3,624,797) options outstanding under this scheme, with a weighted average fair value of £0 18 per option at 31 December 2007 (2006 £0 62)

IFRS 2 Analysis of fair values
Following the introduction of IFRS 2 (Share based Payments), companies are required to account for the cost of share based payments made to employees All options awarded post 7 November 2002 are required to be accounted for Any options prior to this date can only be accounted for where the fair value of the awards made has been publicly disclosed by the Company The fair value of each of the awards has been determined using the Black & Scholes model or Monte Carlo model as relevant

The Group Executive and Company share option plans and Sharesave scheme have been valued using the Black & Scholes model The vesting of awards under the Performance Share Plan is contingent upon the Company achieving both Total Shareholder Return and EBITDA growth targets and as such the scheme is valued using both the Black & Scholes and Monte Carlo models The fair values of each of the schemes, as determined at the grant date, are detailed on the next page

34 Share based payments (continued)

Analysis of fair values Company and Executive Share Options and Sharesave

Date of award	Company Share Option Scheme	Executive Share Option Scheme	Sharesave Three Year Scheme	Sharesave Five-Year Scheme
10 Jun 1997	22p			
11 Mar 1998	32p	32p		
08 Sep 1998	29p	29p		
12 Mar 1999	38p	38p		
06 Sep 1999	40p	40p		
01 Dec 1999				70p
23 Feb 2000	56p	56p		
01 May 2000				69p
22 Aug 2000	56p	56p		
01 Nov 2000				55p
27 Feb 2001	90p	90p		
09 Apr 2001	64p	64p		
01 May 2001			43p	67p
11 Jun 2001	77p	77p		
24 Sep 2001		39p		
22 Oct 2001	39p	39p		
19 Apr 2002	53p	53p		
01 Jun 2002			53p	68p
11 Sep 2002		34p		
10 Mar 2003	22p	22p		
01 Jul 2003			30p	38p
12 Mar 2004	44p	44p		
01 Jul 2004			39p	46p

Analysis of fair values Performance Share Plan

Date of award	Performance Share Plan (Black & Scholes)	Performance Share Plan (Monte Carlo)
27 Feb 2001	226p	139p
24 Sep 2001	99p	50p
19 Apr 2002	136p	76p
10 Mar 2003	59p	30p
12 Mar 2004	109p	76p
06 Jun 2005	85p	47p
14 Mar 2006	77p	48p
12 Jul 2007	-	10p

35 Reconciliation of underlying results

	Continuing		Discontinued		Group underlying results	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Operating profit	**11 1**	15 8	**5 3**	2 6	**16 4**	18 4
Profit before tax	**(0 9)**	7 4	**5 3**	2 6	**4 4**	10 0

EPS is calculated based on profit adjusted for tax at 10% (2006 5%) using the weighted average number of shares in issue per note 11

SMG plc Company Financial Statements – Independent Auditors' Report to the Members of SMG plc

We have audited the parent company financial statements of SMG plc for the year ended 31 December 2007 which comprise the balance sheet and the related notes These parent company financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' Remuneration Report that is described as having been audited

We have reported separately on the Group financial statements of SMG plc for the year ended 31 December 2007

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, 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

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements Our responsibilities do not extend to any other information

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited

Opinion

In our opinion

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007,
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the parent company financial statements

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow
3 April 2008

Company Balance Sheet
at 31 December 2007

	Notes	2007 £m	2006 £m
Fixed assets			
Investments	2	**355 6**	405 4
Current assets			
Debtors and prepayments	3	**130 1**	124 9
Cash at bank and in hand			2 5
Corporation tax		**5 0**	5 1
		135 1	132 5
Creditors amounts falling due within one year			
Creditors and accrued charges	4	**(18 2)**	(17 2)
Convertible unsecured loan stock			(22 8)
		(18 2)	(40 0)
Net current assets		**116 9**	92 5
Total assets less current liabilities		**472 5**	497 9
Creditors amounts falling due after more than one year			
Creditors and accrued charges	5	**(201 2)**	(216 2)
Bank loans		**(114 5)**	(153 7)
		(315 7)	(369 9)
Net assets		**156 8**	128 0
Capital and reserves			
Called up share capital	7	**23 8**	7 9
Share premium account	7	**136 3**	60 2
Profit and loss reserves	7	**(4 5)**	56 7
Other reserve	7	**1 2**	3 2
Total equity shareholders' funds		**156 8**	128 0

The accompanying notes are an integral part of this balance sheet

The financial statements on pages 90 to 93 were approved by the Board on 3 April 2008 and were signed on its behalf by

Rob Woodward, Director **George Watt,** Director

Notes to the Company Financial Statements
for the year ended 31 December 2007

Accounts

1 **Accounting policies**

Accounting convention and basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 1985
The separate financial statements have been prepared in accordance with all applicable UK Accounting Standards and have been prepared under the historical cost convention, in accordance with applicable accounting standards on a going concern basis

Basis of consolidation

As permitted under Section 230 of the Companies Act 1985, no separate income statement for the holding Company is presented The consolidated financial statements as presented within the Annual Report include the results of SMG plc, the holding Company, and all of its subsidiaries and associated undertakings up to 31 December 2007

Cash flow statement

A cash flow statement has not been included within these financial statements in accordance with the exemption available within FRS 1 (Revised)

Investments

Fixed asset investments are stated at cost, less any provision for impairment

Impairment

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised in the profit and loss account for the amount by which the asset s carrying value exceeds its recoverable amount

Share based payments

Equity settled share based payments are measured at fair value at the date of grant 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 Company's estimate of shares that will ultimately vest

Full disclosure of share based payment awards is provided as a note within the Group's financial statements

Dividends

The liability for final dividends is recorded when the dividends are approved by the Company's shareholders
For interim dividends, the liability is recorded when the dividends are paid

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates enacted or substantially enacted by the balance sheet date

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements Deferred tax assets and liabilities are not discounted

The taxation liabilities of certain Group Companies are reduced wholly or in part by losses surrendered by other Group Companies The tax benefits arising from Group relief are recognised in the accounts of the surrendering and recipient companies

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs Finance costs, including premiums payable on settlement or redemption and direct issue costs are accounted for on an accruals basis to the income statement and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

Notes to the Company Financial Statements (continued)
for the year ended 31 December 2007

2 Investments

	2007 £m	2006 £m
At 1 January	**405 4**	481 6
Additions during the year	**–**	0 6
Impairment writedown	**(49 8)**	(76 8)
At 31 December	**355 6**	405 4

In 2006, Peopleschampion com was acquired for a consideration of £0 5m with acquisition costs of £0 1m

The impairment writedown in 2007 relates to Virgin Radio (£49 2m) and Peopleschampion (£0 6m)

The impairment writedown in 2006 relates to Virgin Radio (£58 8m) and Cinema (£18 0m) and is as a result of weaker trading performance experienced in both businesses in 2006 In calculating this impairment, the cash flows in perpetuity are extrapolated using growth rates in the range of 2% to 4% which are deemed appropriate owing to the long term nature of the business and discount rates in the range of 8 2% to 10 2% have been used to discount the cash flows based on the Group's weighted average cost of capital

Calculations have been made on a value in use basis for Radio and fair value less costs to sale basis for Cinema, using cash flow projections over the next five years

Subsidiary undertakings
The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length The following information relates to the subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affect the results of the Group

Undertaking	Country of incorporation or registration and operation	Principal activity
stv Central Limited	Scotland	Television broadcasting
stv North Limited	Scotland	Television broadcasting
SMG Productions Limited	Scotland	Programme production
Ginger Television Productions Limited	England	Programme production
Virgin Radio Limited	England	Radio broadcasting
Pearl & Dean Cinemas Limited	England	Cinema advertising

None of the above investments are held directly by SMG plc The investments are stated in the balance sheet at cost less amounts written off for impairment in value All shares are ordinary shares

3 Debtors

	2007 £m	2006 £m
Amounts owed by group undertakings	**114 1**	108 0
Prepayments and accrued income	**16 0**	16 9
	130 1	124 9

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

4 Creditors amounts falling due within one year

	2007 £m	2006 £m
Trade creditors and accruals	–	3 2
Amounts due to subsidiary undertakings	18 2	14 0
	18 2	17 2

5 Creditors amounts falling due after more than one year

	2007 £m	2006 £m
Unsecured loan notes	–	0 3
Deferred consideration	0 3	0 2
Amounts due to subsidiary undertakings	200 9	215 7
	201 2	216 2

The unsecured loan notes were paid during the year

6 Convertible unsecured loan stock

The CULS were repaid on 28 September 2007

7 Reserves and movements in shareholders' funds

	Share Capital £m	Share Premium £m	Profit and loss reserves £m	Other reserve £m	Total £m
At 1 January 2007	7 9	60 2	56 7	3 2	128 0
Shares issued	0 1	0 9			1 0
Rights issue	15 8	75 2		–	91 0
Movement in own share reserve		–		(2 0)	(2 0)
Retained loss for the year		–	(61 2)		(61 2)
At 31 December 2007	23 8	136 3	(4 5)	1 2	156 8

The retained loss for the year of £61 2m includes an impairment writedown of £49 8m (refer note 2)

8 Transactions with related parties

There were no transactions with any related parties during the year other than those exempted from disclosure under FRS 8

Five year Summary of Financial Statements

for the five years ended 31 December 2007

	UK GAAP		IFRS		
			**		
	2003 £m	2004 £m	2005 £m	2006 £m	**2007 £m**
Revenue					
Continuing operations	188 2	201 2	137 0	125 6	**119 0**
Discontinued operations	21 0	–	73 0	65 6	**65 0**
Total revenue	209 2	201 2	210 0	191 2	**184 0**
Net operating expenses*	(178 4)	(173 2)	(178 8)	(172 8)	**(163 9)**
Operating profit*					
Continuing operations	28 5	28 0	24 1	15 8	**11 1**
Discontinued operations	2 3	–	7 1	2 6	**9 0**
Group operating profit*	30 8	28 0	31 2	18 4	**20 1**
Share of associates	9 6	2 4	–	–	
Profit on ordinary activities before financing charges*	40 4	30 4	31 2	18 4	**20 1**
Net financing charges	(23 4)	(15 4)	(11 2)	(8 4)	**(12 0)**
Profit on ordinary activities before taxation*	17 0	15 0	20 0	10 0	**8 1**
Tax on ordinary activities	(1 7)	(0 3)	(4 8)	(0 6)	**(0 9)**
Profit on ordinary activities after taxation*	15 3	14 7	15 2	9 4	**7 2**
Dividends	(7 9)	(3 1)	(8 5)	(5 3)	**(3 8)**
Transferred to reserves*	7 4	11 6	6 7	4 1	**3 4**
Earnings per ordinary share (pence)* – basic	4 9	4 7	4 8	3 0	**2 1**
– diluted	4 9	4 7	4 8	3 0	**2 1**
Dividends per ordinary share (pence)	2 5	2 5	2 9	1 2	–

* These figures are stated before, exceptional items and FRS 10

** The 2005 results have been restated to split out the discontinued activities of the disposal groups consisting of Outdoor and Cinema divisions

Investor Information

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Independent Auditors
PricewaterhouseCoopers LLP, Glasgow

Solicitors
Herbert Smith, Burness LLP

Principal Bankers
Bank of Scotland plc

Stockbrokers
Hoare Govett Corporate Finance Limited

Investment Bankers
Jefferies International Limited, Hawkpoint Partners Limited

Secretary and Registered Office
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Company Registration Number SC203873

Annual Report on Internet
The 2007 Annual Report of SMG plc including the financial statements is available at www smg plc uk

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

Investor Relations
For investor enquiries please contact
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Share Price Information
The share price of SMG plc is published in most newspapers and also in the United Kingdom on Ceefax and Teletext The current price of the Company's shares (delayed by up to 15 minutes) can be obtained from the Company s website www smg plc uk

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
SMG plc operates a Dividend Reinvestment Plan to provide United Kingdom shareholders with a facility to invest cash dividends by purchasing further SMG plc shares Further details are available from the Registrar on 0871 664 0454*

Your Shareholding
You can check your shareholding at any time by visiting the Registrar's website at www capitaregistrars com

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

Calls cost 10p per minute plus network extras

Principal changes introduced in the proposed new Articles of Association

The principal changes included in the proposed New Articles are as follows

- Provisions on convening and the length of notice of general meetings are amended to conform to the Companies Act 2006 In particular, a general meeting (other than an Annual General Meeting) to consider a Special Resolution can now be convened on 14 days' notice (previously 21 days' notice) In addition, the now defunct distinction between ordinary and special business has been removed
- Provisions have been inserted specifically dealing with the appointment of proxies by shareholders who hold their shares in the uncertificated form
- It is proposed to remove references to the 70-year age limit on directors, in accordance with the Companies Act 2006
- The New Articles clarify that the Company may indemnify a director of any of its subsidiaries or any director of a company that is a trustee of an occupational pension scheme from any liability incurred in the proper performance of his duties The current articles allow the Company to provide such an indemnity to its directors only
- Further revisions to the New Articles are proposed to take account of the Companies Act 2006 changes to directors' conflicts of interest which are expected to come into force on 1 October 2008 The Companies Act 2006 sets out directors' general duties The provisions largely codify the existing law, but with some changes Under the Companies Act 2006, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests The requirement is broad and could apply, for example, if a director is or becomes a director of another company or a trustee of another organisation The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts where appropriate and where the Articles of Association contain a provision to this effect The New Articles will with effect on and from 1 October 2008 (or such time as the relevant provisions of the Companies Act 2006 come into force), give the directors authority to approve such conflicts of interests

  Directors in considering any conflict or potential conflict situation must act in a way they consider, in good faith, will be most likely to promote the Company's success Directors will also be able to impose limits or conditions when giving any authorisation or subsequently, if they think this is appropriate

  Provisions are also proposed relating to confidential information, attendance at board meetings and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises These provisions will only apply where the situation giving rise to the potential conflict has previously been authorised by the directors