SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998   COMMISSION FILE NUMBER 1-9553

VIACOM INC.
(Exact Name Of Registrant As Specified In Its Charter)

Delaware (State or Other Jurisdiction of Incorporation Or Organization)	04-2949533 (I.R.S. Employer Identification No.)
1515 Broadway, New York, NY (Address of Principal Executive Offices)	10036 (Zip Code)

Registrant's telephone number, including area code (212) 258-6000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, $0.01 par value	American Stock Exchange
Class B Common Stock, $0.01 par value	American Stock Exchange
Warrants Expiring on July 7, 1999	American Stock Exchange
6.75% Senior Notes due 2003	American Stock Exchange
7.75% Senior Notes due 2005	American Stock Exchange
8% Exchangeable Subordinated Debentures due 2006	American Stock Exchange
7.625% Senior Debentures due 2016	American Stock Exchange

Securities Registered Pursuant To Section 12(g) of the Act:

None
(Title Of Class)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |X|

As of March 22, 1999, 140,250,342 shares of Viacom Inc. Class A Common Stock, $0.01 par value ("Class A Common Stock"), and 555,815,214 shares of Viacom Inc. Class B Common Stock, $0.01 par value ("Class B Common Stock"), were outstanding, after giving effect to the previously announced 2-for-1 common stock split to be effected in the form of a dividend to be issued on March 31, 1999, to shareholders of record on March 15, 1999. The aggregate market value of the shares of Class A Common Stock (based upon the closing price of $42 1/32 per share as reported by the American Stock Exchange on that date and adjusted to give effect to the stock split) held by non-affiliates was approximately $1,957,570,415.00 and the aggregate market value of the shares of the Class B Common Stock (based upon the closing price of $42 15/16 per share as reported by the American Stock Exchange on that date and adjusted to give effect to the stock split) held by non-affiliates was approximately $19,382,894,168.00.

DOCUMENTS INCORPORATED BY REFERENCE

The Definitive Proxy of the Registrant for the 1999 Annual Meeting of Shareholders (Part III to the extent described herein).

Part I

Item 1. Business.

Background

Viacom Inc. (together with its subsidiaries and divisions, unless the context otherwise requires, the "Company") is a diversified entertainment company with operations in six segments: (i) Networks, (ii) Entertainment, (iii) Video, (iv) Parks, (v) Publishing and (vi) Online. Through the Networks segment, the Company operates MTV: MUSIC TELEVISION(R), SHOWTIME(R), NICKELODEON(R)/NICK AT NITE(R), VH1 MUSIC FIRST(TM) and TV LAND(R), among other program services. Through the Entertainment segment, which includes PARAMOUNT PICTURES(R),

PARAMOUNT TELEVISION(R), PARAMOUNT STATIONS GROUP and the Company's approximately 80%-owned subsidiary SPELLING ENTERTAINMENT GROUP INC. ("SPELLING"), the Company produces and distributes theatrical motion pictures and television programming and operates or programs 19 broadcast television stations. Through the Video segment, the Company operates and franchises BLOCKBUSTER VIDEO(R) stores worldwide. Through the Parks segment, PARAMOUNT PARKS(R) owns and operates five theme parks and a themed attraction in the U.S. and Canada. Through the Publishing segment, which includes imprints such as SIMON & SCHUSTER(R), POCKET BOOKS(TM), SCRIBNER(R), and THE FREE PRESS(TM), the Company publishes and distributes consumer books and related multimedia products. Through the Online segment, the Company operates Internet businesses currently related to MTV: MUSIC TELEVISION, NICKELODEON/NICK AT NITE and VH1 MUSIC FIRST.

As of December 31, 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information". Accordingly, the Company has presented the six operating segments referred to above. These operating segments have been determined in accordance with the Company's internal management structure, which is organized based on products and services. Previous years' reporting had followed an industry segment approach and therefore, all prior years' segment discussion has been reclassified to conform with the current segment classification.

The Company was organized in Delaware in 1986 for the purpose of acquiring the stock of a predecessor. On March 11, 1994, the Company acquired a majority of the outstanding shares of Paramount Communications Inc. by tender offer; on July 7, 1994, Paramount Communications Inc. became a wholly owned subsidiary of the Company, and on January 3, 1995, Paramount Communications Inc. was merged into the principal subsidiary of the Company. On September 29, 1994, Blockbuster Entertainment Corporation merged with and into the Company.

On November 27, 1998, the Company completed the sale of its educational, professional and reference publishing businesses to Pearson plc for approximately $4.6 billion in cash plus approximately $92 million related to changes in net assets, which is subject to change based upon final determination of net assets. On October 26, 1998, the Company completed the sale of its music retail stores to Wherehouse Entertainment, Inc. for approximately $115 million in cash before adjustments for changes in working capital. On September 4, 1998, SPELLING completed the sale of substantially all of the development operations of VIRGIN INTERACTIVE ENTERTAINMENT LIMITED ("VIRGIN") to Electronic Arts Inc. for $122.5 million in cash. In addition, on November 10, 1998, Spelling completed the sale of all non-U.S. operations of VIRGIN to an investor group. On July 2, 1997, the Company completed the sale of its ten radio stations to Chancellor Media Corp. for approximately $1.1 billion in cash. On July 31, 1996, the Company completed the split-off of a subsidiary that held its cable television system to its shareholders pursuant to an exchange offer and related transactions. As a result, the Company realized a gain of approximately $1.3 billion, reduced its debt and retired 30,713,920 (adjusted for stock split) of the Company's common shares, representing approximately 4.1% of the Company's then total outstanding common shares (see "Business -- Discontinued Operations").

In 1997, the Company increased its ownership of SPELLING to approximately 80%, thereby permitting tax consolidation of SPELLING with the Company. On March 19, 1999, the Company announced that it has offered to purchase the remaining shares of SPELLING that it does not already own for $9.00 in cash per share in a merger transaction. The offer, approved by the Company's Board of Directors, is contingent upon approval of SPELLING's independent Directors.

As of March 22, 1999, National Amusements, Inc. ("NAI"), a closely held corporation that owns and operates approximately 1,300 movie screens in the U.S., the U.K. and South America, owned approximately 67% of the Company's voting Class A Common Stock ("Class A Common Stock"), and approximately 28% of the Company's outstanding Class A Common Stock and non-voting Class B Common Stock ("Class B Common Stock") on a combined basis. NAI is not subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. Sumner M. Redstone, the controlling shareholder of NAI, is the Chairman of the Board and Chief Executive Officer of the Company.

The Company's principal offices are located at 1515 Broadway, New York, New York 10036 (telephone 212/258-6000). At December 31, 1998, the Company and its affiliated companies employed approximately 111,730 people, of which approximately 49,180 were full-time salaried employees.

Business

Networks

The Company owns and operates advertiser-supported basic cable television program services and premium subscription television program services in the U.S. and internationally. The MTV Networks division ("MTVN") includes such owned and operated program services as MTV: MUSIC TELEVISION(R) ("MTV") in the U.S., Europe and Latin America, NICKELODEON(R) in the U.S., Latin America, Scandinavia, Japan and the Commonwealth of Independent States, NICK AT NITE(R) in the U.S., VH1 MUSIC FIRST(TM) in the U.S. ("VH1"), VH1(R) in the U.K. and Germany, MTV's spin-off, M2: MUSIC TELEVISION(TM) in the U.S. and Europe, and TV LAND(R) in the U.S. MTVN also participates in program services as a joint venturer, including MTV: MUSIC TELEVISION(TM) in Asia and in Brazil, NICKELODEON(R) in the U.K., and NICKELODEON(R) in Australia. The Company's Showtime Networks Inc. subsidiary ("SNI") owns and operates SHOWTIME(R), THE MOVIE CHANNEL(TM) and FLIX(R), and participates as a joint venturer in, and is the manager of, SUNDANCE CHANNEL(R). Additionally, the Company participates as a joint venturer in COMEDY CENTRAL(R), an advertiser-supported basic cable program service in the U.S., GULF DTH ENTERTAINMENT LDC ("GULF DTH"), a satellite direct-to-home platform offering programming in the Middle East, and as of January 1999, NOGGIN(TM), a subscription-supported, non-commercial children's educational program service, which is distributed by cable and satellite, and includes a related online service.

Generally, the Company's networks are offered to customers of cable television operators, distributors of direct-to-home satellite services ("DTH") and other multichannel distributors. DTH distributors provide service by either low-powered C-Band satellite technology (received by large satellite dishes at customers' premises, "TVRO") or mid- to high-powered K-Band satellite technology (received by smaller satellite dishes at customers' premises, "DBS"). Cable television is currently the predominant means of distribution of the Company's program services in the U.S. Internationally, the predominant distribution technology varies territory by territory.

MTV Networks. MTV targets viewers from the ages of 12 to 34 with programming that consists primarily of music videos and events, augmented by music and general lifestyle information, comedy and dramatic series, animated programs, news specials, interviews, documentaries and other youth-oriented programming. M2:

MUSIC TELEVISION, a 24-hour, seven-days-a-week spin-off of MTV, targets a segment of the 12 to 34 year old audience with a "freeform" music format which features music videos from a broad range of musical genres and artists and is principally distributed to consumers by DTH. On August 1, 1998, MTVN launched "The Suite from MTV Networks" ("The Suite"), a package of digital television program services, which currently consists of six music program services, each featuring a music genre that is an extension of the MTV or VH1 service, NOGGIN and two other children's program services from NICKELODEON. The Suite is offered for distribution by digital technologies through DBS distributors and cable operators offering digital technology.

MTV continues to expand its business opportunities based on its programming. MTV FILMS(TM) produced DEAD MAN ON CAMPUS, VARSITY BLUES and 200 CIGARETTES, released by PARAMOUNT PICTURES in August 1998, January 1999 and February 1999, respectively, and expects its feature films ELECTION and THE WOOD to be released by PARAMOUNT PICTURES in 1999. MTV has also launched lines of home videos, consumer products and books, featuring MTV programming and personalities. In addition, MTV pursues broadcast network and first-run syndication television opportunities through MTV PRODUCTIONS(TM).

MTV had approximately 67.3 million domestic subscribers at December 31, 1998 (based on subscriber counts provided by each distributor of the service, including cable, DTH and other multichannel programming providers). According to the December 1998 sample reports issued by the A.C. Nielsen Company (the "Nielsen Report"), MTV reached approximately 71.2 million domestic subscriber households. At December 31, 1998, M2: MUSIC TELEVISION had approximately 10.1 million domestic subscribers.

MTV also owns and operates, participates in as a joint venturer, and licenses third parties to operate, MTV program services throughout the world. The MTV international program services are described in the International MTVN Program Services chart that follows. Most of these international MTV program services are regionally customized to suit the local tastes of their young adult viewers by the inclusion of local music, programming, and on-air personalities, and use of the local language.

NICKELODEON combines acquired and originally produced programs in a pro-social, non-violent format comprising two distinct program units tailored to age-specific demographic audiences: NICKELODEON, targeted to audiences ages 2 to 15 (which includes NICK JR.(R), a program block designed for 2 to 5 year olds), features a variety of live-action and animated programs, including children's game shows, educational shows, puppet shows, dramatic specials, comedy, adventure and magazine shows, and such popular shows as RUGRATS(TM) and BLUE'S CLUES(R); and NICK AT NITE, which attracts primarily audiences ages 18 to 54 and offers mostly situation comedies from various eras, including I LOVE LUCY, THE DICK VAN DYKE SHOW, HAPPY DAYS, THE MARY TYLER MOORE SHOW and TAXI. TV LAND, a 24-hour, seven-days-a-week spin-off of NICK AT NITE, is comprised of a broad range of well-known television programs from various genres, including comedies, dramas, westerns, variety and other formats from the 1950s through the 1980s. On March 1, 1999, the Company launched NICKELODEON GAS(TM) Games and Sports for Kids, an advertiser-supported basic cable program service featuring children's game shows and sports programming for viewers ages 6 to 11, which includes a related online service.

At December 31, 1998, NICKELODEON/NICK AT NITE had approximately 69.8 million domestic subscribers (based on subscriber counts provided by each distributor of the service, including cable, DTH and other multichannel programming providers). According to the Nielsen Report, NICKELODEON/NICK AT NITE reached approximately 74.2 million domestic subscriber households. According to the Nielsen Report for the period from September 7, 1998 to December 27, 1998, NICKELODEON held 52% of the gross ratings points for the kids ages 2 to 11 audience during the relevant daypart. At December 31, 1998, TV LAND had approximately 37 million domestic subscribers (based on subscriber counts provided by each distributor of the service, including cable, DTH and other multichannel programming providers). According to the Nielsen Report, TV LAND reached approximately 33.6 million domestic subscriber households.

NICKELODEON licenses its brands and characters for and in connection with merchandise, home video and publishing worldwide. NICKELODEON MOVIES(TM) develops a mix of story- and character-driven projects based on original ideas and NICKELODEON programming, such as the feature films THE RUGRATS MOVIE and GOOD BURGER, and RUGRATS VACATION which was released in direct-to-video format. The feature film SNOW DAY will be produced by NICKELODEON MOVIES and is expected to be released in 1999 by PARAMOUNT PICTURES. Additionally, the Company publishes a monthly NICKELODEON MAGAZINE, which had approximately 804,000 subscribers at December 31, 1998. NICKELODEON also owns and operates theme park attractions and touring shows under its NICKELODEON RECREATION(TM) unit and interactive public attractions and television production studios under its NICKELODEON STUDIOS(R) unit located at Universal Studios Florida.

NICKELODEON also owns and operates, participates in as a joint venturer, and licenses third parties to operate, NICKELODEON program services throughout the world. The NICKELODEON international program services are described in the International MTVN Program Services chart that follows. Many of these international program services are customized by region and country to suit the tastes and needs of their viewers by inclusion of regionally or locally produced programming and by use of local language. On May 31, 1998, in accordance with its plan of disposition, the Company ceased operations of its German NICKELODEON program service business and began liquidating its assets.

VH1 presents music and related programming directed at an audience aged 25 to 44 with emphasis on series which feature viewers' favorite music and artists such as "BEHIND THE MUSIC(TM)", "VH1 POP UP VIDEO(TM)" and "VH1 STORYTELLERS(TM)", in addition to airing music videos, concerts, special events, and music movies. In 1998, VH1 began entering into arrangements for the production of two-hour, movie-length programming made for VH1, including biopics of musical artists, fictionalized music-themed stories and music documentaries, which is expected to commence airing in the third quarter of 1999. At December 31, 1998, VH1 had approximately 61.1 million domestic subscribers (based on subscriber counts provided by each distributor of the service, including cable, DTH and other multichannel programming providers). According to the Nielsen Report, VH1 reached approximately 64.9 million domestic subscriber households. International versions of VH1 program services are described in the International MTVN Program Services chart that follows.

In 1998, VH1 extended its brand with the release of audio product, most notably "VH1 DIVAS LIVE(TM)" including music from VH1's concert of the same name featuring Celine Dion, Gloria Estefan, Aretha Franklin, Shania Twain and Mariah Carey. A portion of the proceeds from sales of this audio product supports VH1 SAVE THE MUSIC(R), an initiative to support and fund music education in public schools.

MTVN, in exchange for cash and advertising time or for promotional consideration only, licenses from record companies music videos for exhibition on MTV, VH1, M2: MUSIC TELEVISION and other MTVN program services. MTVN has entered into multi-year global or regional music video licensing agreements with certain of the major record companies. These agreements generally cover a three to five year period and contain provisions regarding video debut and exclusivity in the U.S. MTVN also is negotiating and expects to renew or initiate additional global or regional license agreements with the other major record companies and independent labels. However, there can be no assurance that such renewals or agreements can be concluded on favorable terms. MTVN is continuing to take measures to assure its music video program services worldwide access to music videos (see "Business -- Competition -- Networks").

MTVN derives revenues principally from two sources: the sale of time on its own networks to advertisers; and the license of the networks to cable television operators, DTH and other distributors. The sale of MTVN advertising time is affected by viewer demographics, viewer ratings and market conditions for advertising time. Adverse changes to any of these factors could have an adverse effect on revenues (see "Business -- Competition -- Networks").

International MTVN Program Services

The following table sets forth information regarding MTVN program services operated internationally:

Program Service	Territory	Ownership	Regional Feeds/ Language(1)	Launch/ Commencement Date
MTV Europe(2)	40 territories, including all EU states, Eastern and Central Europe, South Africa, certain countries in the former Soviet Union, the Middle East, Egypt, Faroe Islands, Israel, Liechtenstein, Malta and Moldova	100% by the Company	5 Regional Feeds (U.K., Northern, Scandinavian, Central and South), all in English (except Central presented in German and South presented in Italian)	August 1987
MTV Latin America	Latin America, the Caribbean, Brazil and the U.S.	100% by the Company	2 Regional Feeds in Spanish	October 1993
MTV Brasil	Brazil	Joint Venture (with Abril S.A.)	Portuguese	October 1990
MTV Mandarin	Taiwan, certain provinces in China*, Singapore and Philippines	Through MTV Asia, Joint Venture (with PolyGram N.V.)	English and Mandarin	April 1995
MTV South East Asia	Brunei, Thailand, Singapore, Philippines, Indonesia, Malaysia, Vietnam, Hong Kong*, South Korea* and Papua New Guinea	Through MTV Asia, Joint Venture (with PolyGram N.V.)	English, Bahasa Indonesian and Tagalog	May 1995

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(1) All MTV and VH1 program services include English language music videos.

(2) In 1996, MTV Europe divided its one Pan-European service into three regional services in order to provide viewers with more locally relevant programming, including some local language programming. In July 1997, MTV Europe launched a fourth regional feed customized for viewers in the U.K. and further customized the South feed for viewers in Italy by adding Italian language programming. In June 1998, MTV Europe launched a fifth regional feed for Scandinavia. At December 31, 1998, MTV Europe had approximately 62.2 million subscribers (based on subscriber counts provided by each distributor of the service, including cable, DTH and other multichannel programming providers, except in Italy where the service is broadcast via terrestrial television and the Company's estimated audience is based on ratings and other information).

* Denotes program services that are not 24 hours-a-day/seven-days-a-week.

Program Service	Territory	Ownership	Regional Feeds/ Language(1)	Launch/ Commencement Date
MTV India	India, Sri Lanka, Bangladesh, Nepal and Pakistan	Through MTV Asia, Joint Venture (with PolyGram N.V.)	English and Hindi	October 1996
MTV Australia	Australia	Licensing Arrangement (with Optus Vision Pty Limited)	English	March 1997
MTV Russia	Russia	Licensing Arrangement (with entities controlled by Russia Partners Company L.P. and Biz Enterprises)	Russian	September 1998
Nickelodeon Latin America	Latin America, Brazil and the Caribbean	100% by the Company	Spanish, Portuguese and English	December 1996
Nickelodeon Nordic*	Nordic region (including Sweden, Norway, Denmark and Finland)	100% by the Company	Swedish, Norwegian and Danish	February 1997
Nickelodeon Turkey*	Turkey	Licensing Arrangement (with The Media Group of Turkey)	Turkish	September 1997
Nickelodeon U.K.*	U.K.	Joint Venture (with British Sky Broadcasting Limited)	English	September 1993
Nickelodeon Australia	Australia	Joint Venture (with XYZ Entertainment Pty Ltd.)	English	October 1995
Nickelodeon Spain*	Spain	100% by the Company	Spanish	March 1999
Nickelodeon Global Network Ventures(3)	Japan, CIS/Baltic Republics, Hungary*, Philippines, Indonesia, Romania and Malta	100% by the Company	Japanese, Russian, Magyar and English	November 1998

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(3) Nickelodeon Global Network Ventures currently consists of five different feeds with customized programming for targeted markets.

Program Service	Territory	Ownership	Regional Feeds/ Language(1)	Launch/ Commencement Date
VH1 U.K./ VH1 Export	All EU states, the Middle East, Africa, Scandinavia, Israel, Malta, Moldova, South Africa and Eastern Europe	100% by the Company	English	September 1994
VH1 Germany	Germany and Austria	100% by the Company	German	May 1995

Showtime Networks Inc. SNI owns and operates three commercial-free, premium subscription television program services: SHOWTIME, offering recently released theatrical feature films, original motion pictures and series, family entertainment and boxing and other special events; THE MOVIE CHANNEL, offering recently released theatrical films and related programming and original motion pictures; and FLIX, an added-value program service featuring theatrical motion pictures primarily from the 1960s, 70s and 80s, as well as select recent titles. At December 31, 1998, SHOWTIME, THE MOVIE CHANNEL and FLIX, in the aggregate, had approximately 19.7 million cable and other subscriptions in 50 states and certain U.S. territories. SUNDANCE CHANNEL, a joint venture (among SNI, an affiliate of Robert Redford and an affiliate of PolyGram Filmed Entertainment Inc.) managed by SNI, is a commercial-free premium subscription service, dedicated to independent film, featuring top-quality American independent films, documentaries, foreign and classic art films, shorts and animation, with an emphasis on recently released titles.

SNI also provides special events, such as sports and musical events, to licensees on a pay-per-view basis. SHOWTIME EVENT TELEVISION(TM) is a pay-per-view distributor of these special events, including boxing events, such as the historic rematch between heavyweight champion Evander Holyfield and former heavyweight champion Mike Tyson in June 1997, the Spice Girls' U.S. full-length television concert debut in 1998, and the return to the ring of Mike Tyson in 1999.

In order to exhibit theatrical motion pictures on premium subscription television, SNI enters into commitments to acquire rights, with an emphasis on acquiring exclusive rights for SHOWTIME and THE MOVIE CHANNEL, from major or independent motion picture producers and other distributors. SNI's exhibition rights cover the U.S. and may, on a contract-by-contract basis, cover additional territories. SNI has the exclusive U.S. premium television rights to all PARAMOUNT PICTURES' feature films theatrically released beginning January 1, 1998, as well as non-exclusive rights to certain titles from PARAMOUNT PICTURES' film library (see "Business -- Entertainment"). SNI also has significant theatrical motion picture license agreements with Sony Pictures Entertainment Inc., Metro-Goldwyn-Mayer Inc. ("MGM"), PolyGram Filmed Entertainment Inc., Castle Rock Entertainment, Phoenix Pictures, Artisan Pictures Inc. (formerly LIVE Film and Mediaworks Inc.), Stratosphere Entertainment LLC, and, for Dimension and certain Miramax-label theatrical pictures, Buena Vista Television (a subsidiary of The Walt Disney Company), covering motion pictures initially theatrically released through dates ranging from December 31, 1998 to December 31, 2003. Theatrical motion pictures that are licensed to SNI on an exclusive basis are generally exhibited first on SHOWTIME and THE MOVIE CHANNEL after an initial period for theatrical, home video and pay-per-view exhibition and before the period has commenced for standard broadcast television and basic cable television exhibition. Many of the motion pictures which appear on FLIX have been previously available for standard broadcast and other exhibitions (but are shown on FLIX unedited and commercial-free).

SNI also arranges for the development, production, acquisition and, in many cases, distribution of original programs, series and motion pictures. As part of its original programming strategy, SNI premiered 33 original motion pictures on SHOWTIME and 28 original motion pictures on THE MOVIE CHANNEL in 1998, and expects to premiere approximately 50 original motion pictures in 1999. The producers of some of SNI's original motion pictures are given an opportunity to seek a theatrical release prior to such pictures' exhibition on SHOWTIME or THE MOVIE CHANNEL. If the producers are not successful in obtaining such a theatrical release, these pictures then premiere in the U.S. on SHOWTIME or THE MOVIE CHANNEL. SNI has entered into and plans to continue to enter into co-financing, co-production and/or co-distribution arrangements with other parties to reduce the net cost to SNI for its original motion pictures. In 1998, Hallmark Entertainment Distribution Company, PARAMOUNT PICTURES and MGM were the predominant co-producers, co-financiers and co-distributors of SNI's original motion pictures, programs and series for that calendar year. BLOCKBUSTER and SNI have an agreement whereby BLOCKBUSTER will license from SNI the exclusive domestic home video rights to up to 90 SNI original motion pictures and other programs over the 1999-2001 period.

The costs of acquiring premium television rights to programming and producing original motion pictures are the principal expenses of SNI. At December 31, 1998, in addition to program acquisition commitments reflected in the Company's financial statements, SNI had commitments to acquire programming rights and original programming commitments in an aggregate amount of approximately $1.1 billion (excluding intersegment commitments of approximately $692.4 million), most of which is payable over the next six years as part of SNI's normal programming expenditures. SNI's commitments to acquire programming rights are contingent upon delivery of motion pictures which are not yet available for premium television exhibition and, in many cases, have not yet been produced.

Joint Ventures. COMEDY CENTRAL, a joint venture of the Company and Home Box Office ("HBO"), a division of Time Warner Inc. ("Time Warner"), is an advertiser-supported basic cable television program service which features comedy programming, including SOUTH PARK. The Company is a joint venturer in GULF DTH, a satellite direct-to-home platform offering programming in the Middle East, including programming from MTV, VH1, NICKELODEON, TV LAND and THE PARAMOUNT COMEDY CHANNEL (see "Business -- Entertainment -- Other Joint Ventures"). On January 31, 1999, NICKELODEON and the Children's Television Workshop launched as a joint venture, NOGGIN, a 24-hour, seven-days-a-week subscription-supported, non-commercial children's educational program service, which is distributed by cable and satellite, and includes a related online service (see "Business -- Online"). NOGGIN's purpose is to educate and entertain 2 to 12 year olds. NOGGIN's programming line-up includes a mix of live action, news, animated and puppet shows, including many acclaimed series such as SESAME STREET, ELECTRIC COMPANY and BLUE'S CLUES after their initial network runs. As of March 10, 1998, the Company and Conus Communications Company Limited Partnership dissolved their jointly-owned ALL NEWS CHANNEL joint venture.

Entertainment

The Entertainment segment's principal businesses are the production and distribution of motion pictures and television programming as well as movie theater operations, music publishing and the operation or programming of 19 broadcast television stations. Additionally, the Company is a joint venturer in the UNITED PARAMOUNT NETWORK(R), also known as UPN(R), a U.S. broadcast television network, and various international basic cable and pay television program services.

Theatrical Motion Pictures. Through PARAMOUNT PICTURES, the Company produces, finances and distributes feature motion pictures. Motion pictures are produced by PARAMOUNT PICTURES, produced by independent producers and financed in whole or in part by PARAMOUNT PICTURES, or produced by others and distributed by PARAMOUNT PICTURES. Each picture is a separate and distinct product with its financial success dependent upon many factors, among which cost and public response are of fundamental importance. The normal distribution cycle of motion pictures produced or acquired for distribution by PARAMOUNT PICTURES is exhibition in U.S. and foreign theaters followed by videocassettes and discs, pay-per-view television, premium subscription television, network television, and basic cable television and syndicated television exploitation. In addition to the unprecedented success of the 1997 motion picture TITANIC, winner of 11 Academy Awards in 1998 including "Best Picture", during 1998, PARAMOUNT PICTURES produced or co-produced and theatrically released 13 feature motion pictures in the U.S., including THE TRUMAN SHOW, DEEP IMPACT, STAR TREK: INSURRECTION, NICKELODEON MOVIES' THE RUGRATS MOVIE, and MTV FILMS' DEAD MAN ON CAMPUS, and through UIP (as defined below) released internationally SAVING PRIVATE RYAN, winner of five Academy Awards in 1999. PARAMOUNT PICTURES currently plans to release approximately 17 films in 1999, including PAYBACK, MISSION: IMPOSSIBLE II, SLEEPY HOLLOW, THE RUNAWAY BRIDE, THE OUT-OF-TOWNERS, THE GENERAL'S DAUGHTER, SOUTH PARK and DOUBLE JEOPARDY; VARSITY BLUES, 200 CIGARETTES, ELECTION and THE WOOD produced by MTV FILMS; and SNOW DAY produced by NICKELODEON MOVIES.

In seeking to limit PARAMOUNT PICTURES' financial exposure, the Company has pursued a strategy with respect to a number of films of entering into agreements to distribute such films produced and/or financed, in whole or in part, with other parties. The parties to these arrangements include studio and non-studio entities, both domestic and foreign. In various of these arrangements, the other parties control certain distribution and other ownership rights.

PARAMOUNT PICTURES generally distributes its motion pictures for theatrical release outside the U.S. and Canada through United International Pictures ("UIP"), a company owned by the Company, MGM and Universal Studios, Inc. ("Universal"). PARAMOUNT PICTURES distributes its motion pictures on videocassette and disc in the U.S. and Canada through PARAMOUNT HOME VIDEO(R) and outside the U.S. and Canada, generally through Cinema International B.V. ("CIBV"), a joint venture of entities affiliated with the Company and Universal. On March 10, 1999, PARAMOUNT HOME VIDEO and Universal Studios Home Video jointly announced their decision to restructure the operations of CIBV during 1999. PARAMOUNT PICTURES' feature films initially theatrically released in the U.S. on or after January 1, 1998 will be exhibited exclusively (within U.S. premium television) on SHOWTIME and THE MOVIE CHANNEL. PARAMOUNT PICTURES also distributes its motion pictures for premium subscription television release outside the U.S. and Canada and licenses its motion pictures to residential and hotel/motel pay-per-view, airlines, schools and universities.

During 1996, PARAMOUNT PICTURES entered into transactions with KirchGroup in Germany and with TCM Droits AudioVisuel S.N.C. and Television par Satellite in France for the licensing of its feature film and television programming output and libraries for free and pay television exploitation. SPELLING entered into a similar broad-based agreement with KirchGroup in 1996.

During 1997, affiliates of PARAMOUNT PICTURES entered into a multi-year license for television programming with GULF DTH and a multi-year license for feature film output and library product for THE MOVIE CHANNEL MIDDLE EAST, a premium subscription television service in the Middle East carried on GULF DTH and owned by a partnership including subsidiaries of PARAMOUNT PICTURES and Sony Pictures Entertainment Inc. Affiliates of PARAMOUNT PICTURES also entered into multi-year transactions with Prima TV Spa in Italy and with Sogecable, S.A. in Spain for the licensing of feature film and television product for pay television and pay-per-view exploitation.

During 1998, PARAMOUNT PICTURES entered into a license agreement with Canal+ Polska in Poland and amended the terms of its license agreement with Star Channel in Japan. Both agreements are for the licensing of PARAMOUNT PICTURES' current theatrical output and certain library television product for pay television exploitation.

UIP and United Cinemas International ("UCI", as described below) are the subject of governmental inquiries by the Commission of the European Community ("EC"). UIP has resolved all issues with the EC relating to its pay television operations in the European Union. Consistent with PARAMOUNT PICTURES' and the other member studios' recent practices, the UIP member studios have agreed to license their pay television rights in the future without using the facilities of UIP, although UIP is offering its licensees the opportunity to enter into separate agreements with each of PARAMOUNT PICTURES and the other UIP partners on substantially identical business terms, certain of which licensees have concluded such agreements with PARAMOUNT PICTURES. UIP Pay Television will continue to administer certain agreements that were previously entered into through UIP. The agreement regarding UIP's pay television operations is separate from the EC's evaluation of UIP's request to renew the exemption granted as of 1988 under the EC's rules covering UIP's theatrical distribution operations. On January 16, 1998, the EC issued a Statement of Objections expressing its preliminary views that UIP's application to renew such exemption should be denied. UIP and its partners have disputed the preliminary views expressed by the EC in the Statement of Objections by providing evidence, both in writing and by way of oral testimony, to the EC.

In addition to premium subscription television, most motion pictures are also licensed for exhibition on broadcast and basic cable television, with fees generally collected in installments. All of the above license fees for television exhibition (including international and U.S. premium television and basic cable television) are recorded as revenue in the year that licensed films are available for such exhibition, which, among other reasons, may cause substantial fluctuation in PARAMOUNT PICTURES' operating results. At December 31, 1998, the unrecognized revenues attributable to such licensing of completed films from PARAMOUNT PICTURES' license agreements were approximately $1.1 billion. At December 31, 1998, PARAMOUNT PICTURES had approximately 975 motion pictures in its library.

Television Production and Syndication. The Company, through PARAMOUNT TELEVISION, VIACOM PRODUCTIONS and SPELLING, produces, acquires and distributes series, miniseries, specials and made-for-television movies primarily for network television, first-run syndication, pay television and basic cable television.

The Company's current network programming includes FRASIER (NBC), BECKER (CBS), DIAGNOSIS MURDER (CBS), JAG (CBS), SABRINA, THE TEENAGE WITCH (ABC), CLUELESS (UPN), THE SENTINEL (UPN), SEVEN DAYS (UPN), STAR TREK: VOYAGER (UPN) and SISTER, SISTER (WB), and through SPELLING, BEVERLY HILLS, 90210 (FOX), MELROSE PLACE (FOX), SUNSET BEACH (NBC), MOESHA (UPN), CHARMED (WB) and SEVENTH HEAVEN (WB). Generally, a network will license a specified number of episodes for exhibition on the network in the U.S. during the license period. All other distribution rights, including foreign and off-network syndication rights, are typically retained by the Company. The episodic network license fee is normally less than the costs of producing each series episode; however, in many cases, the Company has been successful in recouping some of its costs by obtaining international sales through its syndication operations. Foreign sales are generally concurrent with U.S. network runs. Generally, a series must have a network run of at least four years to be successfully sold in domestic syndication.

The Company produces and/or distributes original television programming for first-run syndication which it sells directly to television stations in the U.S. on a market-by-market basis. The Company sells its programs to television stations for cash, advertising time or a combination of both. The Company's first-run syndicated programming includes such shows as STAR TREK: DEEP SPACE NINE, ENTERTAINMENT TONIGHT, HARD COPY, THE MONTEL WILLIAMS SHOW, LEEZA, REAL TV, WILD THINGS and VIPER, and through SPELLING, JUDGE JUDY and JUDGE JOE BROWN.

The Company also distributes its television programming to basic cable program services (such as the television series MAGGIE and through SPELLING, ANY DAY NOW on Lifetime), including services in which the Company has an interest, such as NICK AT NITE and VH1 in the U.S. and THE PARAMOUNT COMEDY CHANNEL in the U.K.

The Company, through PARAMOUNT TELEVISION and through WORLDVISION(R), a subsidiary of SPELLING, distributes or syndicates television series, feature films, made-for-television movies, miniseries and specials for television exhibition in domestic and/or international broadcast, cable and other marketplaces. Feature film and television properties distributed by the Company are produced by the Company and/or SPELLING or acquired from third parties. Third-party agreements for the acquisition of distribution rights generally provide for a long-term grant of distribution rights which are exclusive in nature with respect to the territory or territories involved; such agreements frequently guarantee a minimum recoupable advance payment to such third parties and generally provide for periodic payment to such third parties based on the amount of revenues derived from distribution activities after deduction of the Company's distribution fee, recoupment of distribution expenses and recoupment of any advance payments.

The recognition of revenues for license fees for completed television programming in syndication and on basic cable is similar to that of feature films exhibited on television and, consequently, operating results are subject to substantial fluctuation. At December 31, 1998, the unrecognized revenues attributable to television program license agreements were approximately $591.2 million, of which approximately $103.0 million was attributable to SPELLING.

PARAMOUNT DIGITAL ENTERTAINMENT INC. ("PDE"), a subsidiary of the Company, produces Web sites that promote and extend PARAMOUNT PICTURES' properties online, including STAR TREK(R) and ENTERTAINMENT TONIGHT. PDE has expanded the online presence of STAR TREK to include the official STAR TREK online store and an e-mail service providing STAR TREK related domain names for the e-mail addresses of fans of the television series and motion pictures. PDE also oversees "paramount.com", PARAMOUNT PICTURES' entry way to the Internet, and produces Web sites for third parties.

Broadcasting. The Company's broadcast television division, PARAMOUNT STATIONS GROUP ("PSG"), owns and operates 17 television stations, all of which operate pursuant to the Communications Act of 1934, as amended (the "Communications Act"), under licenses granted by the Federal Communications Commission ("FCC"). Such licenses are renewable every eight years. In addition, the Company programs two additional commercial television stations pursuant to local marketing agreements ("LMAs"). These 19 stations are located in the top 50 television markets and reach approximately 25.6% of all U.S. television households.

In connection with the expansion and development of the Company's interest in UPN, PSG has acquired television stations in major U.S. markets. The majority of these acquisitions were through like-kind exchanges of former PSG stations which were affiliated with networks other than UPN for stations which then became UPN affiliates. On February 1, 1999, PSG acquired WNPA-TV, serving Pittsburgh, Pennsylvania, for approximately $40 million.

The table below sets forth the 17 television stations owned and operated by PSG and the two television stations operated by PSG under LMAs at March 22, 1999.

Station and Metropolitan Area Served*	Market Rank	Type/ Channel	Network Affiliation
WPSG-TV Philadelphia, PA	4	UHF/ 57	UPN
WSBK-TV Boston, MA	6	UHF/ 38	UPN
KTXA-TV Dallas-Ft. Worth, TX	7	UHF/ 21	UPN
WDCA-TV Washington, DC	8	UHF/ 20	UPN
WKBD-TV Detroit, MI	9	UHF/ 50	UPN
WUPA-TV Atlanta, GA	10	UHF/ 69	UPN
KTXH-TV Houston, TX	11	UHF/ 20	UPN
KSTW-TV Seattle-Tacoma, WA	12	VHF/ 11	UPN
WTOG-TV Tampa-St. Petersburg-Sarasota, FL	14	UHF/ 44	UPN
WBFS-TV Miami-Ft. Lauderdale, FL	16	UHF/ 33	UPN
WNPA-TV Pittsburgh, PA	19	UHF/ 19	UPN
KMAX-TV Sacramento-Stockton-Modesto, CA	20	UHF/ 31	UPN
WNDY-TV Indianapolis, IN	25	UHF/ 23	UPN

Station and Metropolitan Area Served*	Market Rank	Type/ Channel	Network Affiliation
WWHO-TV Columbus, OH	34	UHF/ 53	WB/primary (expires April 13, 2000) UPN/secondary**
WGNT-TV Norfolk-Portsmouth-Newport News, VA	40	UHF/ 27	UPN
WUPL-TV New Orleans, LA	41	UHF/ 54	UPN
KAUT-TV Oklahoma City, OK	45	UHF/ 43	UPN

The following two stations are operated by PSG under LMAs:

WTVX-TV West Palm Beach-Ft. Pierce, FL	44	UHF/ 34	UPN
WLWC-TV Providence, RI-New Bedford, MA	50	UHF/ 28	WB/primary (expires April 13, 2000) UPN/secondary**

* Metropolitan Areas Served are A.C. Nielsen Company's Designated Market Areas.

** Under secondary affiliation agreements, UPN programming is broadcast out-of-pattern and is scheduled around WB programming.

Broadcast television signals are presently transmitted in analog form; however, in 1997, the FCC assigned to each existing television station a six MHz channel to be used for the broadcast of digital television ("DTV"). Under the construction schedule adopted by the FCC, each of the Company's television stations must construct a DTV facility no later than May 1, 2002 (see "Business - -- Regulation -- Broadcasting"). Despite this timetable, the Company plans to launch DTV services in at least one of its markets by the end of 1999. The Company estimates that the cost of construction of each DTV station will range from $3 million to $7 million. The Company is currently formulating plans for use of its DTV channels.

Other Joint Ventures. On January 15, 1997, the Company acquired a 50% interest in UPN from BHC Communications, Inc. ("BHC"), a corporate affiliate of Chris Craft Industries, Inc. At December 31, 1998, UPN provided 14 hours of programming a week, including two-hour prime-time programming blocks five-nightsa-week, to affiliates in 185 U.S. television markets, reaching approximately 96.5% of all U.S. television households. The Company also produces original programming for UPN and owns and operates 17 stations and programs an additional two stations pursuant to LMAs, all of which are affiliates of UPN.

In addition to THE MOVIE CHANNEL MIDDLE EAST, through PARAMOUNT PICTURES and various of its affiliates, the Company is a joint venturer in international program services, including, in the U.K. with BSkyB, THE PARAMOUNT COMEDY CHANNEL, a program service featuring comedies and films during the daypart following the NICKELODEON program segment. On March 1, 1999, the Company launched THE PARAMOUNT CHANNEL in Spain, a wholly owned program service.

Theatrical Exhibition. The Company's movie theater operations consist primarily of FAMOUS PLAYERS in Canada and UCI in Europe, Latin America and Asia. At December 31, 1998, FAMOUS PLAYERS, a 100%-owned subsidiary of the Company, operated approximately 650 screens in 109 theaters across Canada. UCI, a 50%-owned joint venture of entities affiliated with the Company and Universal, operated as of December 31, 1998, approximately 680 screens in 89 theaters in the U.K., Ireland, Germany, Austria, Spain, Japan, Portugal, Poland, Argentina, Brazil and Panama.

Music Publishing. The FAMOUS MUSIC(R) publishing companies own, control and/or administer all or a portion of the copyright rights to more than 100,000 musical works (songs, scores, cues). These rights include the right to license and exploit such works, as well as the right to collect income generated by such licensing and exploitation.

The majority of rights acquired by FAMOUS MUSIC are derived from (i) music acquisition agreements entered into by PARAMOUNT PICTURES, MTVN and various other divisions of the Company respecting certain motion pictures, television programs and other properties produced by such units and (ii) music acquisition agreements entered into directly by FAMOUS MUSIC with songwriters and music publishers, including exclusive songwriting agreements, catalog purchases and music administration agreements.

Video

The Company operates in the home video and video game rental and retailing business through BLOCKBUSTER INC. ("BLOCKBUSTER"). As of December 31, 1998, the Company operated or franchised approximately 6,380 stores in the U.S., its territories and 25 other countries, compared to approximately 6,050 stores at December 31, 1997. Most of these stores operate under the BLOCKBUSTER VIDEO name. During 1998, BLOCKBUSTER also began offering products in the U.S through its Internet site.

BLOCKBUSTER offers titles primarily for rental and also offers titles for purchase on a "sell-through" and previously-viewed basis. During 1998, BLOCKBUSTER implemented revenue-sharing arrangements directly with major motion picture studios, including PARAMOUNT PICTURES, thereby increasing the availability of newly-released videos in its domestic stores. Under the revenue-sharing arrangements, BLOCKBUSTER currently pays a significantly lower up-front fee for rental-priced titles in exchange for sharing a portion of its rental revenue with the studios for a limited period of time. The revenue-sharing arrangements also provide for additional marketing support from the studios as well as BLOCKBUSTER agreeing to take a minimum movie output. As a result of the lower up-front cost, BLOCKBUSTER has been able to increase the number of titles and the number of copies of each title that it stocks in its stores, both new releases and lesser-known releases, with a resulting increase in rental volume and revenue. BLOCKBUSTER continues to purchase "sell-through" titles outside of the revenue-sharing arrangements. "Sell-through" titles are movies that are released by the studios and are available to all retailers at a relatively low initial price for both rental and sale. The sale of previously-viewed tapes in BLOCKBUSTER VIDEO stores and on its Internet site is subject to its revenue-sharing arrangements.

In all of its domestic stores and many of its stores outside of the U.S., BLOCKBUSTER rents video games and sells previously-played video games. In addition, in several hundred domestic stores and certain international markets, BLOCKBUSTER rents and sells digital versatile discs ("DVDs") and rents DVD players. DVDs, which function in a manner similar to audio compact discs, offer a picture and sound quality superior to that of a VHS videocassette.

In order to provide a more diverse selection of movies, BLOCKBUSTER has recently begun acquiring the video rental rights to several independent and lower-cost films, which will generally be available only at BLOCKBUSTER VIDEO stores for a specified period of time. These films include both theatrical and direct-to-video titles, as well as certain movies originally shown on premium subscription television.

BLOCKBUSTER purchases nearly all of its products for its domestic Company-operated stores directly from the manufacturer and distributes them directly to its stores from its 800,000 square foot, highly-automated distribution facility located near Dallas, Texas. BLOCKBUSTER began distribution operations out of this facility in the first quarter of 1998.

Historically, BLOCKBUSTER VIDEO stores have generally ranged in size from approximately 5,000 square feet to 15,000 square feet, averaging 6,100 square feet. During 1998, BLOCKBUSTER began developing stores of various sizes ranging from approximately 1,000 square feet to 4,500 square feet in the U.S., including stores within larger (general merchandise) stores. Outside the U.S., stores are generally smaller, but vary widely in size.

BLOCKBUSTER's business may be affected by a variety of factors, including but not limited to, general economic trends, competition, relationships with the major studios, quality of new releases, changes in technology, unusual events and weather. In addition, as with other retail outlets, there is a distinct seasonal pattern to the home video and video games business, with peak rental periods tending to coincide with summer and winter holidays. Internationally, BLOCKBUSTER's success depends in great part upon its ability to address country by country variations, including, among others, varying video formats, film certification processes, studio arrangements, distribution sources and methods, release dates, political and economic systems, legal standards and regulations, and cultural preferences for certain types of technology and movie selections.

Parks

The Company, through PARAMOUNT PARKS, owns and operates five regional theme parks and a themed attraction in the U.S. and Canada: PARAMOUNT'S CAROWINDS(R), in Charlotte, North Carolina; PARAMOUNT'S GREAT AMERICA(TM), in Santa Clara, California; PARAMOUNT'S KINGS DOMINION(TM) located near Richmond, Virginia; PARAMOUNT'S KINGS ISLAND(TM) located near Cincinnati, Ohio; PARAMOUNT CANADA'S WONDERLAND(R) located near Toronto, Ontario and STAR TREK: THE EXPERIENCE(TM) at the Las Vegas Hilton, a futuristic-themed, interactive environment based on the popular television series and movies. Each of the theme parks features attractions based on intellectual properties of the Company. A substantial majority of the theme parks' operating income is generated from May through September; however, the profitability of the leisure-time industry is influenced by various factors which are not directly controllable, such as economic conditions, amount of available leisure time, oil and transportation prices, and weather patterns. On March 24, 1999, PARAMOUNT PARKS sold the RAGING WATERS(TM) water park in San Jose, California.

Publishing

The Company, through SIMON & SCHUSTER, publishes and distributes consumer hardcover books, trade paperbacks, mass-market paperbacks, children's books, audiobooks, electronic books and CD-ROM products in the U.S. and internationally. SIMON & SCHUSTER's flagship imprints include SIMON & SCHUSTER, POCKET BOOKS, SCRIBNER, and THE FREE PRESS. SIMON & SCHUSTER also develops special imprints and publishes titles based on MTV, NICKELODEON and PARAMOUNT PICTURES products. SIMON & SCHUSTER distributes its products directly and through third parties. SIMON & SCHUSTER also delivers content and sells products on Internet Web sites operated by various imprints or linked to individual titles.

In 1998, SIMON & SCHUSTER published 64 titles which were New York Times bestsellers, including nine New York Times number one bestsellers. Bestselling titles released in 1998 include "Bag of Bones" (Stephen King); "You Belong to Me" (Mary Higgins Clark); "All Through the Night" (Mary Higgins Clark); "In the Meantime" (Iyanla Vanzant); "The Locket" (Richard Paul Evans); "Runaways" (V.C. Andrews); "The Death of Outrage" (William Bennett); and "The Millionaire Next Door" (Thomas Stanley and William Danko), as well as a number of BLUE'S CLUES and RUGRATS books, featuring the popular NICKELODEON characters.

The Company publishes audiobooks through SIMON & SCHUSTER AUDIO(TM) and publishes CD-ROM titles through SIMON & SCHUSTER INTERACTIVE(R). SIMON & SCHUSTER AUDIO publishes audio editions of prominent works published by SIMON & SCHUSTER and by other publishers, as well as the PIMSLEUR(R) line of language instruction. Major titles released as audiobooks in 1998 include "Bag of Bones" (Stephen King) and "You Belong to Me" (Mary Higgins Clark).

Titles published by SIMON & SCHUSTER INTERACTIVE generally consist of CD-ROM editions or product extensions of well-known book publishing properties or titles associated with recognized authors and Company properties, including such 1998 titles as "Joy of Cooking", "Sabrina, the Teenage Witch", "Typing Tutor", "Richard Scarry's Best Activity Center Ever", "Star Trek: Starship Creator" and "Douglas Adams Starship Titanic".

SIMON & SCHUSTER ONLINE(TM), through "SimonSays.com", publishes original content, builds reader communities, and promotes and sells SIMON & SCHUSTER's books and products over the Internet.

International publishing includes the international distribution of English-language titles through SIMON & SCHUSTER UK and SIMON & SCHUSTER AUSTRALIA and other distributors, as well as the publication of local titles by SIMON & SCHUSTER UK and SIMON & SCHUSTER AUSTRALIA.

The consumer publishing marketplace is subject to increased periods of demand in the summer months and during the end-of-year holiday season. Major new title releases drive a significant portion of SIMON & SCHUSTER's sales throughout the year.

Consumer books are generally sold on a fully returnable basis, resulting in significant product returns. In the international markets, the Company is subject to global trends and local economic conditions.

Online

The Company operates Internet sites which are targeted to the current audiences of its various MTV, VH1 and NICKELODEON program services, including NOGGIN, as well as to new audiences such as those unable to receive cable or DTH. In addition to providing entertainment and information on such Web sites, the Company also sells Company-licensed and third party merchandise.

In February 1999, the Company acquired IMAGINE RADIO(TM), an Internet radio company transmitting original radio stations offering listeners various customization features from a wide range of formats. In September 1998, the Company acquired NVOLVE, INC., a Web site developer. The Company also owns RED ROCKET(TM), an online education toy retailer.

"MTV.com" and "Nickelodeon.com" each attracted over one million unique visitors in December 1998, according to Media Metrix. In February 1999, the Company announced the creation of two new online destinations -- "Project Nozzle" from NICKELODEON, a kids-only online service scheduled to launch in September 1999, and the "Buggles Project" from MTV and VH1, an online destination featuring customizable entertainment, information, community tools, and e-commerce, which is scheduled to launch in June 1999.

Online revenues are primarily generated by advertising revenues derived from on-air promotion and online advertising and by the sale of merchandise.

The Company also operates Internet sites through other business units, such as PARAMOUNT PICTURES, BLOCKBUSTER and SIMON & SCHUSTER. Such activity is not reported as a part of the Online segment.

Discontinued Operations

Non-Consumer Publishing. On November 27, 1998, the Company completed the sale of its educational, professional and reference publishing businesses to Pearson plc for approximately $4.6 billion in cash plus approximately $92 million related to changes in net assets, which is subject to change based upon final determination of net assets. Pursuant to the agreement of sale, final settlement related to changes in net assets from January 1, 1998 until the closing date is expected to be made in 1999.

Music Retailing. On October 26, 1998, the Company completed the sale of its music retail stores to Wherehouse Entertainment, Inc. for approximately $115 million in cash before adjustments for changes in working capital. The Company had previously closed the remaining music stores that were not part of the transaction.

Interactive Games. Pursuant to the Company's previously announced plan to dispose of its interactive game businesses, including VIACOM NEW MEDIA, the operations of which were terminated in 1997, on September 4, 1998, SPELLING completed the sale of substantially all of the development operations of VIRGIN to Electronic Arts Inc. for $122.5 million in cash. In addition, on November 10, 1998, SPELLING completed the sale of all non-U.S. operations of VIRGIN to an investor group.

Radio. On July 2, 1997, the Company completed the sale of its ten radio stations to Chancellor Media Corp. for approximately $1.1 billion in cash.

Cable Television. On July 31, 1996, the Company completed the split-off of a subsidiary that held its cable television system to its shareholders pursuant to an exchange offer and related transactions. As a result, the Company realized a gain of approximately $1.3 billion, reduced its debt and retired 15,356,960 (pre-split) of the Company's common shares, representing approximately 4.1% of the Company's then total outstanding common shares.

Intellectual Property

It is the Company's practice to protect its theatrical and television product, software, publications and its other original and acquired works. The following logos and trademarks and related trademark families are among those strongly identified with the product lines they represent and are significant assets of the Company: VIACOM(R), BLOCKBUSTER(R), MTV: MUSIC TELEVISION(R), NICK AT NITE(R), NICKELODEON(R), PARAMOUNT(R), POCKET BOOKS(TM), SHOWTIME(R), SIMON & SCHUSTER(R), STAR TREK(R), THE MOVIE CHANNEL(TM), TV LAND(R) and VH1 MUSIC FIRST(TM).

Competition

Corporate mergers consummated in recent years have resulted in greater consolidation in the entertainment industries, which may also present significant competitive challenges to several of the Company's businesses.

Networks

MTV Networks. MTVN services compete with other basic cable program services for channel space and compensation for carriage from cable television operators, DTH and other multichannel distributors. MTVN also competes for advertising revenue with other basic cable and broadcast television networks, and radio and print media. For basic cable television networks such as the MTVN services, advertising revenues derived by each program service depend on the number of households subscribing to the service through local cable operators and other distributors in addition to household and demographic viewership as determined by research companies such as A.C. Nielsen.

Certain major record companies have launched music-based program services outside the U.S., including, but not limited to: Channel V, which is jointly owned and operated in Asia and Australia by Star TV and four major record labels; and Viva and Viva 2, German-language music channels distributed in Germany and owned in large part by four major record labels. In addition, MuchMusic, a music service which originated in Canada, is distributing a MuchMusic service customized for the Latin American market in Argentina. MuchMusic USA is being distributed in the U.S. through Rainbow Media Holdings, Inc.

Children oriented programming blocks are currently exhibited on a number of U.S. broadcast television networks, including, among others, "Fox Kids", "Kids' WB" and a Saturday morning block on ABC, all of which also compete with NICKELODEON for advertising revenue. There are also a number of other U.S. cable television program services featuring children oriented programming, including the Cartoon Network, the Disney Channel, and Fox Family which launched on August 15, 1998. In addition, NICKELODEON competes internationally with other television program services and blocks targeted at children for distribution by cable, satellite and other systems, and for distribution license fees and advertising revenue.

Showtime Networks Inc. Competition among premium subscription television program services in the U.S. is primarily dependent on: (i) the acquisition and packaging of an adequate number of recently released quality motion pictures and the production, acquisition and packaging of original programs and motion pictures; and (ii) the offering of prices, marketing and advertising support and other incentives to cable operators and other distributors for carriage so as to favorably position and package SNI's premium subscription television program services to subscribers. HBO is the dominant company in the U.S. premium subscription television category, offering two premium subscription television program services, the HBO service and Cinemax. SNI is second to HBO with a significantly smaller share of the premium subscription television category. Encore Media Group (an affiliate of AT&T Corp. ("AT&T")) owns the third principal premium subscription television program service in the U.S., Starz!, which features recently released motion pictures and competes with SNI's and HBO's premium program services. Starz!, which had initially received distribution primarily on cable systems owned and/or managed by the predecessor to AT&T, is now also carried on cable systems owned or managed by others, in TVRO and on all DBS platforms.

Entertainment

Motion Picture and Television Production and Distribution. The Company competes with other major studios and independent film producers in the production and distribution of motion pictures, videocassettes and discs. Similarly, as a producer and distributor of television programs, the Company competes with other studios and independent producers in the licensing of television programs to both networks and independent television stations. PARAMOUNT PICTURES' competitive position primarily depends on the quality of the product produced, its distribution and marketing success, and public response. The Company also competes to obtain creative talents and story properties which are essential to the success of all of the Company's entertainment businesses.

Broadcasting. The principal methods of competition in broadcast television are the acquisition of popular programming and the development of audience interest through programming and promotions in order to sell advertising at profitable rates. Television stations compete for programming and for advertising revenues with other stations in their respective coverage areas and, in some cases, with larger station groups for programming, and in the case of advertising revenues, with other local media. Broadcast networks like UPN compete for audience and advertising revenues with other broadcast networks, basic cable program services and, with respect to advertising revenues only, other national media. The Company's expansion strategy has been to seek to acquire UPN affiliates or independent stations which will become primary affiliates of UPN. At this time, UPN has limited programming. Therefore, with respect to the UPN-affiliated stations, and, to the extent that the Company acquires independent stations, there will be a need for those stations to acquire additional programming to a greater extent than would otherwise be required if the stations were affiliated with other, more established networks.

Another factor that could affect the Company's broadcast business is the deregulation of television ownership restrictions. The Telecommunications Act of 1996, which amended the Communications Act, liberalized television station ownership limits by eliminating the former numerical cap of 12 television stations and by increasing the nationwide audience reach limitation from 25% to 35%. This change in the restrictions on national television ownership has enabled the Company, as well as other broadcast groups, to significantly increase their television holdings, but may have the effect of increasing the negotiating power of other, larger groups. As for restrictions on local television ownership, the FCC is currently considering relaxation of its ownership rules (see "Business -- Regulation -- Broadcasting").

Video

The home video and video games rental and retailing business is highly competitive. In the home video and video games rental marketplace, BLOCKBUSTER's primary competitors are other local, regional and national video specialty stores, as well as supermarkets, pharmacies and convenience stores. Although most of these competitors also participate in the video sales marketplace, BLOCKBUSTER's most significant competitors in the sales marketplace are mass merchant retailers. The Company believes that the principal competitive factors in competing with other traditional retailers are (i) convenience and visibility of store locations, (ii) quantity, quality and variety of titles, (iii) pricing and (iv) customer service. The Company believes that BLOCKBUSTER currently competes favorably in each of these areas; however, if any of BLOCKBUSTER's competitors were to grow and/or increase their presence in BLOCKBUSTER's markets, the continued success of BLOCKBUSTER's business would be further challenged by its ability to address these competitive factors.

BLOCKBUSTER also competes in the home video and video games sales marketplace with other online retailers. Many of these competitors have greater experience in this area and/or have devoted significantly greater financial and marketing resources to their online businesses.

BLOCKBUSTER also competes with other providers of home viewing entertainment, including DTH, cable, network and syndicated television. The Company believes that its most significant competitive risk in this area comes from DTH and digital cable television, which offer "pay-per-view" television whereby the subscriber can pay a per-program fee to see particular movies as well as sporting and other special events. Historically, the home video rental industry as a whole generally has had the following advantages over DTH and cable: (i) a greater selection of movies; (ii) interactive capabilities such as start, stop, pause, forward and rewind; and (iii) exclusive film distribution rights for a limited period of time following a film's release in movie theaters and prior to any other form of distribution ("Video Distribution Windows"). Technological advances have, however, enabled DTH and cable providers to (i) substantially increase the number and variety of movies they can offer their subscribers and (ii) provide more frequent and convenient start times for the most popular titles. In addition, certain DTH and cable companies have begun testing technology designed to provide interactive capabilities such as start, stop and rewind. Although such technology cannot currently be provided on a cost-effective basis, further technological advances in this area, as well as further increases in movie availability and frequency on DTH and cable, could have a negative impact on BLOCKBUSTER's business. The Company believes that, particularly in light of the studios' revenue-sharing arrangements with BLOCKBUSTER and other video stores, studios have economic incentives to continue their present practices with respect to Video Distribution Windows; however, any change in these practices could have a material adverse effect on BLOCKBUSTER's business.

The emergence of new and improved technological formats, such as DVDs, may have an impact on BLOCKBUSTER's business. Due to such factors as (i) the number of households that already own a videocassette recorder ("VCR"), (ii) the greater (and sometimes earlier) availability of movies currently on videocassette, (iii) the higher cost of a DVD player compared to a VCR, and (iv) the lack of recording capability, the Company is unable to determine whether DVDs will gain significant consumer acceptance. The success of DVD as a rentable product could be negatively affected if (i) the studios decide to set low "sell-through" prices with respect to new releases on DVD and (ii) DVD proves insufficiently durable to be rented efficiently. In addition, the development of Digital Video Express (DIVX), an enhanced form of DVD, provides consumers with yet another alternative to the VCR in competition to DVDs. The Company is monitoring the acceptance by the consumer of these new technologies and is considering how to exploit these new media, both in the rental and sale of home video titles.

Parks

The Company's theme parks compete directly with other theme parks in their respective geographic regions as well as generally with other forms of leisure entertainment. The Company believes that its intellectual properties enhance existing attractions and facilitate the development of new attractions which encourages visitors to the PARAMOUNT PARKS theme parks and STAR TREK: THE EXPERIENCE at the Las Vegas Hilton.

Publishing

The publishing business is highly competitive and consumer publishing in particular has been affected by well-publicized consolidation trends. Recent years have brought a number of significant mergers among the leading consumer publishers. The book superstore has emerged as a significant factor in the industry contributing to the general trend toward consolidation in the retail channel. There have also been a number of mergers completed or announced in the distribution channel.

The Company must compete with other publishers for the rights to works by well-known authors and public personalities.

Online

The online industry is highly competitive as it is rapidly evolving throughout the world and improving technology may enable new entrants to offer some similar Web site features at a lower startup cost than established businesses. The Company's online services compete with other operators of Internet sites for advertising revenue and marketing opportunities.

The Company believes that its established brands, marketing expertise, and existing relationships with its audiences allow it to compete effectively in the various online businesses.

Regulation

The Company's businesses are either subject to or affected by regulations of federal, state and local governmental authorities. The rules, regulations, policies and procedures affecting these businesses are constantly subject to change. The descriptions which follow are summaries and should be read in conjunction with the texts of the statutes, rules and regulations described herein. The descriptions do not purport to describe all present and proposed statutes, rules and regulations affecting the Company's businesses.

Intellectual Property

Domestic and international laws affecting intellectual property are of significant importance to the Company.

WIPO Copyright Treaties. In 1996, delegates to the World Intellectual Property Organization ("WIPO") adopted a proposed Copyright Treaty which will take effect if ratified by 30 nations. As of December 1998, eight countries, including the U.S., had ratified the Copyright Treaty.

The proposed Copyright Treaty updates the Berne Convention, last revised in 1971, and addresses copyright protection for new technologies that have emerged since that time. It is not possible to predict whether the Copyright Treaty will take effect or how countries would implement the Treaty after ratification. Because the Treaty includes important copyright protections for the digital transmission of content, if ratified, the Treaty likely would have a positive impact on the Company.

The U.S. implementing legislation, known as the Digital Millennium Copyright Act ("DMCA"), which is effective whether or not WIPO is ultimately ratified, affords important new copyright protections, including civil and criminal penalties for the manufacture of, or trafficking in, devices that circumvent copyright protection technologies such as encryption and scrambling, and for the act of circumventing such technologies to gain unauthorized access to a copyrighted work. The DMCA also amends the Copyright Act by modifying the language concerning the statutory licensing mechanism for certain types of digital transmissions of sound recordings and by creating a new statutory license concerning certain rights related to such digital transmissions.

The statute provides that new statutory rates for each license will be set either through voluntary negotiations between the interested parties or through Copyright Arbitration Royalty Proceedings.

Copyright Term Extension. In October 1998, Congress passed legislation extending the copyright term an additional twenty years. The extended term is life of the author plus 70 years for authored works and 95 years for works-made-for-hire. This extension puts the U.S. copyright term on par with the European Community. Term extension should have a beneficial effect for the Company over time, including with respect to important publishing properties which otherwise would have passed into the public domain in the next several years.

Compulsory Copyright License. The Copyright Act provides a compulsory copyright license for the retransmission of broadcast signals by multichannel video distributors such as cable television, SMATV (Satellite Master Antenna Television), MMDS (Multipoint Multichannel Distribution Systems) and DTH.

The compulsory license rate paid to programmers for the retransmission of broadcast signals by cable, MMDS and SMATV is established by statute, while the fees for DTH service are set through negotiations and binding arbitration based on the fair market value of the signals. On August 1, 1997, a Copyright Arbitration Royalty Panel increased the DTH retransmission rates from $0.06 for network signals and $0.14 for superstation signals to $0.27 for both network and superstation signals per subscriber per month, effective January 1, 1998. The federal courts have rejected challenges to the rate increase and legislation has been introduced in Congress to reduce the rate to $0.189 for superstations and $0.1485 for network signals. It is not possible to predict whether or in what form the legislation might pass.

Unlike the compulsory license applicable to other multichannel video program providers, the DTH compulsory license is not permanent and will expire in December 1999. Congress, however, is likely to extend the compulsory license before year end. Extension of the DTH compulsory license would be expected to have an overall positive impact on the Company. Pending legislation also would broaden the scope of the DTH compulsory license to allow the retransmission of local broadcast signals back into their local markets, which is not permitted under current law.

Separate satellite "must carry" legislation also has been introduced which would require satellite companies to carry the local broadcast signals in those markets where the satellite companies choose to offer any local broadcast service.

First Sale Doctrine. The copyright "First Sale" doctrine provides that the owner of a legitimate copy of a copyrighted work may use or dispose of it in such manner as the owner sees fit, including by renting it. The First Sale doctrine does not apply to sound recordings or computer software (other than software made for a limited purpose computer, such as a video game platform) for which the Copyright Act vests a rental right (i.e., the right to control the rental of the copy) in the copyright holder. The repeal or limitation of the First Sale doctrine (or conversely, the creation of a rental right vested in the copyright holder) for audiovisual works or for computer software made for limited purpose computers would have an adverse impact on the Company's home video and game rental business; however, no such legislation is pending in Congress at the present time.

Cable Networks

Cable Rate Regulation. The Cable Television Consumer Protection and Competition Act of 1992 (the "1992 Cable Act") directed the FCC to limit by regulation cable system rates for the "basic service tier" ("BST") (including retransmission consent and must carry broadcast signals and public, educational and governmental channels) and the "cable programming service tier" ("CPST") to a level not to exceed the rates that would be charged in the presence of effective competition. Programming offered on a per-channel or per-program basis is exempt from rate regulation.

Although all rate regulation of the CPST is set to expire on March 31, 1999, legislation has been introduced in the House to extend these rate regulation provisions. The Company cannot predict whether such legislation will be enacted into law. The Company believes that cable rate regulation adversely affects its non-premium cable program services which rely on cable operator license fee support, along with advertising revenues, to maintain the quantity and quality of programming. Rate regulation in this area tends to erode cable operator incentives to invest in programming and particularly in start-up program services.

Program Access. The "program access" provisions of the 1992 Cable Act impose certain pricing and other restrictions on vertically integrated satellite cable programming vendors with respect to the provision of their program services to multichannel programming distributors, such as cable systems, SMATV systems, MMDS operators and TVRO and DBS distributors. Specifically, vertically integrated program services generally are prohibited from entering into exclusive arrangements with cable operators and from discriminating against cable competitors on programming price and other terms. The program access provisions were intended to spur competition to cable providers by facilitating the access of cable competitors to programming owned by cable operators or their affiliates. The Telecommunications Act of 1996 extended the program access rules to program services in which common carriers that provide video programming have an attributable interest.

The Company divested its cable systems in 1996 and, as a result, the Company's wholly owned program services are no longer subject to the program access rules. Legislation which would extend the program access provisions to non-vertically integrated program services, if enacted, could adversely impact the Company's program services by reducing the Company's flexibility to negotiate the most favorable terms available for the distribution of its content. However, no such legislation is pending in Congress.

Motion Picture and Television Production and Distribution

The Company's first-run, network and other production operations and its distribution of off-network, first-run and other programs in domestic and foreign syndication are not directly regulated. However, existing and proposed rules and regulations of the FCC applicable to broadcast networks, individual broadcast stations and cable operators could affect the Company's entertainment businesses.

Antitrust. The Company, through PARAMOUNT PICTURES, is subject to a consent decree, entered in 1948, which contains restrictions on certain motion picture trade practices in the U.S. The Company, through PARAMOUNT PICTURES, along with other major distributors, has received a Civil Investigative Demand from the Justice Department which is investigating possible violations of the industry-wide decrees.

European Union Directive. Since 1989, members of the European Union have been required by the "Television without Frontiers" Directive (89/552/EEC) to maintain quotas such that programming of local origin constitutes the majority proportion of all programming, where practicable and by appropriate means, to be achieved progressively on the basis of stated criteria. The Company believes that its program services in Europe are in compliance with the EC broadcast quotas.

Broadcasting

Television broadcasting is subject to the jurisdiction of the FCC.

The Communications Act. The Communications Act authorizes the FCC to issue, renew, revoke or modify broadcast licenses; to regulate the radio frequency, operating power and location of stations; to approve the transmitting equipment used by stations; to adopt rules and regulations necessary to carry out the provisions of the Communications Act; and to impose certain penalties for violations of the Communications Act and the FCC's regulations governing the day-to-day operations of television stations.

Broadcast Licenses. Unless the FCC finds that doing so would not be in the public interest, it will grant broadcast station licenses for maximum periods of eight years. Upon application to and approval by the FCC, the licenses are renewable for an indefinite number of additional eight-year periods.

A licensee can ordinarily expect renewal of its license if the licensee has served the public interest and has not seriously violated the Communications Act or FCC rules. Among the factors the FCC considers relevant to whether a broadcaster has served the public interest is compliance with the Children's Television Act of 1990 and implementing regulations. Under those rules, beginning on September 1, 1997, licensees generally are required to regularly schedule at least three hours a week of "core" educational and informational programming targeted to children ages 16 and under. Licensees also are required to limit commercials during programming targeted to children ages 12 and under. At renewal, the FCC also reviews the licensee's compliance with FCC Equal Employment Opportunity ("EEO") policies and rules; however, those policies have been suspended by the FCC in light of the 1998 decision of the U.S Court of Appeals for the D.C Circuit which held them unconstitutional. The FCC has initiated a rule making proceeding to draft new EEO rules.

A license which has expired but is awaiting renewal entitles the licensee to continue broadcasting pending grant of the renewal. The status of the Company's television stations' licenses is as follows: WSBK-TV expires on April 1, 1999; WPSG-TV and WNPA-TV each expires on August 1, 1999; WDCA-TV and WGNT-TV each expires on October 1, 2004; WBFS-TV and WTOG-TV each expires on February 1, 2005; WUPA-TV expires on April 1, 2005; WUPL-TV expires on June 1, 2005; WNDY-TV expires on August 1, 2005; WKBD-TV and WWHO-TV each expires on October 1, 2005; KAUT-TV expires on June 1, 2006; KTXA-TV and KTXH-TV each expires on August 1, 2006; KMAX-TV expires on December 1, 2006; and KSTW-TV expires on February 1, 2007.

The Communications Act requires prior approval of the FCC for the assignment of a license or transfer of control of a licensee. Additionally, the Communications Act provides that no license may be held by a corporation whose voting stock is more than 20% owned of record or voted by aliens or is subject to control by aliens. In addition, no corporation whose voting stock is more than 25% owned of record or voted by aliens or is subject to control by aliens may hold the voting stock of a corporation holding a broadcast license without specific FCC authorization. The Company conducts annual surveys of its shareholders to confirm its compliance with the foreign ownership limits.

In April 1997, the FCC issued a DTV Table of Allotments, which assigned to all existing television stations nationwide a second, six-MHz channel for broadcasting in digital form. Under FCC rules, television stations may use this second channel to broadcast either one or two streams of "high definition" digital television ("HDTV") video programming or to "multicast" several streams of standard digital video programming. Broadcasters may also deliver large amounts of data over their DTV channels or offer other ancillary or supplementary services, including computer software distribution, teletext, interactive materials, aural messages, paging services, audio signals or subscription video. At a minimum, under the FCC's DTV rules, broadcasters must ultimately provide a free digital video programming service the resolution of which is comparable to or better than that of today's service on air during the same time periods that their analog channels are broadcasting.

At the time it adopted the DTV Table of Allotments, the FCC also established a schedule pursuant to which all television stations must have constructed their DTV operations. Under that schedule, any commercial television station that is not an affiliate of ABC, CBS, NBC or FOX must construct its DTV station no later than May 1, 2002. Accordingly, because its stations are all affiliates of UPN or the WB, the Company must have constructed its digital operations by that date, unless an extension of time is granted by the FCC. It is difficult to assess how DTV will affect the Company's broadcast business with respect to other broadcasters and other video program providers.

Each television station licensee will be licensed a digital channel for an eight-year term running coterminous with the licensee's analog channel. Broadcasters will be required to surrender their analog channels but, under FCC policy, not until at least 2006. This transition period is subject to periodic progress reviews to make sure DTV service is widely available. In addition, the Balanced Budget Act of 1997 includes provisions that would extend the continuation of analog service beyond the year 2006 deadline if DTV is implemented more slowly than expected. Specific conditions which would extend the transition period include the failure of one or more of the largest television stations in a market to begin broadcasting digital television signals through no fault of their own, or fewer than 85% of the television households in a market being able to receive digital televisions signals off the air either with a digital television set or with an analog set equipped with a converter box or by subscription to a cable-type service that carries the DTV stations in the market. Until the transition to digital is complete, FCC rules require that broadcasters phase in (according to annual benchmarks) the percentage of video programming of their analog channels that is simulcast on the DTV channel.

During the transition and thereafter, broadcasters are permitted to use their digital channels to offer ancillary and supplementary services, including, but not limited to, data transmission and subscription services. The Telecommunications Act of 1996 imposes fees for use of the spectrum based upon the extent to which such services generate revenues other than from commercial advertisements used to support broadcasting for which a subscription fee is not required. In 1998, the FCC adopted rules which set the spectrum use fee at 5% of the broadcaster's gross revenues from ancillary and supplemental services.

Must Carry/Retransmission Consent. The Communications Act grants certain "must carry" rights to enable broadcast television stations that are "local" to communities served by cable systems to obtain carriage on such systems. Alternatively, commercial stations may elect to secure cable system carriage pursuant to "retransmission consent" on negotiated terms. The must carry/retransmission consent election must be made every three years; the next election must be made by October 1, 1999 and will take effect on January 1, 2000.

All of the Company's television stations are carried on cable systems serving the communities in the stations' markets. Certain of the stations obtained carriage by asserting must carry rights and other stations followed the retransmission consent process. Failure of broadcast stations to be carried on cable systems could be detrimental to the business of a television station.

The application of must carry requirements to DTV is to be decided by the FCC in a proceeding that is expected to be completed during the second or third quarter of 1999. The Telecommunications Act of 1996 expressly provides that no ancillary or supplementary DTV services provided by broadcasters will be entitled to mandatory cable carriage. As explained in the section on the Compulsory Copyright License, legislation has been introduced in the Congress requiring satellite companies to ultimately carry local broadcast signals.

Ownership Limitations. The Telecommunications Act of 1996 deregulated national television ownership by eliminating the prior 12-station ownership limit and increasing the nationwide audience reach limit from 25% to

35%. FCC rules provide for the calculation of audience reach based on the percentage of U.S. households in each television market where a station is located. Under current FCC rules, only half of the households in a market are counted for UHF stations. The national ownership cap of 35% and the UHF discount are currently being reevaluated as part of the FCC's biennial review of the broadcast ownership rules, as required by the Telecommunications Act of 1996. Even if the FCC eliminated the UHF discount, the Company's current group of television stations would remain well below the nationwide audience reach limit of 35%.

With respect to local television ownership, the FCC rules currently prohibit a party from owning a television station whose Grade B contour overlaps with that of another television station. In a pending rule making proceeding, the FCC has proposed to relax this so-called "duopoly" rule to a Grade A contour/DMA standard. Under this proposal, a party would be permitted to own two television stations provided that their smaller Grade A contours do not overlap and they are not located within the same DMA, or "Designated Market Area", as that term is defined by Nielsen Media Research. Under an interim policy, the FCC is currently granting conditional waivers based on this proposed standard.

As part of the same local television ownership proceeding, the FCC also is considering attributing ownership of a station to the party which operates it pursuant to an LMA. Under an LMA, the television station licensee delegates the operations, sales and programming to another party subject to the ultimate control of the licensee. In a number of markets, stations operate a second station in the same market under an LMA without conflicting with the FCC's local ownership rules. In the pending local ownership proceeding the FCC proposes to narrow the use of LMAs by attributing ownership of a station to a party which operates the station pursuant to an LMA for 15% or more of the broadcast time. It is unclear how the Company's LMAs in West Palm Beach-Fort Pierce, Florida, and in Providence, Rhode Island-New Bedford, Massachusetts, would be affected, if at all, by the FCC's local ownership proceeding. The FCC is expected to adopt modified local ownership rules during the second quarter or third quarter of 1999. Congress may consider legislation this year to make deregulatory changes to the broadcast ownership restrictions, including an increase in the current national audience cap limit. It is not certain whether such legislation will pass this year.

Video

BLOCKBUSTER is subject to certain regulations of the U.S. Federal Trade Commission ("FTC") and certain states and foreign jurisdictions governing (a) the offer and sale of franchises and (b) franchise relationships. These regulations require BLOCKBUSTER to furnish disclosure documents to current and prospective franchisees. In addition, some states and foreign jurisdictions require franchisors to comply with registration or filing requirements prior to offering a franchise in that state or jurisdiction and/or limit the franchisor's rights to terminate a franchisee. The Company believes that BLOCKBUSTER's disclosure documents comply with FTC guidelines and all applicable guidelines of the states and foreign jurisdictions regulating the offering and issuance of franchises. Compliance with franchise laws can, however, be both costly and time-consuming, and no assurance can be given that BLOCKBUSTER will not encounter difficulties or delays in this area or that it will not require significant capital for franchising activities.

BLOCKBUSTER is also subject to various federal, state and local laws that govern the disclosure and retention of video rental records, as well as various other regulations affecting its business, including state and local advertising, consumer protection, credit protection, licensing, zoning, land use, construction and environmental regulations.

Online

Web Sites Directed to Children. The Children's Online Privacy Protection Act of 1998 ("COPPA"), which must be implemented by the FTC, applies to Web sites, or those portions of Web sites, directed to children under age 13. Under COPPA, Web site operators generally cannot collect online from a child under age 13 information that is individually identifiable -- such as a first and last name, an e-mail address or telephone number -- without the prior consent of that child's parent. The FTC is expected to adopt final rules by fall 1999, after which COPPA will become effective. NICKELODEON's online services are designed to comply with COPPA. Congress may also consider legislation this year regarding online privacy for adults.

Item 2. Properties.

The Company maintains its world headquarters at 1515 Broadway, New York, New York, where it rents approximately one million square feet for executive offices and certain of its operating divisions. The lease runs to 2010, with four renewal options for five years each. The lease also grants the Company options for additional space and a right of first negotiation for other available space in the building. The Company also leases approximately 548,000 square feet of office space at 1633 Broadway, New York, New York, which lease runs to 2010, and approximately 237,000 square feet of office space at 1230 Avenue of the Americas, New York, New York, which lease runs to 2009, which leases contain options to renew. The Company owns the PARAMOUNT PICTURES studio at 5555 Melrose Avenue, Los Angeles, California, which consists of approximately 65 acres containing sound stages, administrative, technical and dressing room structures, screening theaters, machinery and equipment facilities, plus a back lot and parking lots. PARAMOUNT PARKS' operations in the U.S. include approximately 1,954 acres owned and 130 acres leased and in Canada include approximately 380 acres owned. The BLOCKBUSTER headquarters at 1201 Elm Street, Dallas, Texas consists of approximately 210,000 square feet of leased space. The BLOCKBUSTER retail and distribution operations in the U.S. and Canada consist of approximately 54 owned properties, aggregating approximately 343,000 square feet, and approximately 3,900 leased locations, aggregating approximately 25.5 million square feet. Facilities within the Publishing segment (other than executive offices at 1230 Avenue of the Americas described above) include approximately 1,260,000 square feet of space, of which approximately 674,000 square feet are leased. The facilities are used for warehouse, distribution and administrative functions.

The Company also owns and leases office, studio, retail and warehouse space and broadcast and satellite transmission facilities in various cities in the U.S., Canada and several countries around the world for its businesses. The Company considers its properties adequate for its present needs.

Item 3. Legal Proceedings.

On March 19, 1999, the date upon which the Company announced its proposal to acquire the remaining stock of SPELLING that it does not currently own, eight putative class action complaints were filed in the Court of Chancery of the State of Delaware. Each of such complaints names the Company, SPELLING and all of SPELLING's Directors, and generally alleges that the defendants have breached their fiduciary duties to SPELLING and its stockholders by failing to exercise independent business judgment in connection with the Company's proposal. The complaints also allege that the Company proposal is unfair to the other stockholders of SPELLING because the proposed price is allegedly too low and the transaction allegedly has been timed by the Company to capture SPELLING's true value without paying a full and fair price. On March 23, 1999, a putative class complaint was filed in the Superior Court of the State of California, County of Los Angeles. The complaint names the Company, SPELLING and all of SPELLING's Directors, and contains allegations that mirror those contained in the Delaware complaints. The Company believes that the plaintiffs' allegations are speculative and without merit and intends to vigorously defend these actions.

Certain subsidiaries of the Company from time to time receive claims from federal and state environmental regulatory agencies and other entities asserting that they are or may be liable for environmental cleanup costs and related damages arising out of former operations. While the outcome of these claims cannot be predicted with certainty, on the basis of its experience and the information currently available to it, the Company does not believe that the claims it has received will have a material adverse effect on its results of operations, financial position or cash flows. (See "Item 6. Selected Financial Data" and "Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition".)

The Company and various of its subsidiaries are parties to certain other legal proceedings. However, these proceedings are not likely to result in judgments that will have a material adverse effect on its results of operations, financial position or cash flows.

Financial Information About Foreign and Domestic Operations

Financial information relating to foreign and domestic operations for each of the last three years ending December 31, is set forth in Note 14 to the Consolidated Financial Statements of the Company included elsewhere herein.

Item 4. Submission of Matters to a Vote of Security Holders.

Not Applicable

Executive Officers of the Company

Set forth below is certain information concerning the current executive officers of the Company, which information is hereby included in Part I of this report.

Name	Age	Title
Sumner M. Redstone	75	Chairman of the Board of Directors and Chief Executive Officer
Philippe P. Dauman	45	Deputy Chairman, Executive Vice President and Director
Thomas E. Dooley	42	Deputy Chairman, Executive Vice President and Director
Robert M. Bakish	35	Senior Vice President, Planning, Development and Technology
Carl D. Folta	41	Senior Vice President, Corporate Relations
Michael D. Fricklas	39	Senior Vice President, General Counsel and Secretary
Susan C. Gordon	45	Vice President, Controller and Chief Accounting Officer
Rudolph L. Hertlein	58	Senior Vice President, Corporate Development
Carol A. Melton	44	Senior Vice President, Government Affairs

William A. Roskin-------	56	Senior Vice President, Human Resources and Administration
Martin M. Shea----------	55	Senior Vice President, Investor Relations
George S. Smith, Jr.----	50	Senior Vice President, Chief Financial Officer

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None of the executive officers of the Company is related to any other executive officer or director by blood, marriage or adoption except that Brent D. Redstone and Shari Redstone, Directors of the Company, are the son and daughter, respectively, of Sumner M. Redstone.

Mr. Redstone has been a Director of the Company since 1986 and Chairman of the Board since 1987, acquiring the additional title of Chief Executive Officer in January 1996. Mr. Redstone has served as President, Chief Executive Officer of NAI since 1967, and continues to serve in such capacity; he has also served as the Chairman of the Board of NAI since 1986. Mr. Redstone became a Director of Spelling in 1994 and became Chairman of the Board of Spelling in January 1996. He is a member of the Advisory Council for the Academy of Television Arts and Sciences Foundation and on the Board of Trustees for The Museum of Television and Radio. Mr. Redstone served as the first Chairman of the Board of the National Association of Theatre Owners, and is currently a member of the Executive Committee of that organization. Since 1982, Mr. Redstone has been a member of the faculty of Boston University Law School, where he has lectured on entertainment law, and since 1994, he has been a Visiting Professor at Brandeis University. In 1944, Mr. Redstone graduated from Harvard University and, in 1947, received an LL.B. from Harvard University School of Law. Upon graduation, he served as Law Secretary with the U.S. Court of Appeals, and then as a Special Assistant to the U.S. Attorney General.

Mr. Dauman has been a Director of the Company since 1987. He was elected Executive Vice President in March 1994, and was appointed Deputy Chairman in January 1996. From February 1993 to October 1998, Mr. Dauman also served as General Counsel and Secretary of the Company. Prior to February 1993, Mr. Dauman was a partner in the law firm of Shearman & Sterling in New York, which he joined in 1978. Mr. Dauman became a Director of Lafarge Corporation in 1997, a Director of Spelling in 1994 and a Director of NAI in 1992.

Mr. Dooley was elected Executive Vice President in March 1994 and appointed a Director and Deputy Chairman of the Company in January 1996, having been an executive officer of the Company since January 1987. From July 1992 to March 1994, Mr. Dooley served as Senior Vice President, Corporate Development of the Company. From August 1993 to March 1994, he also served as President, Interactive Television. Prior to that, he held various positions in the Company's corporate and divisional finance areas. Mr. Dooley became a Director of Spelling in 1996.

Mr. Bakish was elected Senior Vice President, Planning, Development and Technology of the Company in January 1998. Prior to that, he served as Vice President, Planning and Development of the Company since February 1997. Before joining the Company, Mr. Bakish served most recently as a partner with Booz Allen and Hamilton in its media and entertainment practice, which he joined in 1990.

Mr. Folta was elected Senior Vice President, Corporate Relations of the Company in November 1994. Prior to that, he served as Vice President, Corporate Relations of the Company from April 1994 to November 1994. From 1984 until joining the Company in April 1994, Mr. Folta held various Corporate Communications positions at Paramount, serving most recently as Senior Director, Corporate Communications.

Mr. Fricklas was elected Senior Vice President, General Counsel and Secretary of the Company in October 1998. From July 1993 to October 1998, he served as Deputy General Counsel of the Company. He served as

Vice President, General Counsel and Secretary of Minorco (U.S.A.) Inc. from 1990 to 1993. Prior to that, Mr. Fricklas was an attorney in private practice at the law firm of Shearman & Sterling.

Ms. Gordon was elected Vice President, Controller and Chief Accounting Officer in April 1995. Prior to that, she served as Vice President, Internal Audit of the Company since October 1986. From June 1985 to October 1986, Ms. Gordon served as Controller of Viacom Broadcasting. She joined the Company in 1981 and held various positions in the corporate finance area.

Mr. Hertlein was elected Senior Vice President, Corporate Development of the Company in July 1994. Prior to that, he served as Senior Vice President and Controller of Paramount from September 1993 to July 1994 and as Senior Vice President, Internal Audit and Special Projects of Paramount from September 1992 to September 1993 and, before that, as Vice President, Internal Audit and Special Projects of Paramount.

Ms. Melton was elected Senior Vice President, Government Affairs of the Company in May 1997. Before joining the Company, Ms. Melton served most recently as Vice President, Law and Public Policy at Time Warner Inc., having joined Warner Communications Inc. in 1987. Prior to that, Ms. Melton served as Legal Advisor to the Chairman of the Federal Communications Commission and as Assistant General Counsel for the National Cable Television Association.

Mr. Roskin has been an executive officer of the Company since April 1988 when he became Vice President, Human Resources and Administration. In July 1992, Mr. Roskin was elected Senior Vice President, Human Resources and Administration of the Company. From May 1986 to April 1988, he was Senior Vice President, Human Resources at Coleco Industries, Inc. From 1976 to 1986, he held various executive positions at Warner Communications Inc., serving most recently as Vice President, Industrial and Labor Relations.

Mr. Shea was elected Senior Vice President, Investor Relations of the Company in January 1998. From July 1994 to May 1995 and from November 1995 to December 1997, he was Senior Vice President, Corporate Communications for Triarc Companies, Inc. From June 1995 through October 1995, he served as Managing Director of Edelman Worldwide. From 1977 until July 1994, Mr. Shea held various Investor Relations positions at Paramount, serving most recently as Vice President, Investor Relations.

Mr. Smith has been an executive officer of the Company since May 1985. In November 1987, he was elected Senior Vice President, Chief Financial Officer of the Company and he continues to serve in such capacity. In May 1985, Mr. Smith was elected Vice President, Controller and, in October 1987, he was elected Vice President, Chief Financial Officer of the Company. From 1983 until May 1985, he served as Vice President, Finance and Administration of Viacom Broadcasting and from 1981 until 1983, he served as Controller of Viacom Radio. Mr. Smith joined the Company in 1977 in the Corporate Treasurer's office and until 1981 served in various financial planning capacities.

PART II

Item 5. Market for Viacom Inc.'s Common Equity and Related Security Holder Matters.

Viacom Inc. voting Class A Common Stock and Viacom Inc. non-voting Class B Common Stock are listed and traded on the American Stock Exchange ("AMEX") under the symbols "VIA" and "VIA B", respectively. Effective April 8, 1999, the Company will move its listing to the New York Stock Exchange and will be traded under the symbols VIA and VIA.B, respectively.

On February 25, 1999, the Board of Directors of the Company declared a 2-for-1 common stock split, to be effected in the form of a dividend. The additional shares will be issued on March 31, 1999 to shareholders of record on March 15, 1999. All common share and per share amounts have been adjusted to reflect the stock split for all periods presented.

The following table sets forth, for the calendar period indicated, the per share range of high and low sales prices for Viacom Inc.'s Class A Common Stock and Class B Common Stock, as reported on the AMEX Composite Tape adjusted to reflect the effect of the 2-for-1 common stock split.

	Viacom Class A Common Stock		Viacom Class B Common Stock	
	High	Low	High	Low
1997				
1st quarter...........	$18 9/16	$16	$18 15/16	$16
2nd quarter...........	17 23/32	12 5/8	18	12 5/8
3rd quarter...........	17 3/8	13 3/4	17 9/16	13 5/8
4th quarter...........	20 7/8	13	21 1/8	13 1/4
1998				
1st quarter...........	$27 1/8	$19 15/16	$27 17/32	$20 1/4
2nd quarter...........	30 1/2	26 1/8	30 5/8	26 13/32
3rd quarter...........	34 11/16	24 5/8	35	24 3/4
4th quarter...........	36 29/32	25 7/16	37 1/8	25 163/512

Viacom Inc. has not declared cash dividends on its common stock and has no present intention of so doing.

As of March 22, 1999, there were approximately 9,555 holders of Viacom Inc. Class A Common Stock, and 18,977 holders of Viacom Inc. Class B Common Stock.

Item 6. Selected Financial Data

VIACOM INC. AND SUBSIDIARIES
(Millions of dollars, except per share amounts)

	Year Ended December 31,				
	1998	1997	1996	1995	1994
Revenues	$ 12,096.1	$ 10,684.9	$ 9,683.9	$ 8,700.1	$ 4,485.6
Operating income (a)	$ 751.6	$ 685.4	$ 1,197.2	$ 1,247.2	$ 354.4
Earnings (loss) from continuing operations	$ (43.5)	$ 373.5	$ 152.2	$ 88.0	$ 18.7
Net earnings (loss)	$ (122.4)	$ 793.6	$ 1,247.9	$ 222.5	$ 89.6
Net earnings (loss) attributable to common stock	$ (149.6)	$ 733.6	$ 1,187.9	$ 162.5	$ 14.6
Earnings (loss) per common share(b):					
Basic:					
Earnings (loss) from continuing operations	$ (0.10)	$ .44	$ .13	$ .04	$ (.14)
Net earnings (loss)	$ (0.21)	$ 1.04	$ 1.63	$ .22	$ .04
Diluted:					
Earnings (loss) from continuing operations.	$ (0.10)	$ .44	$ .13	$ .04	$ (.13)
Net earnings (loss)	$ (0.21)	$ 1.04	$ 1.62	$ .22	$ .03
At year end:					
Total assets	$ 23,613.1	$ 28,288.7	$ 28,834.0	$ 28,991.0	$ 28,273.7
Long-term debt, net of current portion	$ 3,813.4	$ 7,423.0	$ 9,855.7	$ 10,712.1	$ 10,402.4
Shareholders' equity	$ 12,049.6	$ 13,383.6	$ 12,586.5	$ 12,093.8	$ 11,791.6

(a) Operating income is defined as earnings (loss) before extraordinary loss, discontinued operations, minority interest, equity in loss of affiliated companies (net of tax), provision for income taxes, other items (net) and interest expense (net).

(b) All common per share data has been adjusted to reflect the 2-for-1 common stock split effective March 31, 1999.

Paramount Communications Inc.'s and Blockbuster Entertainment Corporation's results of operations are included from their dates of acquisition, commencing March 1, 1994 and October 1, 1994, respectively. Revenues, operating income and earnings (loss) from continuing operations for each year presented exclude Non-Consumer Publishing, the music retail stores, the interactive game businesses, Viacom Radio Stations and Viacom Cable, which are reported as discontinued operations.

See Notes to Consolidated Financial Statements for additional information on transactions and accounting classifications which have affected the comparability of the periods presented above.

Viacom Inc. has not declared cash dividends on its common stock for any of the periods presented above.

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition.

General

Management's discussion and analysis of the results of operations and financial condition of Viacom Inc. and its subsidiaries (the "Company") should be read in conjunction with the Consolidated Financial Statements and related Notes. Descriptions of all documents incorporated by reference herein or included as exhibits hereto are qualified in their entirety by reference to the full text of such documents so incorporated or included.

The Company continued to make significant progress towards accomplishing its strategic objectives to focus on its core businesses, strengthen the balance sheet and improve the capital structure. The Company's significant transactions were as follows:

- On November 27, 1998, the Company completed the sale of its educational, professional and reference publishing businesses ("Non-Consumer Publishing") to Pearson plc for approximately $4.6 billion in cash plus approximately $92 million related to changes in net assets, which is subject to change based upon final determination of net assets. The net proceeds were principally used to reduce debt and buyback preferred stock.

- On October 26, 1998, the Company completed the sale of its music retail stores to Wherehouse Entertainment, Inc. for approximately $115 million in cash before adjustments for changes in working capital.

- On September 4, 1998, Spelling Entertainment Group Inc. ("Spelling") completed the sale of substantially all of the development operations of Virgin Interactive Entertainment Limited ("Virgin") to Electronic Arts Inc. for $122.5 million in cash. In addition, on November 10, 1998, Spelling completed the sale of all non-U.S. operations of Virgin to an investor group.

- Throughout 1998, the Company repurchased certain of its shares of common stock and warrants and also repurchased half of its convertible preferred stock, the remainder of which was repurchased in January 1999.

- On October 21, 1997, the Company completed the sale of its half-interest in USA Networks, including Sci-Fi Channel, to Universal Studios, Inc. for a total of $1.7 billion in cash.

- On July 2, 1997, the Company completed the sale of Viacom Radio Stations to Chancellor Media Corp. for approximately $1.1 billion in cash.

- On July 31, 1996, the Company completed the split-off of its Cable segment pursuant to an exchange offer and related transactions. As a result, the Company realized a gain of approximately $1.3 billion, reduced its debt and retired approximately 4.1% of the Company's then total outstanding common shares.

As a result of the transactions described above, Non-Consumer Publishing, the music retail stores, the interactive game businesses, including Virgin, Viacom Radio Stations and Viacom Cable have been accounted for as discontinued operations. Operating results and the related gain or loss attributable to discontinued operations have been separately disclosed in the Company's notes to the consolidated financial statements. (See Note 3 of the Notes to the Consolidated Financial Statements.)

Business Segment Information

As of December 31, 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). Accordingly, the Company has presented the following six operating segments below, as they represent how management evaluates operating results of the Company. Previous years' reporting had followed an industry segment approach. All prior years' segment information has been reclassified to conform with the current segment presentation.

Networks - Basic Cable and Premium Subscription Television Program Services.

Entertainment - Production and Distribution of Motion Pictures and Television Programming as well as Television Stations, International Channels, Movie Theater Operations and Music Publishing.

Video - Home Video and Game rental and retail.

Parks - Theme Parks.

Publishing - Consumer Publishing Group.

Online - Viacom Online Services.

The following tables set forth revenues and operating income (loss) by business segment, for the years ended December 31, 1998, 1997 and 1996. Results for each year presented exclude Non-Consumer Publishing, music retail stores, interactive game businesses, Viacom Radio Stations and Viacom Cable, which are reported as discontinued operations.

	Year ended December 31,			Percent Better/(Worse)	
(In millions)	1998	1997	1996	1998 vs 1997	1997 vs 1996
Revenues:					
Networks	$ 2,607.9	$ 2,262.8	$ 1,999.5	15%	13%
Entertainment	4,757.8	4,305.9	3,897.9	10	10
Video	3,893.4	3,313.6	2,942.3	17	13
Parks	421.2	367.3	361.9	15	1
Publishing	564.6	556.6	547.6	1	2
Online	13.7	10.4	--	32	NM
Intercompany	(162.5)	(131.7)	(65.3)	(23)	(102)
Total revenues	$12,096.1	$10,684.9	$ 9,683.9	13	10
Operating income (loss) (a):					
Networks	$ 744.3	$ 635.6	$ 532.5	17%	19%
Entertainment	448.0	343.0	428.3	31	(20)
Video	(342.2)	(196.8)	309.4	(74)	(164)
Parks	49.9	42.4	43.7	18	(3)
Publishing	53.2	60.4	60.1	(12)	0
Online	(7.5)	2.3	--	NM	NM
Segment total	945.7	886.9	1,374.0	7	(35)
Corporate	(194.1)	(201.5)	(176.8)	4	(14)
Total operating income	$ 751.6	$ 685.4	$ 1,197.2	10	(43)

(a) Operating income is defined as earnings before extraordinary loss, discontinued operations, minority interest, equity in loss of affiliated companies (net of tax), provision for income taxes, other items (net) and interest expense (net).

NM - Not meaningful

EBITDA

The following table sets forth EBITDA (defined as operating income (loss) before depreciation and amortization principally of goodwill related to business combinations) for the years ended December 31, 1998, 1997 and 1996. While many in the financial community consider EBITDA to be an important measure of comparative operating performance, it should be considered in addition to, but not as a substitute for or superior to operating income, net earnings, cash flow and other measures of financial performance prepared in accordance with generally accepted accounting principles.

	Year ended December 31,			Percent Better/(Worse)	
	1998	1997	1996	1998 vs 1997	1997 vs 1996
EBITDA (a):					
Networks	$ 851.3	$ 729.4	$ 619.3	17%	18%
Entertainment	640.5	514.5	593.7	24	(13)
Video	39.9	221.6	635.7	(82)	(65)
Parks	101.1	88.9	87.9	14	1
Publishing	71.2	77.9	77.8	(9)	0
Online	(3.5)	2.3	--	NM	NM
Segment total	1,700.5	1,634.6	2,014.4	4	(19)
Corporate	(171.6)	(176.6)	(162.9)	3	(8)
Total EBITDA	$ 1,528.9	$ 1,458.0	$ 1,851.5	5	(21)

(a) EBITDA is defined as operating income (loss) before depreciation and amortization.

NM - Not meaningful

Results of Operations 1998 versus 1997

Revenues increased 13% to $12.1 billion for 1998 from $10.7 billion for 1997 with every operating segment posting increases over the prior year. Primary contributors to the increase were the Entertainment segment which recorded higher feature and theater revenues; the Video segment which realized the positive impact from revenue sharing as well as revenue increases from the increase in the number of Company owned stores; and the Networks segment, where revenue increases were driven primarily by increased advertising and affiliate revenues.

Total expenses increased 13% to $11.3 billion for 1998 from $10.0 billion for 1997 principally reflecting normal increases associated with revenue growth and the second quarter 1998 Blockbuster charge of approximately $436.7 million principally associated with an accounting change for tape amortization. In 1997, expenses reflect the impact of the Blockbuster charge which consisted primarily of a reduction in the carrying value of excess retail inventory and the cost of closing underperforming stores principally located in international markets.

Effective April 1, 1998, Blockbuster adopted an accelerated method of amortizing videocassettes and game rental inventory. Blockbuster has adopted this new method of amortization because it has implemented a new business model, including revenue sharing agreements with Hollywood studios, which has dramatically increased the number of videocassettes in the stores and which is satisfying consumer demand over a shorter period of time. Previously, Blockbuster purchased tapes for a fixed price, which were amortized over a period of six to 36 months. Pursuant to the new method, the Company records base stock videocassettes at cost and amortizes a portion of the costs on an accelerated basis over three months, generally to $8 per unit, with the remaining cost of the base stock videocassettes amortized on a straight-line basis over 33 months to an estimated $4 salvage value. Non-base stock videocassette costs are amortized on an accelerated basis over three months to an estimated $4 salvage value. Video games are amortized on an accelerated basis over a 12 month period to an estimated $10 salvage value. Revenue sharing payments are expensed when earned pursuant to the applicable contractual arrangements. The Company recorded a pre-tax charge of $436.7 million, of which approximately $424.3 million represents an adjustment to the carrying value of the rental tapes due to the new method of accounting and approximately $12.4 million represents a write-down of retail inventory. The total charge was reflected as part of operating expenses for 1998.

During the second quarter of 1997, Blockbuster shifted its strategic emphasis from retailing a broad assortment of merchandise to focusing on its core rental business. Rationalization of the retail product lines such as sell-through video, confectionery items, literature, music and fashion merchandise allowed the Company to devote more management time and attention, as well as retail floor selling space, to its video and rental game business. In addition, as part of its effort to improve the performance of its operations, Blockbuster adopted a plan to close consistently underperforming stores primarily located in the United Kingdom and Australia and to exit the German market. As a result, Blockbuster recorded a pre-tax charge of $322.8 million which consisted of operating and general and administrative expenses of approximately $247.5 million, as well as depreciation expense attributable to the write-off of long-lived assets of $45.9 million and write-offs attributable to international joint ventures accounted for under the equity method of $29.4 million. As a result of exiting the music business, approximately $72.6 million of the charge has been presented as part of discontinued operations. The remaining balance of the charge consisted principally of $100.8 million for a reduction in the carrying value of excess merchandise inventories, $69.6 million for the closing of underperforming stores principally located in international markets, and $39.3 million recognized as general and administrative expenses, primarily related to relocation costs incurred in connection with the move of the Company's employees, corporate offices and data center from Fort Lauderdale, Florida to Dallas, Texas.

The $69.6 million charge for the closing of underperforming stores is comprised of a $41.8 million non-cash impairment charge associated with long-lived assets and a $27.8 million charge for lease exit obligations. These amounts have been recognized as depreciation expense and general and administrative expense, respectively. Through December 31, 1998, the Company has paid and charged approximately $12.8 million against the lease exit obligations.

The Company's EBITDA increased 5% to $1.53 billion for 1998 from $1.46 billion for 1997 and operating income increased 10% to $751.6 million for 1998 from $685.4 million for 1997. Operating results were adversely affected by the charges taken by Blockbuster during 1998 and 1997. Excluding the impact of such charges in each period, the Company's EBITDA increased 20% to $1.97 billion and operating income increased 31% to $1.19 billion.

Segment Results of Continuing Operations - 1998 versus 1997

Networks (Basic Cable and Premium Subscription Television Program Services)

The Networks segment is comprised of MTV Networks ("MTVN"), basic cable television program services and Showtime Networks Inc. ("SNI"), premium subscription television program services.

For the year, MTVN revenues of $1.9 billion increased 21%, EBITDA of $743.5 million increased 17% and operating income of $660.1 million increased 16% over the prior year principally reflecting higher advertising revenues, as well as the benefit of the continued licensing success of RUGRATS and BLUE'S CLUES. Advertising revenue growth was driven by rate increases at Nickelodeon and VH1 and higher unit volume at MTV. MTVN's EBITDA and operating income growth were driven by revenue growth partially offset by increased production, selling and marketing expenses. Results for 1998 also include an operating loss of $22.0 million for MTV Asia, which was previously accounted for under the equity method. Excluding the loss of MTV Asia, MTVN's EBITDA and operating income increased 21% and 20%, respectively.

SNI's revenues, EBITDA and operating income increased 3%, 15% and 29%, respectively, over the prior-year period. Operating results reflect revenue increases attributable to the continued growth of direct broadcasting satellite subscriptions partially offset by increased marketing costs associated with SNI's NO LIMITS branding campaign. SNI's subscriptions increased over the prior year by approximately 1.5 million to 19.7 million subscriptions at December 31, 1998.

The Networks segment derives revenues principally from two sources: the sale of time on its basic cable networks to advertisers and the license of the networks to cable television operators, direct-to-home and other distributors. The sale of advertising time is affected by viewer demographics, viewer ratings and market conditions for advertising time. Adverse changes to any of these factors could have an adverse effect on revenues.

Entertainment (Motion Pictures, Television Programming, Television Stations, International Channels, Movie Theaters and Music Publishing)

The Entertainment segment is comprised of Paramount Pictures, Paramount Television, Spelling Entertainment Group Inc. ("Spelling"), the Paramount Stations Group ("PSG") and Paramount's movie theaters, music publishing and international channels. Entertainment revenues for the year ended December 31, 1998 were 10% higher than the same period last year principally reflecting Paramount's higher features and theater revenues. Higher features revenues were led by the extraordinary domestic box office and home video success of TITANIC, along with the successful domestic theatrical performance of DEEP IMPACT and THE RUGRATS MOVIE, the foreign theatrical performance of SAVING PRIVATE RYAN, and the worldwide theatrical success of THE TRUMAN SHOW. Theaters' revenues were also higher primarily as a result of opening new multiplex theaters. Paramount's overall revenue growth for the year was partially offset by lower television programming revenues compared with the prior year, which included the successful first time availability of FRASIER in syndication.

Paramount's features and television groups recorded EBITDA and operating income increases of 32% and 44%, respectively, compared with the same prior year period. The results reflect the revenue increases described above partially offset by earnings recorded in 1997 attributable to long-term foreign licensing agreements.

For the year, PSG's revenues increased 1% and EBITDA and operating income decreased 5% and 15%, respectively, from the same prior-year period. Operating results primarily reflect decreased advertising revenues and the impact of swapping for television stations with greater growth potential. PSG owns and operates 17 television stations, including WNPA-TV serving Pittsburgh, Pennsylvania, which was acquired on February 1, 1999. In addition, PSG programs two additional television stations pursuant to local marketing agreements.

For the year ended December 31, 1998, Spelling's revenues of $586.1 million increased 4% principally reflecting the impact of the licensing of Spelling's classic video library and the sale of television library product, partially offset by Spelling's exit from the feature film and video distribution businesses. Spelling posted EBITDA of $22.3 million for the year, as compared to EBITDA of $7.1 million for the prior year. The improved results at Spelling reflect the decision to exit the feature film business and the resulting cessation of production, acquisition and distribution of new feature films.

Each motion picture is a separate and distinct product with its financial success dependent upon many factors, among which cost and public response are of fundamental importance. Entertainment's operating results also fluctuate due to the timing of theatrical and home video releases. Release dates are determined by several factors, including timing of vacation and holiday periods and competition in the marketplace.

License fees for the television exhibition of motion pictures and for syndication and basic cable exhibition of television programming are recorded as revenue in the period that the products are available for such exhibition, which, among other reasons, may cause substantial fluctuation in operating results. As of December 31, 1998, the unrecognized revenues attributable to such licensing agreements were approximately $1.6 billion.

Video (Home Video and Game rental and retail)

The Video segment consists of Blockbuster Video. For the year, Video revenues increased 17% driven by higher video store revenues reflecting the impact of revenue sharing and an increase in the number of Company owned stores. EBITDA decreased 82% principally reflecting the impact of the charge of approximately $436.7 million taken in the second quarter of 1998 to adjust the carrying value of videocassettes and game rental inventory under a new method of amortization as a result of the implementation of Blockbuster's new business model. For the year, Blockbuster recorded same store sales increases of 13% domestically and worldwide. Blockbuster ended the year with approximately 6,380 stores, a net increase of approximately 330 stores over the prior year. Video results in 1997 reflect a charge of approximately $250 million related primarily to the reduction of the carrying value of excess retail inventory and the cost of closing underperforming stores principally located in international markets.

Excluding the impact of the 1998 and 1997 charges, Video's EBITDA increased 20% to $476.6 million in 1998 from $397.3 million in 1997. Excluding the impact of the second quarter 1998 and 1997 Blockbuster charges, Video's gross margin percentage decreased to 60.8% in 1998 from 61.4% in 1997 due to the initial impact of revenue sharing agreements and increased promotional activity.

The Company's home video business may be affected by a variety of factors, including but not limited to, general economic trends, competition, relationships with the major studios, quality of new releases, changes in technology, unusual events and weather. In addition, as with other retail outlets, there is a distinct seasonal pattern to the home video and video game business, with peak rental periods tending to coincide with summer and winter holidays.

Parks (Theme Parks)

The Parks segment consists of five regional theme parks and a themed attraction in the U.S. and Canada. Parks' revenues of $421.2 million, EBITDA of $101.1 million and operating income of $49.9 million for 1998 increased 15%, 14% and 18%, respectively, as compared with revenues of $367.3 million, EBITDA of $88.9 million and operating income of $42.4 million for 1997. Operating results principally reflect increased attendance driven by new branded attractions and entertainment, including STAR TREK: THE EXPERIENCE located at the Las Vegas Hilton, and increased pricing.

Each of the theme parks features attractions based on intellectual properties of the Company. A substantial majority of the theme parks' operating income is generated from May through September; however, the profitability of the leisure-time industry is influenced by various factors which are not directly controllable, such as economic conditions, amount of available leisure time, oil and transportation prices and weather patterns.

Publishing (Consumer Publishing)

On November 27, 1998, the Company completed the sale of Non-Consumer Publishing for approximately $4.6 billion in cash plus approximately $92 million related to changes in net assets, which is subject to change based upon final determination of net assets. The Company is retaining its consumer operations including the Simon & Schuster name. The Company recognized a gain of approximately $65.5 million, net of tax, from the sale and has presented Non-Consumer Publishing as a discontinued operation.

Growth in revenues to $564.6 million was primarily attributable to increases in the trade business driven by the best selling titles including BAG OF BONES by Stephen King, ALL THROUGH THE NIGHT by Mary Higgins Clark and ANGELA'S ASHES by Frank McCourt, along with gains in the children's business. The mass-market business experienced a sales decrease due to weakness in that segment of the industry.

The consumer publishing marketplace is subject to increased periods of demand in the summer months and during the end-of-year holiday season. Major new title releases drive a significant portion of Publishing's sales throughout the year.

Online (Interactive Online Services)

Revenues increased 32% to $13.7 million for 1998 from $10.4 million for 1997. Operating loss of $7.5 million in 1998, as compared with operating income of $2.3 million in 1997, reflects the increased investment in the Company's online services.

In February 1999, the Company acquired Imagine Radio, an Internet radio company transmitting original radio stations offering listeners various customization features from a wide range of formats. In the fourth quarter of 1998, the Company acquired Nvolve, Inc., a Web site developer. The Company also owns Red Rocket, an online education toy retailer.

Other Income and Expense Information

Corporate Expenses

Corporate expenses, including depreciation expense, decreased 4% to $194.1 million for 1998 from $201.5 million for 1997, principally reflecting a decrease in general and administrative and litigation expenses.

Interest Expense, net

Net interest expense decreased 20% to $599.0 million for 1998 from $750.9 million for 1997. The Company had approximately $4.2 billion and $7.8 billion principal amount of debt outstanding (including current maturities) as of December 31, 1998 and 1997, respectively, at a weighted average interest rate of 7.8% for each period.

Other Items, net

The Company continued the strategy of focusing on its core businesses and in December 1998, announced plans to close the Viacom Entertainment Store in Chicago and to phase out its Nickelodeon stores in January 1999. As a result, the Company recorded a loss of approximately $91 million, which is reflected in "other items, net", for the year ended December 31, 1998. The loss principally reflects $8.5 million for estimated severance benefits payable to approximately 530 employees and $32.7 million for lease exit obligations. The loss also reflects the write-off of property and equipment, inventory and prepaid assets of $21.1 million, $10.3 million and $3.1 million, respectively, as well as future vendor commitments of $3.3 million. Additionally, "other items, net" for 1998 principally reflects foreign exchange losses and the write-off of certain investments, partially offset by a gain of approximately $118.9 million from the sale of a cost investment. "Other items, net" of $1.2 billion for 1997, principally reflects the gain from the sale of USA Networks as well as gains associated with the exchange of certain television stations offset by the write-off of certain investments held at cost.

Provision for Income Taxes

The provision for income taxes represents federal, state and foreign income taxes on earnings before income taxes. The annual effective tax rates of 101.0% for 1998 and 54.9% for 1997 were both adversely affected by amortization of intangibles in excess of amounts which are deductible for tax purposes. Excluding the non-deductible amortization of intangibles, the annual effective tax rates would have been 31.8% for 1998 and 44.1% for 1997.

Equity in Loss of Affiliates

"Equity in loss of affiliated companies, net of tax" was $41.4 million for 1998 as compared to $163.3 million for 1997. In 1998, the equity loss primarily reflects the net operating loss of United Paramount Network ("UPN"), partially offset by the positive results of Comedy Central. In 1997, the equity loss primarily reflects the net operating loss of UPN and charges associated with international network ventures partially offset by earnings from the Company's half-interest in USA Networks, which was sold in the fourth quarter of 1997.

Minority Interest

Minority interest primarily represents the minority ownership of Spelling common stock.

Discontinued Operations

For 1998, discontinued operations reflect the results of operations, net of tax, of Non-Consumer Publishing prior to sale on November 27, 1998, and music retail stores prior to sale on October 26, 1998. Discontinued operations also reflect the gain from the sale of Non-Consumer Publishing of approximately $65.5 million, net of tax, the loss from the sale of music retail stores of approximately $138.5 million, net of tax, additional losses recognized for Virgin operations prior to disposal of $20.3 million, net of minority interest, the tax benefit associated with the disposal of Virgin of $134.0 million and the reversal of unutilized cable split-off reserves.

For 1997, discontinued operations reflect the results of operations, net of tax, of (1) Non-Consumer Publishing, (2) music retail stores, (3) the Viacom Radio Stations prior to disposal on July 2, 1997, as well as the realized gain on the sale of approximately $416.4 million, net of tax, (4) additional losses recognized for Virgin operations prior to disposal of $32.0 million, net of minority interest, and (5) the reversal of unutilized cable split-off reserves.

Extraordinary Loss

During 1998, the Company recognized an after-tax extraordinary loss from the early extinguishment of debt of $74.7 million.

Results of Operations 1997 versus 1996

Revenues increased 10% to $10.7 billion for 1997 from $9.7 billion for 1996. Revenue increases were driven primarily by the Networks, Video and Entertainment segments, all of which increased their percentage of total revenue for 1997. EBITDA decreased 21% to $1.5 billion for 1997 from $1.9 billion for 1996. Operating income decreased 43% to $685.4 million for 1997 from $1.2 billion for 1996. Operating results were adversely affected by lower operating margins at Blockbuster in 1997 and charges taken by Blockbuster during 1997 and 1996.

Total expenses increased 18% to $10.0 billion for 1997 from $8.5 billion for 1996 principally reflecting normal increases in every segment associated with revenue growth. Expense increases for the year also reflect the second quarter 1997 Blockbuster charge primarily associated with the reduction in the carrying value of excess retail inventory and the cost of closing underperforming stores principally located in international markets.

Segment Results of Continuing Operations - 1997 versus 1996

Networks (Basic Cable and Premium Subscription Television Program Services)

Revenues increased 13% to $2.3 billion for 1997 from $2.0 billion for 1996. EBITDA increased 18% to $729.4 million for 1997 from $619.3 million for 1996. Operating income increased 19% to $635.6 million for 1997 from $532.5 million for 1996. MTVN revenues of $1.5 billion, EBITDA of $634.0 million and operating income of $569.9 million increased 18%, 20% and 23%, respectively. The increase in MTVN's revenues principally reflects higher advertising sales and affiliate fees. Advertising revenue increases were driven by rate increases at Nickelodeon and higher unit volume at MTV. MTVN's EBITDA and operating income increases were driven by revenue growth partially offset by increased programming and production expenses.

SNI's revenues of $724.1 million increased 3% over the prior year principally reflecting higher DBS revenues due to subscriber growth. SNI's reported 1997 increases of 17% and 10% for EBITDA and operating income, respectively, reflect continued DBS growth and cost reductions associated with the exit from the backyard (TVRO) dish retail business. Showtime subscriptions increased approximately 2.3 million to 18.2 million subscriptions at December 31, 1997.

Entertainment (Motion Pictures, Television Programming, Television Stations, International Channels, Movie Theaters and Music Publishing)

Revenues increased 10% to $4.3 billion for 1997 from $3.9 billion for 1996. EBITDA decreased 13% to $514.5 million for 1997 from $593.7 million for 1996. Operating income decreased 20% to $343.0 million for 1997 from $428.3 million for 1996. Entertainment revenues were higher than the prior year principally reflecting higher revenues at Paramount Television attributable to higher network and syndication revenues for FRASIER. For 1997, higher feature film revenues were driven by higher home video revenues, led by THE FIRST WIVES CLUB, MISSION: IMPOSSIBLE and STAR TREK: FIRST CONTACT as well as higher pay television revenues partially offset by lower foreign theatrical revenues. EBITDA in 1996 reflects the impact of significant foreign library licensing agreements entered into by Paramount and Spelling.

PSG's revenues, EBITDA and operating income increased 8%, 5% and 6%, respectively, primarily due to higher advertising sales partially offset by a change in station mix reflecting the swapping of network affiliated television stations for stations which are or will become affiliated with United Paramount Network. On a same-station basis, revenues, EBITDA and operating income for PSG increased 13%, 21% and 39%, respectively.

License fees for the television exhibition of motion pictures and for syndication and basic cable exhibition of television programming are recorded as revenue in the period that the products are available for such exhibition, which, among other reasons, may cause substantial fluctuation in operating results. As of December 31, 1997, the unrecognized revenues attributable to such licensing agreements were approximately $1.6 billion.

Video (Home Video and Game rental and retail)

Revenues increased 13% to $3.3 billion for 1997 from $2.9 billion for 1996. EBITDA decreased 65% to $221.6 million for 1997 from $635.7 million for 1996. Video recorded operating losses of $196.8 million for 1997 versus operating income of $309.4 million for 1996. The revenue increase primarily reflects the increased number of Company-owned video stores in operation in 1997 as compared to 1996. Blockbuster's worldwide same-store rental revenues and worldwide same store sales each decreased 1%. Blockbuster ended the year with approximately 6,050 stores, a net increase of approximately 730 stores from the prior year. EBITDA of $221.6 million reflects the impact of the charge taken in the second quarter of 1997 which is described below, as well as increased rental tape amortization costs and higher expenses attributable to the interim effects of the change in strategic emphasis back to video rental from broad based retail.

During the second quarter of 1997, Blockbuster shifted its strategic emphasis from retailing a broad assortment of merchandise to focusing on its core rental business. Rationalization of the retail product lines such as sell-through video, confectionery items, literature, music and fashion merchandise allowed the Company to devote more management time and attention, as well as retail floor selling space, to its video and rental game business. In addition, as part of its effort to improve the performance of its operations, Blockbuster adopted a plan to close consistently underperforming stores primarily located in the United Kingdom and Australia and to exit the German market. As a result, Blockbuster recorded a pre-tax charge of $322.8 million which consisted of operating and general and administrative expenses of approximately $247.5 million, as well as depreciation expense attributable to the write-off of long-lived assets of $45.9 million and write-offs attributable to international joint ventures accounted for under the equity method of $29.4 million. As a result of exiting the music business, approximately $72.6 million of the charge has been presented as part of discontinued operations. The remaining balance of the charge consisted principally of $100.8 million for a reduction in the carrying value of excess merchandise inventories, $69.6 million for the closing of underperforming stores principally located in international markets, and $39.3 million recognized as general and administrative expenses, primarily related to relocation costs incurred in connection with the move of the Company's employees, corporate offices and data center from Fort Lauderdale, Florida to Dallas, Texas.

The $69.6 million charge for the closing of underperforming stores is comprised of a $41.8 million non-cash impairment charge associated with long-lived assets and a $27.8 million charge for lease exit obligations. These amounts have been recognized as depreciation expense and general and administrative expense, respectively. Through December 31, 1997, the Company has paid and charged approximately $2.5 million against the lease exit obligations.

In the fourth quarter of 1996, Blockbuster recognized $25 million of estimated severance benefits payable to approximately 650 employees of its Fort Lauderdale headquarters who had chosen not to relocate. Blockbuster, through the restructuring charge, also recognized $21.0 million of other costs of exiting Fort Lauderdale and eliminating third party distributors. The Blockbuster relocation to Dallas was completed during the second quarter of 1997. The construction of the Blockbuster distribution center has been completed and this facility was opened in the first quarter of 1998. Through December 31, 1997, the Company paid and charged approximately $26.6 million against the severance liability and other exit costs.

Excluding the impact of the second quarter 1997 charge of approximately $175.7 million, Blockbuster posted EBITDA of $397.3 million.

Parks (Theme Parks)

Parks reported revenues of $367.3 million, operating income of $42.4 million and EBITDA of $88.9 million for 1997 as compared with revenues of $361.9 million, operating income of $43.7 million and EBITDA of $87.9 million for 1996 principally reflecting higher per capita spending.

Publishing (Consumer Publishing)

Revenues increased 2% to $556.6 million for 1997 from $547.6 million for 1996. EBITDA and operating income remained unchanged from 1996. Consumer's bestsellers for 1997 were led by ANGELA'S ASHES by Frank McCourt, THE JOY OF COOKING by Irma S. Rombauer, Mary Higgins Clark's PRETEND YOU DON'T SEE HER and Andrew Morton's DIANA: HER TRUE STORY, THE COMMEMORATIVE EDITION.

Online (Interactive Online Services)

Revenues were $10.4 million and EBITDA and operating income were $2.3 million for 1997.

Other Income and Expense Information

Corporate Expenses

Corporate expenses, including depreciation and amortization expense, increased 14% to $201.5 million for 1997 from $176.8 million for 1996, principally reflecting increased general and administrative expenses and increased intercompany profit elimination for the year.

Interest Expense

Net interest expense decreased 4% to $750.9 million for 1997 from $785.5 million for 1996, principally reflecting the reduction of debt with proceeds from the sale of Viacom Radio Stations and USA Networks partially offset by increases in debt to finance capital expenditures and other investments including the exercise by the Company of its option to purchase a 50% interest in UPN. The Company had approximately $7.8 billion and $9.9 billion principal amount of debt outstanding as of December 31, 1997 and December 31, 1996, respectively, at weighted average interest rates of 7.8% and 7.4%, respectively. (See Note 8 of Notes to Consolidated Financial Statements.)

Other Items, net

On October 21, 1997, the Company completed the sale of its half-interest in USA Networks, including Sci-Fi Channel, to Universal Studios, Inc. for a total of $1.7 billion in cash. The Company realized a pre-tax gain of approximately $1.1 billion in the fourth quarter of 1997. The net proceeds from this transaction were used to repay debt.

In addition, during 1997, the Company recorded pre-tax gains on the swap of certain television stations of approximately $190.9 million partially offset by write-offs of certain cost investments.

Provision for Income Taxes

The provision for income taxes represents federal, state and foreign income taxes on earnings before income taxes. The annual effective tax rates of 54.9% for 1997 and 59.3% for 1996 were both adversely affected by amortization of intangibles in excess of amounts which are deductible for tax purposes. Excluding the non-deductible amortization of intangibles, the annual effective tax rates would have been 44.1% for 1997 and 35.7% for 1996.

Due to the unusual nature of the 1997 charge recorded by Blockbuster, the full income tax effect is reflected in the second quarter 1997 tax provision, and is excluded from the annual effective tax rate.

Equity in Loss of Affiliates

"Equity in loss of affiliated companies, net of tax" was $163.3 million for 1997 as compared to $13.3 million for 1996. The net equity loss for 1997 increased significantly due to the start-up losses of UPN, the absence of income from USA Networks subsequent to its sale on October 21, 1997 and charges associated with international network ventures.

Minority Interest

Minority interest primarily represents the minority ownership of Spelling's common stock.

Discontinued Operations

For 1997 and 1996, discontinued operations reflect the results of operations, net of tax, of Non-Consumer Publishing and the music retail stores. Additionally, for 1997, discontinued operations reflect the Viacom Radio Stations' net earnings prior to disposal on July 2, 1997 and the realized after-tax gain of approximately $416.4 million, a net reversal of approximately $20.8 million principally of cable split-off reserves that were no longer required, partially offset by a reserve of $32.0 million, net of minority interest, for anticipated additional losses associated with the operations of Virgin through disposition.

For the year ended December 31, 1997, the revenues and operating losses of the interactive game businesses were $241.3 million and $43.5 million, respectively. These losses were provided for in the estimated loss on disposal of $159.3 million, net of minority interest, which included a provision for future operating losses of approximately $44.0 million, net of minority interest, as of December 31, 1996.

For 1996, discontinued operations reflect the results of operations, net of tax, of the Cable segment, the interactive game businesses, including Virgin, and the Viacom Radio Stations. The Cable segment was split-off from the Company on July 31, 1996 and the gain realized of approximately $1.3 billion is included in the net gain on dispositions, net of tax, offset by the anticipated loss on disposal of the interactive game businesses.

Liquidity and Capital Resources

The Company expects to fund its anticipated cash requirements (including the anticipated cash requirements of its capital expenditures, joint ventures, commitments and payments of principal and interest on its outstanding indebtedness) with internally generated funds, in addition to various external sources of funds. The external sources of funds may include the Company's existing Credit Agreements and amendments thereto, co-financing arrangements by the Company's various divisions relating to the production of entertainment products, and/or additional financings.

Dispositions

On November 27, 1998, the Company completed the sale of Non-Consumer Publishing to Pearson plc for approximately $4.6 billion in cash plus approximately $92 million related to changes in net assets, which is subject to change based upon final determination of net assets. Viacom retained its consumer publishing operations, including the Simon & Schuster name.

On October 26, 1998, the Company completed the sale of its music retail stores to Wherehouse Entertainment, Inc. for approximately $115 million in cash before adjustments for changes in working capital and recorded a loss of $138.5 million, net of tax, on the disposition. The Company had previously closed the remaining music stores that were not part of the transaction.

On September 4, 1998, Spelling completed the sale of substantially of all of the development operations of Virgin to Electronic Arts Inc. for $122.5 million in cash. In addition, on November 10, 1998, Spelling completed the sale of all non-U.S. operations of Virgin to an investor group.

Debt Transactions

During December 1998, the Company commenced the unconditional tender offers to purchase for cash, all of its outstanding 8.0% Merger Debentures due 2006 at a purchase price of 104% of the principal amount, and to purchase Viacom International's outstanding 10.25% Senior Subordinated Notes due 2001 at a purchase price of 112.925% of the principal amount. The tender offer for the 8.0% Merger Debentures expired on January 4, 1999. The offer for the 10.25% Senior Subordinated Notes expired December 30, 1998 and $163.7 million of such notes were tendered. Through December 31, 1998, $533.8 million of the 8% Merger Debentures were tendered and classified as part of accrued liabilities as the settlement date occurred subsequent to year end. In 1999, an additional $307.5 million of the 8.0% Merger Debentures were tendered for a total principal amount of $841.3 million of notes tendered.

On December 30, 1998, the Company redeemed all $231.5 million of Viacom International's outstanding 7% Senior Subordinated Debentures due 2003 at a redemption price equal to 100% of the principal amount.

On May 15, 1998, the Company redeemed all $100.0 million of Viacom International's outstanding 8.75% Senior Subordinated Reset Notes due 2001 at a redemption price equal to 101% of the principal amount.

On February 17, 1998, the Company retired all $150.0 million of its outstanding 6.625% Senior Notes due 1998.

On February 15, 1998, the Company redeemed all $150 million of Viacom International's outstanding 9.125% Senior Subordinated Notes due 1999 at a redemption price equal to 101.3% of the principal amount.

In addition, the Company purchased $21.8 million of the 8.0% Merger Debentures and $29.0 million of the 7.75% Senior Notes in open market transactions during 1998.

Effective December 23, 1997, the Company permanently reduced its commitments under the March 1997 Credit Agreement by $1.0 billion.

Effective June 30, 1997, certain financial covenants in the March 1997 Credit Agreements and the film financing credit agreement were amended to provide the Company with increased financial flexibility. (See Note 8 of Notes to Consolidated Financial Statements.)

The Company's scheduled maturities of indebtedness through December 31, 2003, assuming full utilization of the March 1997 Credit Agreements, as amended, are $1.2 billion (1999), $1.7 billion (2000), $1.8 billion (2001), $2.0 billion (2002) and $350.0 million (2003). The Company's maturities of long-term debt outstanding at December 31, 1998, excluding capital leases, are $327.9 million (1999), $150.0 million (2000), $36.3 million (2001), $1.1 billion (2002) and $350.0 million (2003). The Company has classified certain short-term indebtedness as long-term debt based upon its intent and ability to refinance such indebtedness on a long-term basis.

Debt as a percentage of total capitalization of the Company decreased to 26% at December 31, 1998 from 37% at December 31, 1997.

The Company was in compliance with all debt covenants and had satisfied all financial ratios and tests as of December 31, 1998 under its Credit Agreements and the Company expects to be in compliance and satisfy all such covenant ratios as may be applicable from time to time during 1999.

Share Repurchase Programs

On March 24, 1999, the Company initiated a repurchase program to acquire up to $500 million in the Company's common stock.

On December 2, 1998, as part of its repurchase program described below, the Company repurchased 12 million shares of its convertible preferred stock from Bell Atlantic Corporation for $564 million in cash. On January 5, 1999, the Company repurchased the remaining 12 million shares of its convertible preferred stock from Bell Atlantic Corporation for $612 million in cash. The preferred stock had a cumulative cash dividend of $60 million per year and was convertible into approximately 34.3 million common shares of the Company's Class B common stock.

On August 31, 1998, the Company initiated a repurchase program to acquire one or more classes of the Company's equity securities. Through December 31, 1998, the Company had repurchased 12,000 shares of Class A Common Stock, 26,190,200 shares of Class B Common Stock, 5,502,000 Viacom Five-Year Warrants, expiring on July 7, 1999, and 12 million shares of its convertible preferred stock for approximately $1.4 billion in the aggregate. On February 10, 1999, the program was completed and the Company had repurchased a total of 12,000 shares of Class A Common Stock 26,255,600 shares of Class B Common Stock, 5,546,500 Viacom Five-Year warrants, expiring on July 7, 1999 and 24 million shares of its convertible preferred stock. The total repurchase program approximated $2.0 billion.

During 1997, the Company completed its joint purchase program initially established in September 1996 with NAI, for each to acquire up to $250 million, or $500 million in total, of the Company's Class A Common Stock, Class B Common Stock, and, as to the Company, Viacom Warrants. The Company repurchased 1,319,400 shares of Viacom Inc. Class A Common Stock, 11,632,600 shares of Viacom Inc. Class B Common Stock and 6,824,590 Viacom Five-Year Warrants, expiring on July 7, 1999, for approximately $250 million in the aggregate. As of December 31, 1997, NAI had separately acquired 2,564,400 shares of Viacom Inc. Class A Common Stock and 11,204,000 shares of Viacom Inc. Class B Common Stock pursuant to the joint purchase program for approximately $250 million, raising its ownership to approximately 67% of Viacom Inc. Class A Common Stock and approximately 28% of Class A and Class B Common Stock on a combined basis, and as of December 31, 1998, NAI's ownership percentages were approximately the same.

Planned capital expenditures, including information systems costs, are approximately $600 million to $700 million in 1999. Capital expenditures are primarily related to capital additions for new and existing video stores, expansion of Paramount's theatres and theme park attractions. The Company's joint ventures, including UPN, are expected to require estimated net cash contributions of approximately $90 million to $140 million in 1999.

The Company uses derivative financial instruments to reduce its exposure to market risks from changes in foreign exchange rates and interest rates. The Company does not hold or issue financial instruments for speculative trading purposes. The derivative instruments used are foreign exchange forward contracts and options. The foreign exchange contracts have principally been used to hedge the British Pound, the Australian Dollar, the Japanese Yen, the Canadian Dollar, the Singapore Dollar, the European Union's common currency (the "Euro") and the European Currency Unit/British Pound relationship. These derivatives, which are over-the-counter instruments, are non-leveraged. At December 31, 1998, the Company had outstanding contracts with a notional value of approximately $4.3 million which expire in 1999. Realized gains and losses on contracts that hedge anticipated future cash flows are recognized in "other items, net" and were not material in any of the periods presented.

The Company continually monitors its positions with, and credit quality of, the financial institutions which are counterparties to its financial instruments. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the agreements. However, the Company does not anticipate nonperformance by the counterparties. The Company's receivables do not represent significant concentrations of credit risk at December 31, 1998, due to the wide variety of customers, markets and geographic areas to which the Company's products and services are sold.

The Company filed a shelf registration statement with the Securities and Exchange Commission registering debt securities, preferred stock and contingent value rights of Viacom and guarantees of such debt securities by Viacom International which may be issued for aggregate gross proceeds of $3.0 billion. The registration statement was declared effective on May 10, 1995. The net proceeds from the sale of the offered securities may be used by Viacom to repay, redeem, repurchase or satisfy its obligations in respect of its outstanding indebtedness or other securities; to make loans to its subsidiaries; for general corporate purposes; or for such other purposes as may be specified in the applicable Prospectus Supplement. The Company filed a post-effective amendment to this registration statement on November 19, 1996. To date, the Company has issued $1.55 billion of notes and debentures and has $1.45 billion remaining availability under the shelf registration statement.

The commitments of the Company for program license fees, which are not reflected in the balance sheet as of December 31, 1998 and are estimated to aggregate approximately $1.2 billion, excluding intersegment commitments of approximately $738.9 million, principally reflect SNI's commitments of approximately $1.1 billion for the acquisition of programming rights and the production of original programming. This estimate is based upon a number of factors. A majority of such fees are payable over several years, as part of normal programming expenditures of SNI. These commitments to acquire programming rights are contingent upon delivery of motion pictures which are not yet available for premium television exhibition and, in many cases, have not yet been produced.

See Note 13 of Notes to Consolidated Financial Statements for a description of the Company's future minimum lease commitments.

There are various lawsuits and claims pending against the Company. Management believes that any ultimate liability resulting from those actions or claims will not have a material adverse effect on the Company's results of operations, financial position or liquidity.

Certain subsidiaries and affiliates of the Company from time to time receive claims from federal and state environmental regulatory agencies and other entities asserting that they are or may be liable for environmental cleanup costs and related damages, principally relating to discontinued operations conducted by its former mining and manufacturing businesses (acquired as part of the mergers with Paramount and Blockbuster). The Company has recorded a liability reflecting its best estimate of environmental exposure. Such liability was not discounted or reduced by potential insurance recoveries and reflects management's estimate of cost sharing at multiparty sites. The estimated liability was calculated based upon currently available facts, existing technology and presently enacted laws and regulations. On the basis of its experience and the information currently available to it, the Company believes that the claims it has received will not have a material adverse effect on its results of operations, financial position or liquidity.

Current assets decreased to $5.1 billion as of December 31, 1998 from $5.7 billion as of December 31, 1997, principally reflecting the sale of Non-Consumer Publishing and the reduction of receivables due to the asset securitization programs. Proceeds from the sale of these receivables under the asset securitization programs were used to reduce outstanding borrowings. The allowance for doubtful accounts as a percentage of receivables increased to 5% for 1998 from 4% for 1997. The change in property and equipment principally reflects capital expenditures of $603.5 million related to capital additions for new and existing video stores, construction of new movie theaters and additional construction and equipment upgrades for the Parks offset by depreciation expense of $441.8 million. Current liabilities increased to $5.6 billion from $5.1 billion reflecting the timing of the settlement for the 8% Merger Debentures and increased participation liabilities primarily attributable to successful films such as TITANIC and other normal operating activity. Long-term debt including current maturities, decreased to $4.2 billion from $7.8 billion, reflecting debt reduction from proceeds received with the sale of Non-Consumer Publishing and the asset securitization programs.

Net cash flow from operating activities increased to $864.1 million in 1998 from $340.0 million in 1997 due to the reductions in accounts receivable as a result of the asset securitization programs and increased operating results of the Company, partially offset by the first quarter 1998 tax payment related to the sale of USA Networks. Net cash flow from investing activities of $4.2 billion for 1998 principally reflects the proceeds from the sale of Non-Consumer Publishing of approximately $4.6 billion in cash plus approximately $92 million related to changes in net assets and the sale of certain investments offset by capital expenditures. Net cash flow from investing activities of $1.9 billion for 1997, principally reflects the proceeds of $1.1 billion from the sale of the Company's Radio business, as well as $1.7 billion in proceeds from the sale of USA Networks, both of which were partially offset by capital expenditures and other investing activities. Financing activities reflect repayment of debt, the repurchase of convertible preferred stock and purchase of treasury stock and warrants, offset by the exercise of stock options and warrants.

Other Matters

On March 19, 1999, the Company announced that it has offered to purchase the remaining shares of Spelling that it does not already own, approximately 20%, for $9 in cash per share in a merger transaction. The offer, approved by the Company's Board of Directors, is contingent upon approval of Spelling's independent Directors.

In April 1998, Statement of Position 98-5 "Reporting on the Costs of Start-Up Activities" ("SOP 98-5") was issued. SOP 98-5 provides guidance on the financial reporting of start-up costs and organization costs. The SOP is effective for financial statements for fiscal years beginning after December 15, 1998. The Company does not anticipate that the adoption of this statement will have a material effect on its financial statements.

In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), effective for fiscal years beginning after June 15, 1999. The Company anticipates that due to its limited use of derivative instruments, the adoption of SFAS 133 will not have a material effect on its financial statements.

In October 1998, the FASB released an exposure draft of the proposed statement on "Rescission of FASB Statement No. 53, Financial Reporting by Producers and Distributors of Motion Picture Films," ("SFAS 53"). An entity that previously was subject to the requirements of SFAS 53 would follow the guidance in a proposed Statement of Position, "Accounting by Producers and Distributors of Films." This proposed Statement of Position would be effective for financial statements for fiscal years beginning after December 15, 1999 and could have a significant impact on the Company's results of operations and financial position depending on its final outcome. The Company has not concluded on its impact given the preliminary stages of the proposed Statement of Position.

Euro Conversion

In January 1999, eleven member countries of the European Union established permanent conversion rates between their existing currencies and the Euro. The transition period for the introduction of the Euro will be between January 1, 1999 and June 30, 2002. The Company conducts business in member countries and is addressing the issues involved with the introduction of the Euro. The more important issues facing the Company include: converting information technology systems, reassessing currency risk, negotiating and amending licensing agreements and contracts, and processing tax, accounting, payroll and customer records.

Based on the progress to date, the Company believes that the introduction of the Euro will not have a significant impact on the manner in which it conducts its business affairs and processes its business and accounting records. Accordingly, conversion to the Euro is not expected to have a material effect on the Company's financial condition or results of operations.

Year 2000

Overview

The widespread use of computer programs that rely on two-digit dates to perform computations and decision making functions may cause computer systems to malfunction prior to or in the year 2000 ("Y2K") and lead to significant business delays and disruptions in the U.S. and internationally. In December 1997, the Company formalized its Y2K initiative to optimize the divisional Y2K efforts that had already begun, by developing a Company wide program to identify and mitigate Y2K risks. Pursuant to this program, each of the Company's principal business units developed programs to address Y2K exposures. In addition, under the direction of its Board of Directors, the Company has designated a committee of senior officers to oversee these programs and has engaged an independent consulting firm to assist in the review and oversight. At present, the Company anticipates completing its program to have substantially all critical and non-critical systems compliant prior to the end of the third quarter of 1999.

The Company is reviewing its Y2K issues based upon three areas: applications, infrastructure and business partners.

- Applications cover the software systems resident on mainframe, mid-range, network and personal computers. The Company defines an application as one or a collection of programs directly related to a common system. For example, a financial application may include all the general ledger and accounts receivable software code used to process information throughout an operating segment. In addition, the Company's applications have been segregated into critical and non-critical applications. Critical applications are software systems which, if not operational, could have a material impact on business operations.

- Infrastructure includes the computers, data and voice communications networks, and other equipment which use embedded chip processors (e.g., inventory movement systems, tape duplication equipment, telephone systems, etc.).

- Business partners include third party vendors, customers and other entities whose systems may interface with the Company or whose own operations are important to the Company's daily operations.

These three areas have been addressed using a five phase program: inventory, assessment, remediation, testing and contingency planning.

- Phase 1 inventories the respective applications, hardware and business partners.

- Phase 2 assesses the possible impact of a Y2K error on the continuing operation of each identified application, hardware systems or business partner relationship; and subsequently determines the risk to operations and assigns priorities.

- Phase 3 establishes and implements specific plans for the remediation of applications and hardware systems and for the determination of business partners' compliance.

- Phase 4 tests each application and hardware system and reviews business partners' compliance under the plans established in phase 3, to ensure that Y2K issues no longer exist.

- Phase 5 establishes and implements contingency plans in the event internal or external systems are not compliant.

Changes may occur to the Company's operations during the implementation of its Y2K program or subsequent to the completion of each phase, therefore, management may periodically revise its plans. The Company continues to review and test systems for Y2K compliance as changes occur.

State of Readiness

The Company's Y2K progress as of March 22, 1999 is as follows:

Applications

The inventory and assessment phases for the Company have been completed. Applications status of each operating segment is discussed below.

Networks, Corporate, Online - We have identified 15 critical domestic and 29 critical international applications which primarily relate to program scheduling, finance/payroll and network transmission. A majority of critical domestic applications has been remediated and tested and the remaining systems are scheduled for completion during the second quarter of 1999. International's critical applications are currently being remediated and testing is scheduled for completion in the second quarter of 1999. A significant number of domestic and international non-critical applications have been remediated and tested and the remaining applications are scheduled for completion in the second quarter of 1999.

Entertainment - We have identified 71 critical domestic and 50 critical international applications which primarily relate to theatrical and video distribution, TV syndication, theater point-of-sale and finance/payroll. A significant number of critical and non-critical worldwide applications have been remediated and tested and the remaining systems are scheduled for completion during the second and third quarters of 1999.

Video - We have identified 16 critical domestic and 6 critical international applications which primarily relate to point-of-sale, warehousing and distribution, and finance/payroll. A significant number of critical and non-critical worldwide applications have been remediated and tested and the remaining applications are scheduled for completion during the second and third quarters of 1999.

Publishing - We have identified 13 critical domestic applications which primarily relate to order processing, warehousing and billing. A majority of critical domestic applications has been remediated and tested and the remaining systems are scheduled for completion in the second quarter of 1999. A significant number of non-critical applications have been remediated and tested and the remaining systems are scheduled for completion in the second quarter of 1999.

Parks - We have identified 20 critical domestic and 4 critical international applications which primarily relate to point-of-sale, ticketing and finance/payroll. All critical worldwide applications have been remediated and tested. A significant number of non-critical applications have been remediated and tested and the remaining systems are scheduled to be completed in the second quarter of 1999.

Infrastructure

Infrastructure status of each operating segment is discussed below.

Networks, Corporate, Online - The inventory and assessment phases for domestic and international operations have been completed. A majority of the remediation and testing of domestic and international hardware systems has been completed. The remaining infrastructure systems will be completed by the third quarter of 1999.

Entertainment - The inventory and assessment phases for domestic computer systems have been completed. The inventory and assessment of the remaining non-computer domestic systems (e.g., studio production facilities and equipment) will be completed by the second quarter of 1999. International's inventory and assessment phases are substantially complete; the remainder will be completed by the second quarter of 1999. Worldwide remediation and testing of infrastructure systems will be completed in the second and third quarters of 1999.

Video - Domestic and international inventory and assessment phases have been completed. A majority of the systems with embedded processors have completed remediation and testing. The remaining hardware systems will be completed during the second and third quarters of 1999.

Publishing - The inventory and assessment phases have been completed. A substantial number of hardware systems have been remediated and tested; the remaining systems are scheduled for completion during the second and third quarters of 1999.

Parks - The inventory and assessment phases have been completed. Substantially all systems with embedded processors have been remediated and tested. The remainder are scheduled for remediation and testing during the second quarter of 1999.

Business Partners

During the course of business operations, the Company relies on third party business partners to provide raw materials and services and to distribute and sell products. These business partners include financial institutions, governmental agencies and utilities. The disruption of the ability to receive raw materials or services or to distribute or sell the Company's products could adversely affect the financial condition of the Company. Although the Company has little or no control over the remediation and testing of these third party systems, the Company is taking appropriate action to determine the level of Y2K compliance at each third party. These actions include, but are not limited to, requesting written confirmation of a business or business system's Y2K compliance; directly meeting with business management; and, performing additional independent tests. Subsequent to the Company's review of third party Y2K compliance, management is determining the need for contingency plans.

The Company has substantially completed the inventory phase and is in the assessment phase of business partners and expects this phase to be completed by the second quarter of 1999. The determination of third party Y2K compliance will continue through the end of the year.

Contingency Plans and Risks

As the remediation, testing and review of each application, infrastructure item and business partners occur, the Company is determining the need for contingency plans. Where appropriate, plans addressing both operational and technical alternatives are being developed. This phase has begun and will continue through the end of 1999.

The Company's goal is to achieve timely and substantial Y2K compliance, with remediation work assigned based upon how critical each system is to the Company's business. Due to the general uncertainty inherent in the Y2K problem resulting in part from the uncertainty of compliance by the Company's principal business partners and third party providers, the Company is unable to determine at this time what the consequences of Y2K may be. Also, the Company's international operations may be adversely affected by failures of businesses in other parts of the world to take adequate steps to address the Y2K problem. The Company will continue to devote the necessary resources to complete its Y2K program and contingency plans and believes that the completion of its Y2K program and contingency plans will significantly mitigate operational and financial risks.

Costs

Y2K costs have been expensed as incurred, except those costs directly related to the replacement of systems requiring upgrades in the ordinary course of business which have been capitalized. As of February 28, 1999, the Company had incurred costs of approximately $31.7 million, of which $8.4 million has been capitalized. The estimated additional costs to complete the Y2K program are currently expected to approximate $20.7 million, of which approximately $4.0 million are expected to be capitalized. Based on these amounts, the Company does not expect the costs of the Y2K program to have a material effect on its results of operations, financial position or liquidity.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Shareholders of Viacom Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows and of shareholders' equity present fairly, in all material respects, the financial position of Viacom Inc. and its subsidiaries (the "Company") at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14(a) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

New York, New York
February 8, 1999, except for the first paragraph of Note 2, which is as of
February 25, 1999

MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

Management has prepared and is responsible for the consolidated financial statements and related notes of Viacom Inc. They have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on judgments and estimates by management. All financial information in this annual report is consistent with the consolidated financial statements.

The Company maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and properly recorded, and that accounting records may be relied upon for the preparation of consolidated financial statements and other financial information. The design, monitoring, and revision of internal accounting control systems involve, among other things, management's judgment with respect to the relative cost and expected benefits of specific control measures. The Company also maintains an internal auditing function which evaluates and reports on the adequacy and effectiveness of internal accounting controls, policies and procedures.

Viacom Inc.'s consolidated financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants, who have expressed their opinion with respect to the presentation of these statements.

The Audit Committee of the Board of Directors, which is comprised solely of directors who are not employees of the Company, meets periodically with the independent accountants, with our internal auditors, as well as with management, to review accounting, auditing, internal accounting controls and financial reporting matters. The Audit Committee is also responsible for recommending to the Board of Directors the independent accounting firm to be retained for the coming year, subject to shareholder approval. The independent accountants and the internal auditors have full and free access to the Audit Committee with and without management's presence.

VIACOM INC.

By: /s/ Sumner M. Redstone

Sumner M. Redstone
Chairman of the Board of Directors,
Chief Executive Officer

By: /s/ George S. Smith, Jr.

George S. Smith, Jr.
Senior Vice President,
Chief Financial Officer

By: /s/ Susan C. Gordon

Susan C. Gordon
Vice President, Controller,
Chief Accounting Officer

VIACOM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)

	Year Ended December 31, 1998	1997	1996
Revenues	$ 12,096.1	$ 10,684.9	$ 9,683.9
Expenses:			
Operating	8,506.3	7,476.3	6,340.2
Selling, general and administrative	2,060.9	1,750.6	1,442.0
Restructuring charge (Note 4)	--	--	50.2
Depreciation and amortization	777.3	772.6	654.3
Total expenses	11,344.5	9,999.5	8,486.7
Operating income	751.6	685.4	1,197.2
Other income (expense):			
Interest expense, net	(599.0)	(750.9)	(785.5)
Other items, net (Note 16)	(15.3)	1,244.0	(1.6)
Earnings from continuing operations before income taxes	137.3	1,178.5	410.1
Provision for income taxes	(138.7)	(646.4)	(243.3)
Equity in loss of affiliated companies, net of tax (Note 7)	(41.4)	(163.3)	(13.3)
Minority interest	(0.7)	4.7	(1.3)
Earnings (loss) from continuing operations	(43.5)	373.5	152.2
Discontinued operations (Note 3):			
Earnings (loss), net of tax	(54.1)	14.9	(62.0)
Net gain on dispositions, net of tax	49.9	405.2	1,157.7
Net earnings (loss) before extraordinary loss	(47.7)	793.6	1,247.9
Extraordinary loss, net of tax (Note 17)	(74.7)	--	--
Net earnings (loss)	(122.4)	793.6	1,247.9
Cumulative convertible preferred stock dividend requirement	(57.2)	(60.0)	(60.0)
Discount on repurchase of preferred stock (Note 10)	30.0	--	--
Net earnings (loss) attributable to common stock	$ (149.6)	$ 733.6	$ 1,187.9
Basic earnings per common share:			
Earnings (loss) from continuing operations	$ (.10)	$ .44	$ .13
Net earnings (loss)	$ (.21)	$ 1.04	$ 1.63
Diluted earnings per common share:			
Earnings (loss) from continuing operations	$ (.10)	$ .44	$ .13
Net earnings (loss)	$ (.21)	$ 1.04	$ 1.62
Weighted average number of common shares:			
Basic	708.7	705.8	728.0
Diluted	708.7	708.5	734.7

See notes to consolidated financial statements.

VIACOM INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions)

	December 31, 1998	December 31, 1997
Assets		
Current Assets:		
Cash and cash equivalents	$ 767.3	$ 292.3
Receivables, less allowances of $98.7 (1998) and $99.8 (1997)	1,759.1	2,397.7
Inventory (Note 6)	468.7	934.8
Theatrical and television inventory (Note 6)	1,336.8	1,317.9
Other current assets	732.6	770.8
Total current assets	5,064.5	5,713.5
Property and Equipment:		
Land	458.5	452.2
Buildings	1,636.8	1,544.4
Capital leases	671.7	655.6
Equipment and other	1,770.0	1,668.0
	4,537.0	4,320.2
Less accumulated depreciation and amortization	1,457.5	1,122.5
Net property and equipment	3,079.5	3,197.7
Inventory (Note 6)	2,470.8	2,650.6
Intangibles, at amortized cost	11,557.3	14,699.6
Other assets	1,441.0	2,027.3
	$23,613.1	$28,288.7

See notes to consolidated financial statements.

VIACOM INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	December 31, 1998	December 31, 1997
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 499.2	$ 699.7
Accrued expenses	2,125.8	1,574.7
Deferred income	286.5	254.6
Accrued compensation	410.3	441.7
Participants' share, residuals and royalties payable	1,227.5	951.3
Program rights	179.6	197.7
Income tax payable	526.5	556.3
Current portion of long-term debt	377.2	376.5
Total current liabilities	5,632.6	5,052.5
Long-term debt (Note 8)	3,813.4	7,423.0
Other liabilities	2,117.5	2,429.6
Commitments and contingencies (Note 13)		
Shareholders' Equity:		
Convertible Preferred Stock, par value $.01 per share; 200.0 shares authorized; 12.0 (1998) and 24.0 (1997) shares issued and outstanding	600.0	1,200.0
Class A Common Stock, par value $.01 per share; 200.0 shares authorized; 141.6 (1998) and 140.7 (1997) shares issued	1.4	1.4
Class B Common Stock, par value $.01 per share; 1,000.0 shares authorized; 591.9 (1998) and 581.1 (1997) shares issued	5.9	5.8
Additional paid-in capital	10,574.7	10,329.5
Retained earnings	1,932.9	2,089.0
Accumulated other comprehensive loss (Note 1)	(67.1)	(12.6)
	13,047.8	13,613.1
Less treasury stock, at cost; 38.5 shares (1998) and 13.0 shares (1997)	998.2	229.5
Total shareholders' equity	12,049.6	13,383.6
	$23,613.1	$28,288.7

See notes to consolidated financial statements.

VIACOM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year Ended December 31,		
	1998	1997	1996
Operating Activities:			
Net earnings (loss)	$ (122.4)	$ 793.6	$1,247.9
Adjustments to reconcile net earnings (loss) to net cash flow from operating activities:			
Net gain on dispositions	(49.9)	(1,761.3)	(1,157.7)
Depreciation and amortization	777.3	943.3	817.6
Restructuring charge	--	--	88.9
Distribution from affiliated companies	17.9	62.2	59.8
Gain on the sale of cost investments	(118.9)	--	--
Loss on redemption of debt	126.6	--	--
Equity in loss of affiliated companies	41.4	163.3	13.0
Amortization of deferred financing costs	16.1	33.6	31.2
Change in operating assets and liabilities:			
Decrease (increase) in receivables	135.6	(251.3)	(413.3)
Decrease (increase) in inventory and related programming liabilities, net	367.1	79.7	(443.0)
Decrease (increase) in prepublication costs, net	13.8	(21.4)	(57.9)
Increase in prepaid expenses and other current assets	(119.7)	(83.5)	(40.0)
Decrease (increase) in unbilled receivables	105.0	(53.3)	(226.5)
Increase (decrease) in accounts payable and accrued expenses	192.6	(7.6)	1.0
Increase (decrease) in income taxes payable and deferred income taxes, net	(563.9)	455.6	38.5
Increase (decrease) in deferred income	7.4	(93.1)	122.6
Other, net	38.1	80.2	(11.6)
Net cash flow provided by operating activities	864.1	340.0	70.5
Investing activities:			
Proceeds from dispositions	4,950.1	3,014.9	1,838.1
Acquisitions, net of cash acquired	(126.4)	(355.1)	(299.8)
Capital expenditures	(603.5)	(530.3)	(598.6)
Investments in and advances to affiliated companies	(100.3)	(300.4)	(88.8)
Proceeds from sale of cost investment	167.3	--	--
Proceeds from sale of short-term investments	101.4	139.8	137.9
Purchases of short-term investments	(151.6)	(81.3)	(149.2)
Other, net	(18.6)	18.2	--
Net cash flow provided by investing activities	4,218.4	1,905.8	839.6
Financing activities:			
Repayments of credit agreements, net	(2,383.0)	(2,092.3)	(859.5)
Repayment of notes and debentures	(869.3)	--	(50.9)
Purchase of treasury stock and warrants	(809.6)	(9.8)	(223.6)
Repurchase of Preferred Stock	(564.0)	--	--
Payment on capital lease obligations	(110.7)	(66.2)	(48.9)
Payment of Preferred Stock dividends	(64.8)	(60.0)	(60.0)
Proceeds from exercise of stock options and warrants	182.8	69.6	95.1
Other, net	11.1	(3.8)	(17.4)
Net cash flow used in financing activities	(4,607.5)	(2,162.5)	(1,165.2)
Net increase (decrease) in cash and cash equivalents	475.0	83.3	(255.1)
Cash and cash equivalents at beginning of year	292.3	209.0	464.1
Cash and cash equivalents at end of year	$ 767.3	$ 292.3	$ 209.0

See notes to consolidated financial statements.

VIACOM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In millions)

	Year ended December 31,					
	1998		1997		1996	
	Shares	Amounts	Shares	Amounts	Shares	Amounts
Convertible Preferred Stock:						
Balance, beginning of year	24.0	$ 1,200.0	24.0	$ 1,200.0	24.0	$ 1,200.0
Repurchase of Preferred Stock	12.0	600.0	--	--	--	--
Balance, end of year	12.0	600.0	24.0	$ 1,200.0	24.0	$ 1,200.0
Class A Common Stock:						
Balance, beginning of year	140.7	$ 1.4	140.2	$ 1.4	150.2	$ 1.5
Exercise of stock options and warrants	.9	--	.5	--	.8	--
Cable split-off	--	--	--	--	(10.8)	(.1)
Balance, end of year	141.6	$ 1.4	140.7	$ 1.4	140.2	$ 1.4
Class B Common Stock:						
Balance, beginning of year	581.1	$ 5.8	576.4	$ 5.8	589.2	$ 5.9
Exercise of stock options and warrants	10.8	.1	4.7	--	7.0	.1
Cable split-off	--	--	--	--	(19.8)	(.2)
Balance, end of year	591.9	$ 5.9	581.1	$ 5.8	576.4	$ 5.8
Additional Paid-In Capital:						
Balance, beginning of year		$10,329.5		$10,238.5		$10,723.2
Exercise of stock options and warrants, net of tax benefit		280.1		94.9		157.4
Cable split-off		--		--		(625.5)
Warrants repurchased		(34.9)		(3.9)		(16.6)
Balance, end of year		$10,574.7		$10,329.5		$10,238.5
Retained Earnings:						
Balance, beginning of year		$ 2,089.0		$ 1,358.6		$ 173.1
Net earnings (loss)		(122.4)		793.6		1,247.9
Preferred stock dividend requirement		(57.2)		(60.0)		(60.0)
Discount on repurchase of Preferred Stock		30.0		--		--
Comprehensive income reclassification..		--		(3.2)		(2.4)
Exercise of stock options		(6.5)		--		--
Balance, end of year		$ 1,932.9		$ 2,089.0		$ 1,358.6
Accumulated Other Comprehensive Income (Loss):						
Balance, beginning of year		$ (12.6)		$ 5.9		$ (11.9)
Other comprehensive income (loss)		(54.5)		(18.5)		17.8
Balance, end of year		$ (67.1)		$ (12.6)		$ 5.9
Treasury Stock, at cost:						
Balance, beginning of year	13.0	$ (229.5)	12.5	$ (223.6)	--	$ --
Class A Common Stock repurchased	--	--	--	--	1.3	(22.9)
Class B Common Stock repurchased	26.2	(787.0)	.5	(5.9)	11.2	(200.7)
Exercise of stock options	(.7)	18.3	--	--	--	--
Balance, end of year	38.5	$ (998.2)	13.0	$ (229.5)	12.5	$ (223.6)
Total Shareholders' Equity		$12,049.6		$13,383.6		$12,586.6
Comprehensive Income (Loss)(Note 1):						
Net earnings (loss)		$ (122.4)		$ 793.6		$ 1,247.9
Other comprehensive income (loss)		(54.5)		(18.5)		17.8
Total Comprehensive Income (Loss)......		$ (176.9)		$ 775.1		$ 1,265.7

See notes to consolidated financial statements.

1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - Viacom Inc. and its subsidiaries (the "Company") is a diversified entertainment company with operations in the six segments described below. These operating segments have been determined in accordance with the Company's internal management structure, which is organized based on products and services. In accordance with Statement of Financial Accounting Standards ("SFAS") 131, "Disclosures about Segments of an Enterprise and Related Information", certain similar operating segments have been aggregated. See Note 3 regarding the presentation of discontinued operations. See Note 14 regarding the relative contribution to revenues and operating results of each of the following operating segments:

Networks

MTV Networks owns and operates advertiser-supported basic cable television program services, and Showtime Networks Inc. owns and operates premium subscription cable television program services.

Entertainment

Paramount Pictures: 1) produces, acquires, finances and distributes feature motion pictures, normally for exhibition in U.S. and foreign theaters followed by videocassettes and discs, pay-per-view television, premium subscription television, network television, basic cable television and syndicated television exploitation; 2) produces, acquires and distributes series, mini-series, specials and made-for-television movies initially for network television, first-run syndication and basic cable television, and subsequently for syndication; 3) operates movie theaters; 4) acquires and exploits a library of music copyrights to various musical works, including songs, scores and cues; and 5) owns and operates 17 televisions stations and operates 2 stations pursuant to local marketing agreements.

Spelling Entertainment Group Inc. ("Spelling") is a producer and distributor of television series, mini-series and made-for-television movies.

Video

Blockbuster Video operates and franchises videocassette rental and retail sales stores throughout the United States and internationally.

Parks

Paramount Parks owns and operates five regional theme parks and a themed attraction in the United States and Canada.

Publishing

Simon & Schuster publishes and distributes consumer hardcover books, trade paperbacks, mass-market paperbacks, children's books, audiobooks, electronic books and CD-ROM products in the United States and internationally.

Online

Viacom online services provides online music and children destinations featuring entertainment, information, community tools and e-commerce.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could subsequently differ from those estimates.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and investments of more than 50% in subsidiaries and other entities. Investments in affiliated companies over which the Company has a significant influence or ownership of more than 20% but less than or equal to 50% are accounted for under the equity method. Investments of 20% or less are accounted for under the cost method. All significant intercompany transactions have been eliminated.

Cash Equivalents - Cash equivalents are defined as short-term (three months or less) highly liquid investments.

Inventories - Inventories related to theatrical and television product (which include direct production costs, production overhead, acquisition costs, prints and certain exploitation costs) are stated at the lower of amortized cost or net realizable value. Inventories are amortized, and liabilities for residuals and participations are accrued, on an individual product basis based on the proportion that current revenues bear to the estimated remaining total lifetime revenues. Estimates for initial domestic syndication and basic cable revenues are not included in the estimated lifetime revenues of network series until such sales are probable. Estimates of total lifetime revenues and expenses are periodically reviewed. The costs of feature and television films are classified as current assets to the extent such costs are expected to be recovered through their respective primary markets, with the remainder classified as non-current. A portion of the cost to acquire Paramount and Spelling was allocated to theatrical and television inventories based upon estimated revenues from certain films less related costs of distribution and a reasonable profit allowance for the selling effort. The cost allocated to films is being amortized over their estimated economic lives not to exceed 20 years.

The Company estimates that approximately 70% of unamortized film costs (including amounts allocated under purchase accounting) at December 31, 1998 will be amortized within the next three years.

Inventories related to base stock videocassettes (generally less than five copies per title for each store) are recorded at cost and a portion of these costs are amortized on an accelerated basis over three months, generally to $8 per unit, with the remaining base stock videocassette costs amortized on a straight-line basis over 33 months to an estimated $4 salvage value. The cost of non-base stock videocassettes (generally greater than four copies per title for each store) is amortized on an accelerated basis over three months to an estimated $4 salvage value. Video games are amortized on an accelerated basis over a 12 month period to an estimated $10 salvage value (See Note 4).

Program Rights - The Company acquires rights to exhibit programming on its broadcast stations or cable networks. The costs incurred in acquiring programs are capitalized and amortized over the license period. Program rights and the related liabilities are recorded at the gross amount of the liabilities when the license period has begun, the cost of the program is determinable, and the program is accepted and available for airing.

Property and Equipment - Property and equipment is stated at cost. Depreciation is computed principally by the straight-line method over estimated useful lives ranging from 3 to 40 years. Depreciation expense, including capitalized lease amortization, was $441.8 million (1998), $447.2 million (1997) and $331.1 million (1996).

Property and equipment includes capital leases of $399.0 million and $463.1 million as of December 31, 1998 and December 31, 1997, respectively, net of accumulated amortization of $272.7 million and $192.5 million, respectively. Amortization expense related to capital leases was $62.6 million (1998), $58.4 million (1997) and $63.0 million (1996).

In 1996, the Company adopted SFAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"). SFAS 121 requires that the Company assess long-lived assets and certain identifiable intangibles for impairment whenever there is an indication that the carrying amount of the asset may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows generated by those assets to the assets' net carrying value. The amount of impairment loss, if any, will generally be measured by the difference between the net book value of the assets and the estimated fair value of the related assets. The adoption of SFAS 121 did not have a significant effect on the consolidated financial position or results of operations.

Intangible Assets - Intangible assets, which primarily consist of the cost of acquired businesses in excess of the fair value of tangible assets and liabilities acquired ("goodwill"), are generally amortized by the straight-line method over estimated useful lives of up to 40 years. The Company evaluates the amortization period of intangibles on an ongoing basis in light of changes in any business conditions, events or circumstances that may indicate the potential impairment of intangible assets. Accumulated amortization of intangible assets was $1.6 billion at December 31, 1998 and 1997.

Revenue Recognition - Subscriber fees for Networks are recognized in the period the service is provided. Advertising revenues for Networks are recognized in the period during which the spots are aired. Video segment revenues are recognized at the time of rental or sale. The publishing segment recognizes revenue when merchandise is shipped.

Theatrical revenues from domestic and foreign markets are recognized as films are exhibited; revenues from the sale of videocassettes and discs are recognized upon availability of sale to the public; and revenues from all television sources are recognized upon availability of the film for telecast. On average, the length of the initial revenue cycle for feature films approximates four to seven years.

Television series initially produced for the networks and first-run syndication are generally licensed to domestic and foreign markets concurrently. The more successful series are later syndicated in domestic markets and in certain foreign markets. The length of the revenue cycle for television series will vary depending on the number of seasons a series remains in active production. Revenues arising from television license agreements are recognized in the period that the films or television series are available for telecast and therefore may cause fluctuation in operating results.

Interest - Costs associated with the refinancing or issuance of debt, as well as with debt discount, are expensed as interest over the term of the related debt. The Company enters into interest rate exchange agreements; the amount to be paid or received under such agreements is accrued as interest rates change and is recognized over the life of the agreements as an adjustment to interest expense. Amounts paid for purchased interest rate cap agreements are amortized as interest expense over the term of the agreement.

Foreign Currency Translation and Transactions - The Company's foreign subsidiaries' assets and liabilities are translated at exchange rates in effect at the balance sheet date, while results of operations are translated at average exchange rates for the respective periods. The resulting translation gains or losses are included as a separate component of shareholders' equity in Accumulated Other Comprehensive Income. Foreign currency transaction gains and losses have been included in "other items, net", and have not been material in any of the years presented.

Provision for Doubtful Accounts - The provision for doubtful accounts charged to expense was $29.5 million (1998), $83.1 million (1997) and $55.1 million (1996).

Net Earnings (Loss) per Common Share - Basic earnings per share is based upon the net earnings applicable to common shares after preferred dividend requirements and upon the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the effect of the assumed conversions of convertible securities and exercise of stock options only in the periods in which such effect would have been dilutive.

In December 1998, the Company repurchased 12 million shares of its convertible preferred stock. The preferred stock had a cumulative cash dividend of $30 million per year.

For each of the full years presented, the effect of the assumed conversion of preferred stock is antidilutive and therefore, not reflected in diluted net earnings per common share. Prior period amounts have been adjusted to reflect the effect of the 2-for-1 stock split (See Note 2). The numerator used in the calculation of both basic and diluted EPS for each respective year reflects earnings from continuing operations less preferred stock dividends of $57.2 million for 1998 and $60 million for both 1997 and 1996 plus the discount on repurchase of preferred stock of $30 million for 1998. The table below presents a reconciliation of weighted average shares used in the calculation of basic and diluted EPS:

(Tabular dollars in millions, except per share amounts)

	1998	1997	1996
Weighted average shares for basic EPS	708.7	705.8	728.0
Plus incremental shares for stock options	--	2.7	6.7
Weighted average shares for diluted EPS	708.7	708.5	734.7

Comprehensive Income (Loss) -- The Company adopted SFAS 130, "Reporting Comprehensive Income", effective January 1, 1998. The components of accumulated other comprehensive income (loss) were as follows:

	Unrealized Gain (Loss) on Securities	Cumulative Translation Adjustments	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income(Loss)
At December 31, 1995	$ 2.0	$ (9.9)	$ (4.0)	$ (11.9)
Current period change	3.0	21.2	(6.4)	17.8
At December 31, 1996	5.0	11.3	(10.4)	5.9
Current period change	29.9	(50.4)	2.0	(18.5)
At December 31, 1997	34.9	(39.1)	(8.4)	(12.6)
Current period change	(33.7)	(19.0)	(1.8)	(54.5)
At December 31, 1998	$ 1.2	$ (58.1)	$ (10.2)	$ (67.1)

Reclassifications - Certain amounts reported for prior years have been reclassified to conform with the current year's presentation.

Recent Pronouncements - In April 1998, Statement of Position 98-5 "Reporting on the Costs of Start-Up Activities" ("SOP 98-5") was issued. SOP 98-5 provides guidance on the financial reporting of start-up costs and organization costs. The SOP is effective for financial statements for fiscal years beginning after December 15, 1998. The Company does not anticipate that the adoption of this statement will have a material effect on its financial statements.

In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), effective for fiscal years beginning after June 15, 1999. The Company anticipates that due to its limited use of derivative instruments, the adoption of SFAS 133 will not have a material effect on its financial statements.

In October 1998, the FASB released an exposure draft of the proposed statement on "Rescission of FASB Statement No. 53, Financial Reporting by Producers and Distributors of Motion Picture Films," ("SFAS 53"). An entity that previously was subject to the requirements of SFAS 53 would follow the guidance in a proposed Statement of Position, "Accounting by Producers and Distributors of Films." This proposed Statement of Position would be effective for financial statements for fiscal years beginning after December 15, 1999 and could have a significant impact on the Company's results of operations and financial position depending on its final outcome. The Company has not concluded on its impact given the preliminary stages of the proposed Statement of Position.

2) SUBSEQUENT EVENTS

On February 25, 1999, the Board of Directors of the Company declared a 2-for-1 common stock split, to be effected in the form of a dividend. The additional shares will be issued on March 31, 1999 to shareholders of record on March 15, 1999. All common share and per share amounts have been adjusted to reflect the stock split for all periods presented (See Note 10).

On January 5, 1999, the Company repurchased the remaining 12 million shares of its convertible preferred stock from Bell Atlantic Corporation for $612 million in cash.

3) DISCONTINUED OPERATIONS

In accordance with Accounting Principles Board Opinion ("APB") 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", the Company has presented the following lines of business as discontinued operations: its educational, professional and reference publishing businesses ("Non-Consumer Publishing"), its music retail stores, interactive game businesses, Viacom Radio Stations and Viacom Cable.

On November 27, 1998, the Company completed the sale of Non-Consumer Publishing to Pearson plc for approximately $4.6 billion in cash plus approximately $92 million related to changes in net assets, which is subject to change based upon final determination of net assets. Viacom retained its consumer publishing operations, including the Simon & Schuster name. As a result of the sale, the Company recorded a net gain on the transaction of $65.5 million.

On October 26, 1998, the Company completed the sale of its music retail stores to Wherehouse Entertainment, Inc. for approximately $115 million in cash before adjustments for changes in working capital and recorded a net loss on the transaction of $138.5 million. The Company had previously closed the remaining music stores that were not part of the transaction.

On February 19, 1997, the Company adopted a plan to dispose of its interactive game businesses, including Viacom New Media, the operations of which were terminated in 1997. On that same date, the Board of Directors of Spelling approved a formal plan to dispose of Virgin Interactive Entertainment Limited ("Virgin"). Accordingly, the interactive game businesses were presented as discontinued operations. On September 4, 1998, Spelling completed the sale of substantially all of the development operations of Virgin to Electronic Arts Inc. for $122.5 million in cash. In addition, on November 10, 1998, Spelling completed the sale of all non-U.S. operations of Virgin to an investor group.

For the year ended December 31, 1997, the revenues and operating losses of the interactive game businesses were $241.3 million and $43.5 million, respectively. These losses were provided for in the estimated loss on disposal of $159.3 million, net of minority interest, which included a provision for future operating losses of approximately $44.0 million, net of minority interest, as of December 31, 1996. In the fourth quarter of 1997, an estimated loss of $32.0 million, net of minority interest, was recorded, reflecting anticipated future operating losses and cash funding requirements through completion of the disposition.

On July 2, 1997, the Company completed the sale of Viacom Radio Stations to Chancellor Media Corp. for approximately $1.1 billion in cash. As a result of the sale, the Company realized a gain on disposition of approximately $416.4 million, net of tax, in the third quarter of 1997.

On July 31, 1996, the Company completed the split-off of its Cable segment pursuant to an exchange offer and related transactions. As a result, the Company realized a gain of approximately $1.3 billion, reduced its debt and retired approximately 4.1% of the Company's then total outstanding common shares.

For the year ended December 31, 1998, the net gain on dispositions of $49.9 million includes the gain from the sale of Non-Consumer Publishing of $65.5 million, net of tax, a tax benefit related to the sale of Virgin of $134.0 million and the reversal of cable split-off reserves that were no longer required, partially offset by the loss on the sale of the Company's music retail stores of $138.5 million, net of tax, and additional reserves of $20.3 million, net of minority interest, which provided for Virgin's operating losses through its disposition.

For the year ended December 31, 1997, the net gain on dispositions of $405.2 million includes approximately $416.4 million, net of tax, for the Viacom Radio Stations sale, a net reversal of approximately $20.8 million principally of Cable split-off reserves that were no longer required partially offset by a reserve of $32.0 million, net of minority interest, for anticipated additional losses associated with the operations of Virgin through disposition.

For the year ended December 31, 1996, the net gain on dispositions of approximately $1.2 billion includes the Cable gain of approximately $1.3 billion and the Company's estimated loss on disposal of its interactive game businesses of $159.3 million.

Basic earnings (loss) per share for discontinued operations was ($0.01), $0.60 and $1.50 for 1998, 1997 and 1996, respectively. Diluted earnings (loss) per share for discontinued operations was $(0.01), $0.60 and $1.49 for 1998, 1997 and 1996, respectively.

(Tabular dollars in millions, except per share amounts)

Summarized financial data of discontinued operations are as follows:

Results of discontinued operations:	Non-Consumer Publishing	Music	Radio	Cable	Interactive	Total
For the Year ended December 31, 1998(1)(2)						
Revenues	$1,718.0	$ 293.5	--	--	--	$2,011.5
Loss from operations before income taxes	(15.2)	(20.9)	--	--	--	(36.1)
Benefit (provision) for income taxes	(26.0)	8.0	--	--	--	(18.0)
Net loss	(41.2)	(12.9)	--	--	--	(54.1)
For the Year ended December 31, 1997(3)						
Revenues	$1,915.5	$ 605.7	$ 57.1	--	--	$2,578.3
Earnings (loss) from operations before income taxes	144.5	(100.3)	24.5	--	--	68.7
Benefit (provision) for income taxes	(80.8)	37.6	(10.6)	--	--	(53.8)
Net earnings (loss)	63.7	(62.7)	13.9	--	--	14.9
For the Year ended December 31, 1996(4)						
Revenues	$1,784.1	$ 616.2	$ 113.5	$ 236.9	$ 268.7	$3,019.4
Earnings (loss) from operations before income taxes	157.8	(87.4)	36.3	50.5	(157.6)	(0.4)
Benefit (provision) for income taxes	(85.0)	32.8	(16.1)	(21.5)	(1.2)	(91.0)
Net earnings (loss)	73.1	(54.6)	20.2	28.3	(129.0)	(62.0)

	At December 31, 1997
Financial position(5):	
Current assets	$ 114.9
Net property and equipment	14.5
Other assets	153.1
Total liabilities	(293.0)
Net liabilities of discontinued operations	$ (10.5)

(1) Results of operations reflect Non-Consumer Publishing for the period January 1 through November 26, 1998.
(2) Results of operations reflect the music retail stores for the period January 1 through August 10, 1998.
(3) Results of operations include Radio for the six months ended June 30, 1997. Results of operations of Interactive for 1997 were provided for in the prior year's estimated loss on disposal.
(4) Results of operations include Cable for the six months ended June 30, 1996.
(5) Reflects financial position of Interactive at December 31, 1997.

The provisions for income taxes of $18.0 million for 1998 and $53.8 million for 1997 represent effective tax rates of (49.9%) and 78.3%, respectively. The effective tax rate for 1996 is not meaningful. The differences between the effective tax rates and the statutory federal tax rate of 35% principally relate to certain non-deductible expenses, the allocation of nondeductible goodwill amortization, state and local taxes and, for 1996, the provision of valuation allowances attributable to net operating losses of Virgin.

4) CHANGE IN ACCOUNTING METHOD AND OTHER CHARGES

Effective April 1, 1998, Blockbuster adopted an accelerated method of amortizing videocassette and game rental inventory. Blockbuster has adopted this new method of amortization because it has implemented a new business model, including revenue sharing agreements with Hollywood studios, which has dramatically increased the number of videocassettes in the stores and is satisfying consumer demand over a shorter period of time. Revenue sharing allows Blockbuster to purchase videocassettes at a lower product cost than the traditional buying arrangements, with a percentage of the net rental revenues shared with the studios over a contractually determined period of time. As the new business model results in a greater proportion of rental revenue over a shorter period of time, Blockbuster has changed its method of amortizing rental inventory in order to more closely match expenses in proportion with the anticipated revenues to be generated therefrom.

Pursuant to the new accounting method, the Company records base stock videocassettes (generally less than five copies per title for each store) at cost and amortizes a portion of these costs on an accelerated basis over three months, generally to $8 per unit, with the remaining base stock videocassette costs amortized on a straight-line basis over 33 months to an estimated $4 salvage value. The cost of non-base stock videocassettes (generally greater than four copies per title for each store) is amortized on an accelerated basis over three months to an estimated $4 salvage value. Video games are amortized on an accelerated basis over a 12 month period to an estimated $10 salvage value. Revenue sharing payments are expensed when revenues are earned pursuant to the applicable contractual arrangements.

The new method of accounting has been applied to rental inventory held as of April 1, 1998. The adoption of the new method of amortization has been accounted for as a change in accounting estimate effected by a change in accounting principle. The Company recorded a pre-tax charge of $436.7 million to operating expenses in the second quarter of 1998. Approximately $424.3 million of the charge represents an adjustment to the carrying value of the rental tapes due to the new method of accounting and approximately $12.4 million represents a write-down of retail inventory.

The Company believes that the new amortization method developed for Blockbuster's new business model will result in a better matching of revenue and expense recognition. Under the new model, operating expense attributable to videocassettes is comprised of revenue sharing payments, which are expensed when earned, and amortization of product costs. The calculation of the change in operating expense attributable to videocassettes and games for the twelve months ended December 31, 1998 would not be meaningful because the method of accounting applied prior to April 1, 1998 did not contemplate the new business model.

Prior to April 1, 1998, videocassette rental inventory was recorded at cost and amortized over its estimated economic life. Base stock videocassettes (1 to 4 copies per title for each store) were amortized over 36 months on a straight-line basis. Non-base stock videocassettes (the fifth and succeeding copies per title for each store) were amortized over six months on a straight-line basis. Video game inventory was amortized on a straight-line basis over a period of 12 to 24 months.

During the second quarter of 1997, Blockbuster shifted its strategic emphasis from retailing a broad assortment of merchandise to focusing on its core rental business. Rationalization of the retail product lines such as sell-through video, confectionery items, literature, music and fashion merchandise allowed the Company to devote more management time and attention, as well as retail floor selling space, to its video and rental game business. In addition, as part of its effort to improve the performance of its operations, Blockbuster adopted a plan to close consistently underperforming stores primarily located in the United Kingdom and Australia and to exit the German market. As a result, Blockbuster recorded a pre-tax charge of $322.8 million which consisted of operating and general and administrative expenses of approximately $247.5 million, as well as depreciation expense attributable to the write-off of long-lived assets of $45.9 million and write-offs attributable to international joint ventures accounted for under the equity method of $29.4 million. As a result of exiting the music business, approximately $72.6 million of the charge has been presented as part of discontinued operations. The remaining balance of the charge consisted principally of $100.8 million for a reduction in the carrying value of excess merchandise inventories, $69.6 million for the closing of underperforming stores principally located in international markets, and $39.3 million recognized as general and administrative expenses, primarily related to relocation costs incurred in connection with the move of the Company's employees, corporate offices and data center from Fort Lauderdale, Florida to Dallas, Texas.

The $69.6 million charge for the closing of underperforming stores is comprised of a $41.8 million non-cash impairment charge associated with long-lived assets and a $27.8 million charge for lease exit obligations. These amounts have been recognized as depreciation expense and general and administrative expense, respectively. Through December 31, 1998, the Company has paid and charged approximately $12.8 million against the lease exit obligations.

During the fourth quarter of 1996, Blockbuster adopted a plan to abandon certain music retail stores, relocate its headquarters from Fort Lauderdale to Dallas and eliminate third party distributors domestically. As a result of such plan, Blockbuster recognized a restructuring charge of approximately $88.9 million of which approximately $38.7 million related to Music retail stores closings which is included as part of discontinued operations. Of the remaining charge, $25.0 million reflects estimated severance benefits payable to approximately 650 employees who had chosen not to relocate to Dallas, $11.6 million of other costs related to the disposition of its corporate headquarters and $13.6 million for eliminating third party distributors.

The Company relocation to Dallas was completed during the second quarter of 1997. Through December 31, 1998, the Company paid and charged approximately $25.0 million against the severance liability and approximately $11.4 million against the Fort Lauderdale exit. In addition, as of December 31, 1998, substantially all activities related to the music retail store closings have been completed.

(Tabular dollars in millions, except per share amounts)

5) ACCOUNTS RECEIVABLE

As of December 31, 1998, the Company had an aggregate of $399.6 million outstanding under revolving receivable securitization programs. Proceeds from the sale of these receivables were used to reduce outstanding borrowings. The resulting loss on the sale of receivables was not material to the Company's financial position and results of operations.

6) INVENTORIES

Inventories consist of the following:

	December 31,	
	1998	1997
Prerecorded videocassettes	$ 381.9	$ 559.2
Videocassette rental inventory	404.1	722.8
Publishing:		
Finished goods	59.7	301.2
Work in process	6.9	30.3
Materials and supplies	2.5	23.3
Other	17.7	20.6
	872.8	1,657.4
Less current portion	468.7	934.8
	$ 404.1	$ 722.6
Theatrical and television inventory:		
Theatrical and television productions:		
Released	$ 1,800.4	$ 1,736.0
Completed, not released	35.9	17.8
In process and other	321.0	341.4
Program rights	1,246.2	1,150.7
	3,403.5	3,245.9
Less current portion	1,336.8	1,317.9
	$ 2,066.7	$ 1,928.0
Total Current Inventory	$ 1,805.5	$ 2,252.7
Total Non-Current Inventory	$ 2,470.8	$ 2,650.6

(Tabular dollars in millions, except per share amounts)

7) INVESTMENTS IN AFFILIATED COMPANIES

The Company accounts for its investments in affiliated companies over which the Company has significant influence or ownership of more than 20% but less than or equal to 50%, under the equity method. Such investments principally include but are not limited to the Company's interest in Comedy Central (50% owned), United Paramount Network (50%, owned) and United Cinemas International (50% owned). Investments in affiliates are included as a component of other assets.

The following is a summary of combined financial information which is based on information provided by the equity investees.

	Year Ended December 31,		
	1998	1997	1996
Results of operations:			
Revenues	$ 1,898.3	$ 2,324.9	$ 2,074.9
Operating income (loss)	(73.2)	(142.5)	7.3
Net loss	(115.4)	(150.6)	(28.2)

	At December 31,	
	1998	1997
Financial position:		
Current assets	$740.5	$866.6
Non-current assets	781.2	616.7
Current liabilities	694.9	788.1
Non-current liabilities	451.8	366.0
Equity	375.0	329.2

The Company, through the normal course of business, is involved in transactions with affiliated companies that have not been material in any of the periods presented.

In 1998, equity in loss of affiliated companies, net of tax, principally reflects the net operating loss of United Paramount Network ("UPN"), a 50% interest which was acquired in January 1997, partially offset by the positive results of Comedy Central. In 1997, the equity loss primarily reflects the net operating loss of UPN and charges associated with international network ventures partially offset by earnings from the Company's half-interest in USA Networks which was sold on October 21, 1997.

(Tabular dollars in millions, except per share amounts)

8) BANK FINANCING AND DEBT

Long-term debt consists of the following:

	December 31, 1998	December 31, 1997
Notes payable to banks (a)	$ 848.3	$ 3,152.7
6.625% Senior Notes due 1998 (b)	--	150.0
5.875% Senior Notes * due 2000, net of unamortized discount of $.2 (1998) and (1997)	149.8	149.8
7.5% Senior Notes * due 2002, net of unamortized discount of $1.3 (1998) and $1.7 (1997)	248.7	248.3
6.75% Senior Notes due 2003, net of unamortized discount of $.2 (1998) and (1997)	349.8	349.8
7.75% Senior Notes due 2005, net of unamortized discount of $5.9 (1998) and $7.1 (1997)	965.0	992.9
7.625% Senior Debentures due 2016, net of unamortized discount of $1.2 1998 and $1.3 (1997)	198.7	198.7
8.25% Senior Debentures * due 2022, net of unamortized discount of $2.6 (1998) and $2.7 (1997)	247.4	247.3
7.5% Senior Debentures * due 2023, net of unamortized discount of $.5	149.5	149.5
9.125% Senior Subordinated Notes * due 1999 (c)	--	150.0
8.75% Senior Subordinated Reset Notes * due 2001 (d)	--	100.0
10.25% Senior Subordinated Notes * due 2001 (e)	36.3	200.0
7.0% Senior Subordinated Debentures * due 2003, net of unamortized discount of $36.0 (1997) (f)	--	195.5
8.0% Merger Debentures due 2006, net of unamortized discount of $44.1 (1998) and $98.9 (1997) (e)	475.2	971.4
Other Notes	20.5	16.6
Obligations under capital leases	501.4	527.0
	4,190.6	7,799.5
Less current portion	377.2	376.5
	$ 3,813.4	$ 7,423.0

*Issues of Viacom International guaranteed by the Company.

(a) -- Effective March 26, 1997, the Company and Viacom International Inc. ("Viacom International") amended and restated the $6.489 billion and $311 million Credit Agreements and the $1.8 billion Credit Agreement, originally established in 1994, to provide for credit agreements of $6.4 billion (the "March 1997 Viacom Credit Agreement") and $100 million (the "March 1997 Viacom International Credit Agreement," together with the March 1997 Viacom Credit Agreement, collectively the "March 1997 Credit Agreements"). The March 1997 Credit Agreements increased commitments by $400 million, extended maturities and reduced pricing.

Effective December 23, 1997, the Company permanently reduced its commitments under the March 1997 Credit Agreements by $1.0 billion.

Certain proceeds from the disposition of Non-Consumer Publishing in November of 1998 were used to reduce borrowings under the March 1997 Credit Agreements.

Effective June 30, 1997, certain financial covenants in the March 1997 Credit Agreements and the film financing credit agreement were amended to provide the Company with increased financial flexibility.

The following is a summary description of the March 1997 Credit Agreements as amended. The description does not purport to be complete and should be read in conjunction with each of the credit agreements which have been filed as exhibits and are incorporated by reference herein.

> The March 1997 Viacom Credit Agreement is comprised of (i) a $4.7 billion senior unsecured reducing revolving loan maturing July 1, 2002 and (ii) a $700 million term loan maturing April 1, 2002. The March 1997 Viacom International Credit Agreement is comprised of a $100 million term loan maturing July 1, 2002.
>
> The Company guarantees the March 1997 Viacom International Credit Agreement and notes and debentures issued by Viacom International. Viacom International guarantees the March 1997 Viacom Credit Agreement and notes and debentures issued by the Company.
>
> The Company may prepay the loans and reduce commitments under the March 1997 Credit Agreements in whole or in part at any time.
>
> The March 1997 Credit Agreements contain certain covenants which, among other things, require that the Company maintain certain financial ratios and impose on the Company and its subsidiaries certain limitations on substantial asset sales and mergers with any other company in which the Company is not the surviving entity.
>
> The March 1997 Credit Agreements contain certain customary events of default and provide that it is an event of default if NAI fails to own at least 51% of the outstanding voting stock of the Company.

The interest rate on all loans made under the three facilities is based upon Citibank, N.A.'s base rate or the London Interbank Offered Rate ("LIBOR") and is affected by the Company's credit rating. At December 31, 1998, the LIBOR (upon which the Company's borrowing rate was based) for borrowing periods of one month and two months were each 5.09%. At December 31, 1997, LIBOR for borrowing periods of one and two months were 5.72% and 5.75%, respectively.

The Company is required to pay a commitment fee based on the aggregate daily unborrowed portion of the loan commitments. As of December 31, 1998, the Company had $4.7 billion of available unborrowed loan commitments. The March 1997 Credit Agreements do not require compensating balances.

On May 8, 1998, a subsidiary of the Company amended the 364-day film financing credit agreement, guaranteed by Viacom International and the Company, which extended the expiration date for one year, reduced pricing and decreased the available credit by $109 million to $361 million.

(b) -- On February 17, 1998, the Company retired all $150.0 million of its outstanding 6.625% Senior Notes due 1998.

(c) -- On February 15, 1998, the Company redeemed all $150.0 million of Viacom International's outstanding 9.125% Senior Subordinated Notes due 1999, at a redemption price equal to 101.3% of the principal amount.

(d) -- On May 15, 1998, the Company redeemed all $100.0 million of Viacom International's outstanding 8.75% Senior Subordinated Reset Notes due 2001 at a redemption price equal to 101% of the principal amount.

(e) -- During December 1998, the Company commenced the unconditional tender offers to purchase for cash, all of its outstanding 8.0% Merger Debentures due 2006 at a purchase price of 104% of the principal amount, and to purchase Viacom International's outstanding 10.25% Senior Subordinated Notes due 2001 at a purchase price of 112.925% of the principal amount. The tender offer for the 8.0% Merger Debentures expired on January 4, 1999. The offer for the 10.25% Senior Subordinated Notes expired December 30, 1998 and $163.7 million of such notes were tendered. Through December 31, 1998, $533.8 million of the 8% Merger Debentures were tendered and classified as part of accrued liabilities as the settlement date occurred subsequent to year end. In 1999, an additional $307.5 million of the 8.0% Merger Debentures were tendered for a total principal amount of $841.3 million of notes tendered.

In addition, the Company purchased $21.8 million of the 8.0% Merger Debentures and $29.0 million of the 7.75% Senior Notes in open market transactions during 1998.

(f) -- On December 30, 1998, the Company redeemed all $231.5 million of Viacom International's outstanding 7% Senior Subordinated Debentures due 2003 at a redemption price equal to 100% of the principal amount.

The Company filed a shelf registration statement with the Securities and Exchange Commission registering debt securities, preferred stock and contingent value rights of Viacom and guarantees of such debt securities by Viacom International which may be issued for aggregate gross proceeds of $3.0 billion. The registration statement was declared effective on May 10, 1995. The net proceeds from the sale of the offered securities may be used by Viacom to repay, redeem, repurchase or satisfy its obligations in respect of its outstanding indebtedness or other securities; to make loans to its subsidiaries; for general corporate purposes; or for such other purposes as may be specified in the applicable Prospectus Supplement. The Company filed a post-effective amendment to this registration statement on November 19, 1996. To date, the Company has issued $1.55 billion of notes and debentures and has $1.45 billion remaining availability under the shelf registration statement.

(Tabular dollars in millions, except per share amounts)

Interest costs incurred, interest income and capitalized interest are summarized below:

	Year Ended December 31,		
	1998	1997	1996
Interest Incurred	$ 622.3	$ 772.8	$ 823.9
Interest Income	23.4	21.0	33.9
Capitalized Interest	--	1.0	4.5

The Company's scheduled maturities of indebtedness through December 31, 2003, assuming full utilization of the March 1997 Credit Agreements, as amended, are $1.2 billion (1999), $1.7 billion (2000), $1.8 billion (2001), $2.0 billion (2002) and $350.0 million (2003). The Company's maturities of long-term debt outstanding at December 31, 1998, excluding capital leases, are $327.9 million (1999), $150.0 million (2000), $36.3 million (2001), $1.1 billion (2002) and $350.0 million (2003). The Company has classified certain short-term indebtedness as long-term debt based upon its intent and ability to refinance such indebtedness on a long-term basis.

9) FINANCIAL INSTRUMENTS

The Company's carrying value of financial instruments approximates fair value, except for differences with respect to the notes and debentures and certain differences related to other financial instruments which are not significant. The carrying value of the senior debt, senior subordinated debt and subordinated debt is $2.8 billion and the fair value, which is estimated based on quoted market prices, is approximately $3.0 billion.

The Company enters into foreign currency exchange contracts in order to reduce its exposure to changes in foreign currency exchange rates that affect the value of its firm commitments and certain anticipated foreign currency cash flows. These contracts generally mature within the calendar year. The Company does not enter into foreign currency contracts for speculative purposes. To date, the contracts utilized have been purchased options, spots and forward contracts. A spot or forward contract is an agreement between two parties to exchange a specified amount of foreign currency, at a specified exchange rate on a specified date. An option contract provides the right, but not the obligation, to buy or sell currency at a fixed exchange rate on a future date. In 1998 the foreign exchange contracts have principally been used to hedge the British Pound, the Australian Dollar, the Japanese Yen, the Canadian Dollar, the Singapore Dollar, the European Union's common currency (the "Euro") and the European Currency Unit/British Pound relationship. At December 31, 1998, the Company had outstanding contracts with a notional value of approximately $4.3 million which expire in 1999. Realized gains and losses on contracts that hedge anticipated future cash flows are recognized in "other items, net" and were not material in each of the periods. Option premiums are expensed at the inception of the contract. Deferred gains and losses on foreign currency exchange contracts as of December 31, 1998 were not material.

The Company continually monitors its positions with, and credit quality of, the financial institutions which are counterparties to its financial instruments. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the agreements. However, the Company does not anticipate nonperformance by the counterparties. The Company's receivables do not represent significant concentrations of credit risk at December 31, 1998, due to the wide variety of customers, markets and geographic areas to which the Company's products and services are sold.

10) SHAREHOLDERS' EQUITY

On February 25, 1999, the Company announced a 2-for-1 common stock split in the form of a dividend with a record date of March 15, 1999 and a distribution date of March 31, 1999. An amount equal to the par value of the shares issued has been transferred from additional paid-in capital to the common stock account. All common shares and per-share amounts have been adjusted to reflect the stock split for all periods presented.

On December 2, 1998, as part of its repurchase program described below, the Company repurchased 12 million shares of its convertible preferred stock, par value $.01 per share, from Bell Atlantic Corporation for $564 million in cash. On January 5, 1999, the Company repurchased the remaining 12 million shares of its convertible preferred stock from Bell Atlantic Corporation for $612 million in cash. The preferred stock had a cumulative cash dividend of $60 million per year and was convertible into approximately 34.3 million shares of the Company's Class B common stock.

On August 31, 1998, the Company initiated a repurchase program to acquire one or more classes of the Company's equity securities. Through December 31, 1998, the Company had repurchased 12,000 shares of Class A Common Stock, 26,190,200 shares of Class B Common Stock, 5,502,000 Viacom Five-Year Warrants, expiring on July 7, 1999, and 12 million shares of its convertible preferred stock for approximately $1.4 billion in the aggregate. On February 10, 1999, the program was completed and the Company had repurchased a total of 12,000 shares of Class A Common Stock 26,255,600 shares of Class B Common Stock, 5,546,500 Viacom Five-Year warrants, expiring on July 7, 1999 and 24 million shares of its convertible preferred stock. The total repurchase program approximated $2.0 billion. The cost of the acquired treasury stock has been reflected separately as a reduction to shareholders' equity. The acquired warrants have been canceled and the cost has been reflected as a reduction to additional paid-in capital.

At December 31, 1998 and 1997, respectively, there were 6,090,822 and 11,522,695 outstanding Viacom Five-Year Warrants, expiring July 7, 1999 and at December 31, 1996 there were 30,576,562 outstanding Viacom Three-Year Warrants, which expired July 7, 1997. The decrease in the outstanding Viacom Five-Year Warrants is attributable to the 1998 stock repurchase program.

(Tabular dollars in millions, except per share amounts)

During 1997, the Company completed its joint purchase program initially established in September 1996 with NAI, for each to acquire up to $250 million, or $500 million in total, of the Company's Class A Common Stock, Class B Common Stock, and, as to the Company, Viacom Warrants. The Company repurchased 1,319,400 shares of Viacom Inc. Class A Common Stock, 11,632,600 shares of Viacom Inc. Class B Common Stock and 6,824,590 Viacom Five-Year Warrants, expiring on July 7, 1999, for approximately $250 million in the aggregate. The cost of the acquired treasury stock has been reflected separately as a reduction to shareholders' equity. The cost of the warrants has been reflected as a reduction to additional paid-in-capital and such warrants have been cancelled. As of December 31, 1997, NAI has separately acquired 2,564,400 shares of Viacom Inc. Class A Common Stock and 11,204,000 shares of Viacom Inc. Class B Common Stock pursuant to the joint purchase program for approximately $250 million, raising its ownership to approximately 67% of Viacom Inc. Class A Common Stock and approximately 28% of Class A and Class B Common Stock on a combined basis.

Long-Term Incentive Plans - The purpose of the Company's 1989, 1994 and 1997 Long-Term Incentive Plans (the "Plans") is to benefit and advance the interests of the Company by rewarding certain key employees for their contributions to the financial success of the Company and thereby motivating them to continue to make such contributions in the future. The Plans provide for fixed grants of equity-based interests pursuant to awards of phantom shares, stock options, stock appreciation rights, restricted shares or other equity-based interests ("Awards"), and for subsequent payments of cash with respect to phantom shares or stock appreciation rights based, subject to certain limits, on their appreciation in value over stated periods of time. The stock options generally vest over a four to six year period from the date of grant and expire 10 years after the date of grant.

The stock options available for future grant are as follows:

December 31, 1996	40,701,682
December 31, 1997	26,753,956
December 31, 1998	14,849,484

The Company has adopted the disclosure-only provisions of SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). In accordance with the provisions of SFAS 123, the Company applies APB 25 "Accounting for Stock Issued to Employees" and related interpretations in accounting for the Plans and accordingly, does not recognize compensation expense for its stock option plans because the Company typically does not issue options at exercise prices below the market value at date of grant. Had compensation expense for its stock option plans been determined based upon the fair value at the grant date for awards consistent with the methodology prescribed by SFAS 123, the Company's consolidated pre-tax income would have decreased by $67.4 million ($40.5 million after tax or $.06 per basic and diluted common share), $36.3 million ($22.2 million after tax or $.03 per basic and diluted common share) and $18.3 million ($11.0 million after tax or $.02 per basic and diluted common share) in 1998, 1997 and 1996, respectively. These pro forma effects may not be representative of future amounts since the estimated fair value of stock options on the date of grant is amortized to expense over the vesting period, and additional options may be granted in future years.

(Tabular dollars in millions, except per share amounts)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	1998	1997	1996
Expected dividend yield(a)	--	--	--
Expected stock price volatility ...	32.76%	31.74%	32.50%
Risk-free interest rate	5.43%	6.04%	6.19%
Expected life of options (years) ..	6.0	6.0	6.0

(a) The Company has not declared any cash dividends on its common stock for any of the periods presented and has no present intention of so doing.

The weighted-average fair value of each option as of the grant date was $12.97, $6.58 and $8.14 in 1998, 1997 and 1996, respectively.

The following table summarizes the Company's stock option activity under the various plans (all options and prices reflect the stock split):

	Options Outstanding	Weighted-Average Exercise Price
Balance at December 31, 1995	37,136,642	$15.35
Granted	12,527,600	18.75
Exercised	(7,677,298)	15.18
Canceled	(2,695,930)	18.78
Balance at December 31, 1996	39,291,014	16.23
Granted	18,406,000	15.34
Exercised	(5,467,748)	14.40
Canceled	(7,012,692)	18.24
Balance at December 31, 1997	45,216,574	15.78
Granted	13,576,420	30.53
Exercised	(12,077,298)	16.16
Canceled	(1,802,390)	16.97
Balance at December 31, 1998	44,913,306	20.09

(Tabular dollars in millions, except per share amounts)

The following table summarizes information concerning currently outstanding and exercisable stock options of the Company at December 31, 1998:

	Outstanding			Exercisable	
Range of Exercise Prices	Options	Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
$10 to $15	1,017,994	3.4	$13.43	847,994	$13.20
15 to 20	27,705,974	7.7	16.49	5,906,282	17.66
20 to 25	1,304,000	6.8	22.55	809,998	22.72
25 to 30	759,178	5.0	27.08	700,868	27.23
30 to 35	13,498,420	9.6	30.59	--	--
3 to 25(a)	359,384(a)	4.2	14.29	359,384	14.29
15 to 30(b)	268,356(b)	4.0	23.51	268,356	23.51
	44,913,306			8,892,882	

(a) Represents information for options assumed with the merger of Blockbuster.
(b) Represents information for options assumed with the merger of Paramount.

Shares issuable under exercisable stock options:

December 31, 1996	22,486,440
December 31, 1997	14,795,698
December 31, 1998	8,892,882

The Company has reserved a total of 85,694 shares of Viacom Inc. Class A Common Stock and 57,033,736 shares of Viacom Inc. Class B Common Stock principally for exercise of stock options and warrants.

Spelling Stock Option Plans - Spelling currently has stock option plans under which both incentive and nonqualified stock options have been granted to certain key employees, consultants and directors. Options have generally been granted with an exercise price equal to the fair market value of the underlying Common Stock on the date of grant, although nonqualified options may be granted with an exercise price not less than 50% of such fair market value. Each option is granted subject to various terms and conditions established on the date of grant, including vesting periods and expiration dates. The options typically become exercisable at the rate of 20% or 25% annually, beginning one year after the date of grant. Options expire no later than 10 years from their date of grant.

(Tabular dollars in millions, except per share amounts)

The Spelling stock options available for future grant are as follows:

December 31, 1996	5,094,251(a)
December 31, 1997	3,030,838
December 31, 1998	2,867,963

(a) Includes 1,360,866 shares available for grant under a plan which expired on April 13, 1997.

The weighted average fair value of each option as of the grant date was $2.91, $2.65 and $2.66 for 1998, 1997 and 1996, respectively. The fair value of each Spelling option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	1998	1997	1996
Expected dividend yield(a)	--	--	--
Expected stock price volatility	34.30%	30.91%	28.45%
Risk-free interest rate	4.91%	5.75%	6.60%
Expected life of options (years)	6.2	5.2	4.8

(a) During 1998, 1997 and 1996, Spelling did not declare any cash dividends on its common stock.

The following table summarizes Spelling's stock option activity:

	Options Outstanding	Weighted-Average Exercise Price
Balance at December 31, 1995	5,759,218	$ 7.72
Granted	3,750,010	7.13
Exercised	(841,943)	4.91
Canceled	(688,967)	7.02
Balance at December 31, 1996	7,978,318	7.80
Granted	1,171,000	6.90
Exercised	(362,008)	6.29
Canceled	(588,519)	8.90
Balance at December 31, 1997	8,198,791	7.66
Granted	1,287,500	6.76
Exercised	(671,279)	6.15
Canceled	(1,187,839)	8.06
Balance at December 31, 1998	7,627,173	7.58

(Tabular dollars in millions, except per share amounts)

The following table summarizes Spelling's information concerning currently outstanding and exercisable stock options at December 31, 1998:

	Outstanding			Exercisable	
Range of Exercise Prices	Options	Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
$5.25 to $ 5.75	25,834	7.27	$ 5.69	8,959	$ 5.56
6.00 to 7.75	5,942,717	7.48	6.83	2,309,842	6.61
7.88 to 9.88	469,622	5.66	9.11	417,122	9.14
10.00 to 11.78	1,189,000	5.86	10.75	1,179,000	10.75
$5.25 to $11.78	7,627,173	7.12	$ 7.58	3,914,923	$ 8.12

Shares issuable under exercisable stock options:

December 31, 1996	3,079,436
December 31, 1997	3,813,349
December 31, 1998	3,914,923

Options related to employees of Virgin and included in the tables above are 875,010 shares granted for the year ended December 31, 1996. Also included are 120,276, 133,582 and 775,220 shares exercised, and 615,060, 184,269 and 149,921 shares terminated for the years ended December 31, 1998, 1997 and 1996, respectively.

11) INCOME TAXES

Earnings from continuing operations before income taxes are attributable to the following jurisdictions:

	Year Ended December 31,		
	1998	1997	1996
United States	$ 74.1	$ 910.4	$ 152.6
Foreign	63.2	268.1	257.5
Total	$ 137.3	$1,178.5	$ 410.1

(Tabular dollars in millions, except per share amounts)

Components of the provision for income taxes on earnings from continuing operations before income taxes are as follows:

	Year Ended December 31,		
	1998	1997	1996
Current:			
Federal	$ 151.0	$ 370.0	$ 155.9
State and local	34.9	115.1	27.7
Foreign	50.9	24.5	76.6
	236.8	509.6	260.2
Deferred	(98.1)	136.8	(16.9)
	$ 138.7	$ 646.4	$ 243.3

The earnings (loss) of affiliated companies accounted for under the equity method are shown net of tax on the Company's Statements of Operations. The tax provision (benefit) relating to earnings (loss) from equity investments in 1998, 1997 and 1996 are ($24.0) million, ($29.0) million and $14.9 million, respectively, which represents an effective tax rate of 36.7%, 15.1% and 762.1%, respectively.

The difference between the effective tax rates and the statutory U.S. federal tax rate of 35% is principally due to the effect of non-deductible goodwill amortization, state and local taxes and foreign losses for which no benefit was provided. Excluding the non-deductible amortization of intangibles, the annual effective tax rate on earnings from continuing operations before income taxes would have been 31.8%, 44.1% and 35.7% for 1998, 1997 and 1996, respectively. See Note 3 for tax benefits relating to the discontinued operations. In addition to the amounts reflected in the table above, $55.1 million and $7.8 million of income tax benefit in 1998 and 1997, respectively, was recorded as a component of shareholders' equity as a result of exercised stock options.

A reconciliation of the statutory U.S. federal tax rate to the Company's effective tax rate on earnings from continuing operations before income taxes is summarized as follows:

	Year Ended December 31,		
	1998	1997	1996
Statutory U.S. federal tax rate	35.0%	35.0%	35.0%
State and local taxes, net of federal tax benefit	5.7	5.9	2.3
Effect of foreign operations	(35.5)	(0.6)	(13.0)
Amortization of intangibles	86.3	9.7	27.1
Divestiture tax versus book	(.5)	--	1.0
Other, net	10.0	4.9	6.9
Effective tax rate on earnings from continuing operations before income taxes	101.0%	54.9%	59.3%

(Tabular dollars in millions, except per share amounts)

The following is a summary of the components of the deferred tax accounts:

	Year Ended December 31, 1998	1997
Current deferred tax assets and (liabilities):		
Recognition of revenue	$ 103.0	$ 76.7
Sales return and allowances	29.9	91.5
Publishing costs	15.2	15.6
Employee compensation and other payroll related expenses	23.7	48.0
Other differences between tax and financial statement values	7.1	4.5
Gross current deferred net tax assets	178.9	236.3
Noncurrent deferred tax assets and (liabilities):		
Depreciation/amortization of fixed assets and intangibles	45.0	(179.5)
Reserves including restructuring and relocation charges	260.3	296.7
Acquired net operating loss and tax credit carryforwards	60.9	82.1
Amortization of discount on 8% Merger Debentures	60.4	61.3
Other differences between tax and financial statement values	26.9	95.3
Gross non-current deferred net tax assets	453.5	355.9
Valuation allowance	(88.3)	(106.8)
Total net deferred tax assets (liabilities)	$ 544.1	$ 485.4

As of December 31, 1998 and December 31, 1997, the Company had total deferred tax assets of $632.4 million and $771.7 million, respectively, and total deferred tax liabilities of $179.5 million as of December 31, 1997. There were no deferred tax liabilities as of December 31, 1998.

As of December 31, 1998, the Company had net operating loss carryforwards of approximately $173.7 million which expire in various years from 1999 through 2012.

The 1998 and 1997 net deferred tax assets are reduced by a valuation allowance of $88.3 million and $106.8 million, respectively, principally relating to tax benefits of net operating losses which are not expected to be recognized as a result of certain limitations applied where there is a change of ownership.

The Company's share of the undistributed earnings of foreign subsidiaries not included in its consolidated federal income tax return that could be subject to additional income taxes if remitted, was approximately $1.5 billion at December 31, 1998 and December 31, 1997. No provision has been recorded for the U.S. or foreign taxes that could result from the remittance of such undistributed earnings since the Company intends to reinvest these earnings outside the United States indefinitely and it is not practicable to estimate the amount of such taxes.

As of December 31, 1998, the Company owns approximately 80% of Spelling's outstanding common stock and consolidates Spelling's results for tax purposes.

12) PENSION PLANS, OTHER POSTRETIREMENT BENEFITS AND POSTEMPLOYMENT BENEFITS

The Company and certain of its subsidiaries have non-contributory pension plans covering specific groups of employees. Effective January 1, 1996, the pension plans of Paramount were merged with the Company's pension plans. The Pension Plan for Employees of PVI Transmission Inc. and Paramount Distribution Inc. was merged with and into the Viacom Pension Plan effective December 31, 1996. The benefits for these plans are based primarily on an employee's years of service and pay near retirement. Participant employees are vested in the plans after five years of service. The Company's policy for all pension plans is to fund amounts in accordance with the Employee Retirement Income Security Act of 1974. Plan assets consist principally of common stocks, marketable bonds and U.S. government securities. The Company's Class B Common Stock represents approximately 15.8% and 10% of the plan assets' fair value at December 31, 1998 and 1997, respectively.

The Company adopted SFSA 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits - an amendment of FASB Statements No. 87, 88 and 106" in 1998.

(Tabular dollars in millions, except per share amounts)

The following table sets forth the change in benefit obligation for the Company's benefit plans:

	Pension Benefits December 31, 1998	Pension Benefits December 31, 1997	Postretirement Benefits December 31, 1998	Postretirement Benefits December 31, 1997
Change in benefit obligation:				
Benefit obligation, beginning of year	$ 785.3	$ 667.8	$103.6	$ 98.8
Service cost	36.8	32.1	1.0	1.0
Interest cost	57.8	54.1	6.5	7.4
Benefits paid	(39.3)	(38.8)	(8.8)	(9.2)
Actuarial (gain) loss	66.8	70.4	(2.9)	4.5
Curtailments/Divestitures	(61.4)	--	(46.9)	--
Participant contributions	--	--	1.1	1.1
Amendments	--	.8	--	--
Cumulative translation adjustments	(1.8)	(1.1)	--	--
Benefit obligation, end of year	$ 844.2	$ 785.3	$ 53.6	$ 103.6

The following table sets forth the change in plan assets for the Company's benefit plans:

	Pension Benefits December 31, 1998	Pension Benefits December 31, 1997	Postretirement Benefits December 31, 1998	Postretirement Benefits December 31, 1997
Change in plan assets:				
Fair value of plan assets, beginning of year	$ 697.3	$ 606.2	$ --	$ --
Actual return on plan assets	146.4	123.6	--	--
Employer contributions	7.3	7.9	7.7	8.1
Benefits paid	(39.3)	(38.8)	(8.8)	(9.2)
Divestitures	(21.7)	--	--	--
Participant contributions	--	--	1.1	1.1
Cumulative translation adjustments	(3.4)	(1.6)	--	--
Fair value of plan assets, end of year	$ 786.6	$ 697.3	$ --	$ --

The projected benefit obligations and accumulated benefit obligations for the pension plans with accumulated benefit obligations in excess of plan assets were $99.6 million and $88.4 million for 1998, and $85.7 million and $75.1 million for 1997.

The accrued pension and postretirement costs recognized in the Company's consolidated balance sheets are computed as follows:

	Pension Benefits December 31, 1998	Pension Benefits December 31, 1997	Postretirement Benefits December 31, 1998	Postretirement Benefits December 31, 1997
Funded status	$ (57.6)	$ (88.0)	$(53.6)	$(103.6)
Unrecognized actuarial gain	(97.5)	(71.5)	(16.2)	(30.1)
Unrecognized prior service cost (benefit)	12.5	15.1	(5.4)	(25.1)
Unrecognized asset at transition	(2.1)	(4.3)	--	--
Accrued pension liability, net	$(144.7)	$(148.7)	$(75.2)	$(158.8)
Amounts recognized in the Consolidated Balance Sheets:				
Accrued pension liability, net	$(161.1)	$(163.3)	$(75.2)	$(158.8)
Prepaid benefits cost	2.3	3.6	--	--
Intangibles	3.9	2.6	--	--
Accumulated other comprehensive loss	10.2	8.4	--	--
Net liability recognized	$(144.7)	$(148.7)	$ (75.2)	$(158.8)

(Tabular dollars in millions, except per share amounts)

Net periodic cost for the Company's pension and postretirement benefit plans consists of the following:

	Pension Benefits December 31,			Postretirement Benefits December 31,		
	1998	1997	1996	1998	1997	1996
Components of net periodic cost:						
Service cost	$ 36.8	$ 32.1	$ 31.1	$ 1.0	$ 1.0	$ 1.0
Interest cost	57.8	54.1	50.6	6.5	7.4	8.1
Expected return on plan assets	(64.4)	(56.0)	(48.8)	--	--	--
Amortization of prior service cost	2.6	1.6	1.7	(3.0)	(3.2)	(3.2)
Amortization of transition obligation	(2.2)	(.7)	(.5)	--	--	--
Recognized actuarial (gain) loss	3.7	3.3	(.2)	(2.9)	(3.1)	(1.3)
Curtailment (gain)	(31.4)	--	--	(77.5)	--	--
Net periodic cost	$ 2.9	$ 34.4	$ 33.9	$ (75.9)	$ 2.1	$ 4.6

The following assumptions were used in accounting for the pension plans:

	1998	1997	1996
Discount rate	6.75%	7.25%	7.75%
Expected return on plan assets	9.5%	9.5%	9.5%
Rate of increase in future compensation	5.0%	5.0%	5.0%

The following assumptions were used in accounting for postretirement benefits:

	1998	1997	1996
Projected health care cost trend rate	6.0%	7.0%	9.0%
Ultimate trend rate	5.5%	5.5%	5.5%
Year ultimate trend rate is achieved	1999	1999	1999
Discount rate	6.75%	7.25%	7.75%

Assumed health care cost trend rates could have a significant effect on the amounts reported for the postretirement health care plan. A one percentage point change in assumed health care cost trend rates would have the following effects:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components	$ .6	$ (.5)
Effect on the postretirement benefit obligation	$ 4.4	$ (3.8)

As a result of the sale of Non-Consumer Publishing, the Company realized curtailment gains of $31.4 million related to pension benefits and $77.5 million related to postretirement benefits, which have been included in the net gain on disposition in 1998.

The Company contributes to multi-employer plans which provide pension and health and welfare benefits to certain employees under collective bargaining agreements. The contributions to these plans were $35.4 million (1998) and $52.5 million (1997).

In addition, the Company sponsors a health and welfare plan which provides certain postretirement health care and life insurance benefits to retired employees and their covered dependents who are eligible for these benefits if they meet certain age and service requirements. The plan is contributory and contains cost-sharing features such as deductibles and coinsurance which are adjusted annually. The plan is not funded and the Company funds these benefits as claims are paid.

(Tabular dollars in millions, except per share amounts)

SFAS 112, "Employers' Accounting For Postemployment Benefits" does not have a significant effect on the Company's consolidated financial position or results of operations.

In addition, the Company has defined contribution plans for the benefit of substantially all employees meeting certain eligibility requirements. Employer contributions to such plans were $21.1 million, $19.2 million and $24.4 million for the years ended December 31, 1998, 1997 and 1996.

13) COMMITMENTS AND CONTINGENCIES

The Company has long-term noncancelable lease commitments for retail and office space and equipment, transponders, studio facilities and vehicles.

At December 31, 1998, minimum rental payments under noncancelable leases are as follows:

	Leases	
	Operating	Capital
1999	$ 553.2	$ 120.4
2000	516.9	106.8
2001	441.6	101.1
2002	347.7	90.7
2003	314.4	69.4
2004 and thereafter	1,630.3	164.3
Total minimum lease payments	$ 3,804.1	652.7
Less amounts representing interest		(151.3)
Present value of net minimum payments		$ 501.4

The Company has entered into capital leases for satellite transponders with future minimum commitments commencing in future periods. Future minimum capital lease payments have not been reduced by future minimum sublease rentals of $40.0 million. Rent expense amounted to $533.8 million (1998), $523.1 million (1997) and $392.3 million (1996).

The commitments of the Company for program license fees, which are not reflected in the balance sheet as of December 31, 1998 and are estimated to aggregate approximately $1.2 billion, excluding intersegment commitments of approximately $738.9 million, principally reflect Showtime Networks Inc.'s ("SNI's") commitments of approximately $1.1 billion for the acquisition of programming rights and the production of original programming. This estimate is based upon a number of factors. A majority of such fees are payable over several years, as part of normal programming expenditures of SNI. These commitments to acquire programming rights are contingent upon delivery of motion pictures which are not yet available for premium television exhibition and, in many cases, have not yet been produced.

There are various lawsuits and claims pending against the Company. Management believes that any ultimate liability resulting from those actions or claims will not have a material adverse effect on the Company's results of operations, financial position or liquidity.

Certain subsidiaries and affiliates of the Company from time to time receive claims from federal and state environmental regulatory agencies and other entities asserting that they are or may be liable for environmental cleanup costs and related damages, principally relating to discontinued operations conducted by its former mining and manufacturing businesses (acquired as part of the mergers with Paramount and Blockbuster). The Company has recorded a liability reflecting its best estimate of environmental exposure. Such liability was not discounted or reduced by potential insurance recoveries and reflects management's estimate of cost sharing at multiparty sites. The estimated liability was calculated based upon currently available facts, existing technology and presently enacted laws and regulations. On the basis of its experience and the information currently available to it, the Company believes that the claims it has received will not have a material adverse effect on its results of operations, financial position or liquidity.

(Tabular dollars in millions, except per share amounts)

14) OPERATING SEGMENTS

The Company's reportable operating segments have been determined in accordance with the Company's internal management structure, which is organized based on products and services. See Note 1 for descriptive information about the Company's business segments and the summary of significant accounting policies. The Company evaluates performance based on many factors, one of the primary measures is earnings before interest, taxes, depreciation and amortization ("EBITDA").

The following tables set forth the Company's financial results by operating segments. The prior years' results have also been reclassified to conform to the new presentation. Intersegment revenues, recorded at fair market value, of the Entertainment segment for 1998, 1997 and 1996 were $156.7 million, $114.0 million and $45.9 million, respectively. All other intersegment revenues were immaterial for any of the periods presented.

	Year Ended or at December 31,		
	1998	1997	1996
Revenues:			
Networks	$ 2,607.9	$ 2,262.8	$ 1,999.5
Entertainment	4,757.8	4,305.9	3,897.9
Video	3,893.4	3,313.6	2,942.3
Parks	421.2	367.3	361.9
Publishing	564.6	556.6	547.6
Online	13.7	10.4	--
Intercompany	(162.5)	(131.7)	(65.3)
Total revenues	$ 12,096.1	$ 10,684.9	$ 9,683.9
EBITDA:			
Networks	$ 851.3	$ 729.4	$ 619.3
Entertainment	640.5	514.5	593.7
Video	39.9	221.6	635.7
Parks	101.1	88.9	87.9
Publishing	71.2	77.9	77.8
Online	(3.5)	2.3	--
Segment total	1,700.5	1,634.6	2,014.4
Reconciliation to operating income:			
Corporate expenses	(171.6)	(176.6)	(162.9)
Depreciation and amortization	(777.3)	(772.6)	(654.3)
Total operating income	$ 751.6	$ 685.4	$ 1,197.2
Depreciation and amortization:			
Networks	$ 107.0	$ 93.8	$ 86.8
Entertainment	192.5	171.5	165.4
Video	382.1	418.4	326.3
Parks	51.2	46.5	44.2
Publishing	18.0	17.5	17.7
Online	4.0	--	--
Segment total	754.8	747.7	640.4
Corporate	22.5	24.9	13.9
Total depreciation and amortization	$ 777.3	$ 772.6	$ 654.3

(Tabular dollars in millions, except per share amounts)

	Year Ended or at December 31,		
	1998	1997	1996
Total assets:			
Networks	$ 2,770.2	$ 2,692.8	$ 2,925.3
Entertainment	9,361.6	9,342.9	9,224.4
Video	8,142.6	8,965.4	9,273.7
Parks	914.8	897.2	883.1
Publishing	962.4	5,439.4	5,405.1
Online	5.8	1.4	--
Segment total	22,157.4	27,339.1	27,711.6
Corporate	1,455.7	949.6	833.0
Net assets of discontinued operations	--	--	289.4
Total assets	$23,613.1	$28,288.7	$28,834.0
Capital expenditures:			
Networks	$ 89.8	$ 67.9	$ 86.4
Entertainment	174.3	66.7	67.6
Video	196.0	294.2	304.3
Parks	61.0	35.0	54.2
Publishing	37.5	36.1	37.3
Online	--	--	--
Segment total	558.6	499.9	549.8
Corporate	44.9	30.4	48.8
Total capital expenditures	$ 603.5	$ 530.3	$ 598.6

Information regarding the Company's operations by geographic area is as follows:

	Year Ended or at December 31,		
	1998	1997	1996
Revenues(a):			
United States	$ 9,268.3	$ 8,227.9	$ 7,428.2
International	2,827.8	2,457.0	2,255.7
Total revenues	$12,096.1	$10,684.9	$ 9,683.9
Long-lived assets(b):			
United States	$16,857.0	$20,914.3	$21,570.7
International	1,326.9	1,421.6	1,223.9
Total long-lived assets	$18,183.9	$22,335.9	$22,794.6

Intercompany transfers between geographic areas are not significant.

(a) Revenue classification is based on location of customer.
(b) Includes all non-current assets.

(Tabular dollars in millions, except per share amounts)

15) QUARTERLY FINANCIAL DATA (unaudited):

1998(1)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues	$ 2,685.6	$ 2,779.3	$ 3,288.8	$ 3,342.4	$ 12,096.1
Operating income (loss)(2)	$ 273.4	$ (225.4)	$ 407.3	$ 296.3	$ 751.6
Earnings (loss) from continuing operations	$ 47.6	$ (267.3)	$ 86.4	$ 89.8	$ (43.5)
Net earnings (loss)(3)(4)(5)	$ 1.4	$ (280.7)	$ 138.4	$ 18.5	$ (122.4)
Net earnings (loss) attributable to common stock	$ (13.6)	$ (295.7)	$ 123.4	$ 36.3	$ (149.6)
Basic earnings (loss) per common share(6):					
Earnings (loss) from continuing operations	$ .05	$ (.40)	$ .10	$ .15	$ (.10)
Net earnings (loss)	$ (.02)	$ (.41)	$ .17	$ .05	$ (.21)
Diluted earnings (loss) per common share(6):					
Earnings (loss) from continuing operations	$ .05	$ (.40)	$ .10	$ .15	$ (.10)
Net earnings (loss)	$ (.02)	$ (.41)	$ .17	$ .05	$ (.21)
Weighted average number of common shares(6):					
Basic	710.5	713.2	714.7	696.7	708.7
Diluted	718.0	713.2	725.5	706.4	708.7

1997(1)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues	$ 2,495.7	$ 2,476.1	$ 2,806.4	$ 2,906.7	$ 10,684.9
Operating income (loss)(7)	$ 246.6	$ (65.9)	$ 287.3	$ 217.4	$ 685.4
Earnings (loss) from continuing operations(8)	$ 11.2	$ (166.6)	$ (46.0)	$ 574.9	$ 373.5
Net earnings (loss)(9)	$ (18.7)	$ (195.0)	$ 434.3	$ 573.0	$ 793.6
Net earnings (loss) attributable to common stock	$ (33.7)	$ (210.0)	$ 419.3	$ 558.0	$ 733.6
Basic earnings (loss) per common share(6):					
Earnings (loss) from continuing operations	$ (.01)	$ (.26)	$ (.09)	$ .79	$ .44
Net earnings (loss)	$ (.05)	$ (.30)	$ .59	$ .79	$ 1.04
Diluted earnings (loss) per common share(6):					
Earnings (loss) from continuing operations(10)	$ (.01)	$ (.26)	$ (.09)	$ .77	$ .44
Net earnings (loss)(10)	$ (.05)	$ (.30)	$ .59	$ .77	$ 1.04
Weighted average number of common shares(6):					
Basic	705.0	705.3	705.9	706.8	705.8
Diluted(10)	705.0	705.3	705.9	744.5	708.5

The timing of the Company's results of operations is affected by the typical timing of major motion picture releases, the summer operation of the theme parks, the positive effect of the holiday season on advertising and video store revenues, and the impact of the broadcasting television season on television production.

(1) The first three quarters of 1998 and all four quarters of 1997 results have been restated for the effect of discontinued operations (See Note 3).

(2) The second quarter of 1998 included a $436.7 million charge for Blockbuster representing the adjustment to the carrying value of the library tapes due to a change in Blockbuster's business model and a revaluation of retail inventory (See Note 4).

(3) The third quarter of 1998 included a loss of $138.5 million, net of tax, resulting from the sale of the Company's music retail stores, partially offset by a tax benefit of $134.0 million related to the sale of Virgin.

(4) The fourth quarter of 1998 included a gain of $65.5 million, net of tax, resulting from the sale of Non-Consumer Publishing.

(5) The fourth quarter of 1998 included an extraordinary loss of $74.7 million, net of tax, for the early extinguishment of debt (See Note 17).

(6) All prior quarters' earnings per common share and weighted average number of common shares have been adjusted to reflect the effect of the 2-for-1 stock split.

(7) The second quarter of 1997 included a $220.8 million charge for Blockbuster representing the reduction in carrying value of excess retail inventory and costs associated with closing underperforming stores principally located in international markets (See Note 4).

(8) The fourth quarter of 1997 included a gain of $640.5 million, net of tax, resulting from the sale of USA Networks.

(9) The third quarter of 1997 included a gain of $416.4 million, net of tax, resulting from the sale of Viacom Radio Stations.

(10) For the fourth quarter of 1997, the assumed conversion of preferred stock had a dilutive effect on earnings per share, therefore, the sum of the quarterly earnings per share will not equal full year earnings per share.

(Tabular dollars in millions, except per share amounts)

16) OTHER ITEMS, NET

The Company continued the strategy of focusing on its core businesses and in December 1998, announced plans to close the Viacom Entertainment Store in Chicago and to phase out its Nickelodeon stores in January 1999. As a result, the Company recorded a loss of approximately $91 million, which is reflected in "other items, net", for the year ended December 31, 1998. The loss principally reflects $8.5 million for estimated severance benefits payable to approximately 530 employees and $32.7 million for lease exit obligations. The loss also reflects the write-off of property and equipment, inventory and prepaid assets of $21.1 million, $10.3 million and $3.1 million, respectively, as well as future vendor commitments of $3.3 million. Additionally, "other items, net" for 1998 principally reflects foreign exchange losses and the write-off of certain investments, partially offset by a gain of approximately $118.9 million from the sale of a cost investment.

On October 21, 1997, the Company completed the sale of its half-interest in USA Networks, including Sci-Fi Channel, to Universal Studios, Inc. for a total of $1.7 billion in cash. The Company realized a pre-tax gain of approximately $1.1 billion in the fourth quarter of 1997. The net proceeds from this transaction were used to repay debt.

In addition, during 1997, the Company recorded pre-tax gains on the swap of certain television stations of approximately $190.9 million partially offset by write-offs of certain cost investments.

17) EXTRAORDINARY LOSS

For the year ended December 31, 1998, the Company recognized an extraordinary loss of $74.7 million, net of tax of $51.9 million, or a loss of $.10 per basic and diluted common share for the early extinguishment of the 10.25% Senior Subordinated Notes, 7.0% Senior Subordinated Debentures and the 8.0% Merger Debentures (See Note 8).

18) SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended December 31,		
	1998	1997	1996
Cash payments for interest net of amounts capitalized	$ 668.2	$ 792.1	$ 808.0
Cash payments for income taxes	656.6	110.9	193.0
Supplemental schedule of non-cash financing and investing activities:			
Equipment acquired under capitalized leases	116.8	54.0	211.1
Common Stock retired with Cable Split-off	--	--	625.8

(Tabular dollars in millions, except per share amounts)

19) CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Viacom International is a wholly owned subsidiary of the Company. The Company has fully and unconditionally guaranteed Viacom International debt securities (See Note 8). The Company has determined that separate financial statements and other disclosures concerning Viacom International are not material to investors. The following condensed consolidating financial statements present the results of operations, financial position and cash flows of the Company, Viacom International (in each case carrying investments in Non-Guarantor Affiliates under the equity method), the direct and indirect Non-Guarantor Affiliates of the Company, and the eliminations necessary to arrive at the information for the Company on a consolidated basis.

	1998				
	Viacom Inc.	Viacom International	Non-Guarantor Affiliates	Eliminations	Viacom Inc. Consolidated
Revenues	$ 39.4	$ 1,775.3	$ 10,301.9	$ (20.5)	$12,096.1
Expenses:					
Operating	33.3	563.7	7,929.8	(20.5)	8,506.3
Selling, general and administrative	2.6	650.6	1,407.7	--	2,060.9
Depreciation and amortization	2.1	87.0	688.2	--	777.3
Total expenses	38.0	1,301.3	10,025.7	(20.5)	11,344.5
Operating income	1.4	474.0	276.2	--	751.6
Other income (expense):					
Interest expense, net	(516.0)	(34.0)	(49.0)	--	(599.0)
Other items, net	(21.2)	89.0	(83.1)	--	(15.3)
Earnings (loss) from continuing operations before income taxes	(535.8)	529.0	144.1	--	137.3
Benefit (provision) for income taxes	219.7	(216.9)	(141.5)	--	(138.7)
Equity in earnings (loss) of affiliated companies, net of tax	236.9	(236.3)	(54.0)	12.0	(41.4)
Minority interest	--	1.3	(2.0)	--	(0.7)
Earnings (loss) from continuing operations	(79.2)	77.1	(53.4)	12.0	(43.5)
Discontinued operations:					
Loss, net of tax	--	--	(54.1)	--	(54.1)
Net gain (loss) on dispositions	--	191.2	(141.3)	--	49.9
Net earnings (loss) before extraordinary loss	(79.2)	268.3	(248.8)	12.0	(47.7)
Extraordinary loss, net of tax	(43.2)	(31.5)	--	--	(74.7)
Net earnings (loss)	(122.4)	236.8	(248.8)	12.0	(122.4)
Cumulative convertible preferred stock dividend requirement	(57.2)	--	--	--	(57.2)
Discount on repurchase of preferred stock	30.0	--	--	--	30.0
Net earnings (loss) attributable to common stock	$ (149.6)	$ 236.8	$ (248.8)	$ 12.0	$ (149.6)

(Tabular dollars in millions, except per share amounts)

	1997				
	Viacom Inc.	Viacom International	Non-Guarantor Affiliates	Eliminations	Viacom Inc. Consolidated
Revenues	$ 26.7	$ 1,458.3	$ 9,225.8	$ (25.9)	$10,684.9
Expenses:					
Operating	25.6	471.3	7,005.3	(25.9)	7,476.3
Selling, general and administrative	1.8	520.3	1,228.5	--	1,750.6
Depreciation and amortization	1.9	67.4	703.3	--	772.6
Total expenses	29.3	1,059.0	8,937.1	(25.9)	9,999.5
Operating income (loss)	(2.6)	399.3	288.7	--	685.4
Other income (expense):					
Interest expense, net	(631.1)	(56.2)	(63.6)	--	(750.9)
Other items, net	--	(38.7)	1,282.7	--	1,244.0
Earnings (loss) from continuing operations before income taxes	(633.7)	304.4	1,507.8	--	1,178.5
Benefit (provision) for income taxes	266.1	(127.8)	(784.7)	--	(646.4)
Equity in earnings (loss) of affiliated companies, net of tax	1,160.9	545.3	(53.8)	(1,815.7)	(163.3)
Minority interest	--	(0.9)	5.6	--	4.7
Earnings from continuing operations	793.3	721.0	674.9	(1,815.7)	373.5
Discontinued operations:					
Earnings, net of tax	0.3	2.7	11.9	--	14.9
Net gain (loss) on dispositions, net of tax	--	437.2	(32.0)	--	405.2
Net earnings	793.6	1,160.9	654.8	(1,815.7)	793.6
Cumulative convertible preferred stock dividend requirement	(60.0)	--	--	--	(60.0)
Net earnings attributable to common stock	$ 733.6	$ 1,160.9	$ 654.8	$(1,815.7)	$ 733.6

(Tabular dollars in millions, except per share amounts)

	1996				
	Viacom Inc.	Viacom International	Non-Guarantor Affiliates	Eliminations	Viacom Inc. Consolidated
Revenues	$ --	$1,193.7	$8,517.5	$ (27.3)	$9,683.9
Expenses:					
Operating	--	373.5	5,994.0	(27.3)	6,340.2
Selling, general and administrative	(0.3)	470.1	972.2	--	1,442.0
Restructuring charge	--	--	50.2	--	50.2
Depreciation and amortization	--	60.9	593.4	--	654.3
Total expenses	(0.3)	904.5	7,609.8	(27.3)	8,486.7
Operating income	0.3	289.2	907.7	--	1,197.2
Other income (expense):					
Interest expense, net	(627.7)	(102.5)	(55.3)	--	(785.5)
Other items, net	--	(0.1)	(1.5)	--	(1.6)
Earnings (loss) from continuing operations before income taxes	(627.4)	186.6	850.9	--	410.1
Benefit (provision) for income taxes	259.3	(84.0)	(418.6)	--	(243.3)
Equity in earnings (loss) of affiliated companies, net of tax	1,613.0	77.2	42.3	(1,745.8)	(13.3)
Minority interest	--	(1.2)	(0.1)	--	(1.3)
Earnings from continuing operations	1,244.9	178.6	474.5	(1,745.8)	152.2
Discontinued operations:					
Earnings (loss) net of tax	3.0	2.5	(67.5)	--	(62.0)
Net gain (loss) on dispositions, net of tax	--	1,292.0	(134.3)	--	1,157.7
Net earnings	1,247.9	1,473.1	272.7	(1,745.8)	1,247.9
Cumulative convertible preferred stock dividend requirement	(60.0)	--	--	--	(60.0)
Net earnings attributable to common stock	$ 1,187.9	$ 1,473.1	$ 272.7	$ (1,745.8)	$ 1,187.9

(Tabular dollars in millions, except per share amounts)

	1998				
	Viacom Inc.	Viacom International	Non-Guarantor Affiliates	Eliminations	Viacom Inc. Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$ 406.4	$ 189.5	$ 171.4	$ --	$ 767.3
Receivables, net	9.5	319.5	1,458.0	(27.9)	1,759.1
Inventory	11.5	131.9	1,662.1	--	1,805.5
Other current assets	.9	160.9	570.8	--	732.6
Total current assets	428.3	801.8	3,862.3	(27.9)	5,064.5
Property and equipment	13.6	602.3	3,921.1	--	4,537.0
Less accumulated depreciation and amortization	3.0	188.6	1,265.9	--	1,457.5
Net property and equipment	10.6	413.7	2,655.2	--	3,079.5
Inventory	--	400.1	2,070.7	--	2,470.8
Intangibles, at amortized cost	109.4	530.9	10,917.0	--	11,557.3
Investments in consolidated subs	5,951.7	15,701.9	--	(21,653.6)	--
Other assets	83.4	1,541.4	1,795.3	(1,979.1)	1,441.0
	$ 6,583.4	$19,389.8	$21,300.5	$(23,660.6)	$23,613.1
Liabilities and Shareholders' Equity					
Current Liabilities:					
Accounts payable	$ --	$ 68.0	$ 474.4	$ (43.2)	$ 499.2
Accrued expenses	612.7	590.0	923.4	(.3)	2,125.8
Deferred income	--	16.5	270.0	--	286.5
Accrued compensation	--	144.4	265.9	--	410.3
Participants' share, residuals and royalties payable	--	--	1,227.5	--	1,227.5
Program rights	--	57.1	158.1	(35.6)	179.6
Income tax payable	--	1,257.5	(139.7)	(591.3)	526.5
Current portion of long-term debt...	282.4	13.5	81.3	--	377.2
Total current liabilities	895.1	2,147.0	3,260.9	(670.4)	5,632.6
Long-term debt	2,214.6	1,050.4	548.4	--	3,813.4
Other liabilities	(17,419.8)	3,302.4	9,008.6	7,226.3	2,117.5
Shareholders' equity					
Convertible Preferred Stock	600.0	104.1	20.4	(124.5)	600.0
Common Stock	7.3	228.7	1,985.3	(2,214.0)	7.3
Additional paid-in capital	10,519.6	7,545.4	6,676.9	(14,167.2)	10,574.7
Retained earnings	10,764.8	4,977.7	(98.8)	(13,710.8)	1,932.9
Accumulated other comprehensive income (loss)	--	34.1	(101.2)	--	(67.1)
	21,891.7	12,890.0	8,482.6	(30,216.5)	13,047.8
Less treasury stock, at cost	998.2	--	--	--	998.2
Total shareholders' equity	20,893.5	12,890.0	8,482.6	(30,216.5)	12,049.6
	$ 6,583.4	$19,389.8	$21,300.5	$(23,660.6)	$23.613.1

(Tabular dollars in millions, except per share amounts)

	1997				
	Viacom Inc.	Viacom International	Non-Guarantor Affiliates	Eliminations	Viacom Inc. Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	$ .1	$ 91.5	$ 200.7	$ --	$ 292.3
Receivables, net	10.2	384.0	2,047.0	(43.5)	2,397.7
Inventory	13.3	100.5	2,138.9	--	2,252.7
Other current assets	(6.1)	55.6	719.4	1.9	770.8
Total current assets	17.5	631.6	5,106.0	(41.6)	5,713.5
Property and equipment	12.4	478.9	3,828.9	--	4,320.2
Less accumulated depreciation and amortization	2.2	131.9	988.4	--	1,122.5
Net property and equipment	10.2	347.0	2,840.5	--	3,197.7
Inventory	--	318.2	2,332.4	--	2,650.6
Intangibles, at amortized cost	112.4	534.4	14,052.8	--	14,699.6
Investments in consolidated subs	8,256.9	9,303.0	--	(17,559.9)	--
Other assets	(11.3)	238.0	1,719.7	80.9	2,027.3
	$ 8,385.7	$ 11,372.2	$ 26,051.4	$ (17,520.6)	$ 28,288.7
Liabilities and Shareholders' Equity					
Current Liabilities:					
Accounts payable	$ --	$ 36.0	$ 803.3	$ (139.6)	$ 699.7
Accrued expenses	113.3	486.9	861.5	113.0	1,574.7
Deferred income	--	17.0	237.6	--	254.6
Accrued compensation	--	122.4	319.3	--	441.7
Participants' share, residuals and royalties payable	--	--	951.3	--	951.3
Program rights	--	38.2	175.0	(15.5)	197.7
Income tax payable	(6.2)	1,405.9	(307.2)	(536.2)	556.3
Current portion of long-term debt	150.0	156.5	70.0	--	376.5
Total current liabilities	257.1	2,262.9	3,110.8	(578.3)	5,052.5
Long-term debt	4,760.5	1,953.9	708.6	--	7,423.0
Other liabilities	(14,112.9)	(4,498.2)	20,248.7	792.0	2,429.6
Shareholders' equity:					
Convertible Preferred Stock	1,200.0	--	--	--	1,200.0
Common Stock	7.2	256.6	835.3	(1,091.9)	7.2
Additional paid-in capital	10,329.6	6,745.9	1,071.0	(7,817.0)	10,329.5
Retained earnings	6,173.7	4,585.0	155.7	(8,825.4)	2,089.0
Accumulated other comprehensive income (loss)	--	66.1	(78.7)	--	(12.6)
	17,710.5	11,653.6	1,983.3	(17,734.3)	13,613.1
Less treasury stock, at cost	229.5	--	--	--	229.5
Total shareholders' equity	17,481.0	11,653.6	1,983.3	(17,734.3)	13,383.6
	$ 8,385.7	$ 11,372.2	$ 26,051.4	$ (17,520.6)	$ 28,288.7

(Tabular dollars in millions, except per share amounts)

	1998				
	Viacom Inc.	Viacom International	Non-Guarantor Affiliates	Eliminations	Viacom Inc. Consolidated
Net cash flow provided by (used in) operating activities	$ 527.3	$ (303.7)	$ 640.5	$ --	$ 864.1
Investing Activities:					
Proceeds from dispositions	--	4,677.3	272.8	--	4,950.1
Acquisitions, net of cash acquired	(14.9)	--	(111.5)	--	(126.4)
Capital expenditures	--	(88.6)	(514.9)	--	(603.5)
Investments in and advances to affiliated companies	--	(3.6)	(96.7)	--	(100.3)
Proceeds from sale of cost investment	--	131.7	35.6	--	167.3
Proceeds from sale of short-term investments	--	101.4	--	--	101.4
Purchases of short-term investments	--	(151.6)	--	--	(151.6)
Other, net	--	(6.9)	(11.7)	--	(18.6)
Net cash flow provided by (used in) investing activities	(14.9)	4,659.7	(426.4)	--	4,218.4
Financing Activities:					
Repayments of credit agreements, net	(1,788.6)	(470.0)	(124.4)	--	(2,383.0)
Increase (decrease) in intercompany payables	3,140.7	(3,100.7)	(40.0)	--	--
Repayment of notes and debentures	(202.6)	(666.7)	--	--	(869.3)
Purchase of treasury stock and warrants	(809.6)	--	--	--	(809.6)
Repurchase of Preferred Stock	(564.0)	--	--	--	(564.0)
Payment on capital lease obligations	--	(20.6)	(90.1)	--	(110.7)
Payment of Preferred Stock dividends	(64.8)	--	--	--	(64.8)
Proceeds from exercise of stock options and warrants	182.8	--	--	--	182.8
Other, net	--	--	11.1	--	11.1
Net cash flow used in financing activities	(106.1)	(4,258.0)	(243.4)	--	(4,607.5)
Net increase (decrease) in cash and cash equivalents	406.3	98.0	(29.3)	--	475.0
Cash and cash equivalents at beginning of year	.1	91.5	200.7	--	292.3
Cash and cash equivalents at end of year	$ 406.4	$ 189.5	$ 171.4	$ --	$ 767.3

(Tabular dollars in millions, except per share amounts)

	1997				
	Viacom Inc.	Viacom International	Non-Guarantor Affiliates	Eliminations	Viacom Inc. Consolidated
Net cash flow provided by (used in) operating activities	$ 1,275.7	$ 109.6	$(1,045.3)	$ --	$ 340.0
Investing Activities:					
Proceeds from dispositions	--	1,096.5	1,918.4	--	3,014.9
Acquisitions, net of cash acquired	(46.9)	--	(308.2)	--	(355.1)
Capital expenditures	--	(77.9)	(452.4)	--	(530.3)
Investments in and advances to affiliated companies	--	(47.5)	(252.9)	--	(300.4)
Proceeds from sale of short-term investments	--	139.8	--	--	139.8
Purchases of short-term investments	--	(81.3)	--	--	(81.3)
Other, net	--	.1	18.1	--	18.2
Net cash flow provided by (used in) investing activities	(46.9)	1,029.7	923.0	--	1,905.8
Financing Activities:					
Repayments of credit agreements, net	(1,972.0)	(148.0)	27.7	--	(2,092.3)
Increase (decrease) in intercompany payables	734.3	(939.2)	204.9	--	--
Purchase of treasury stock and warrants	(9.8)	--	--	--	(9.8)
Payment on capital lease obligations	--	(21.8)	(44.4)	--	(66.2)
Payment of Preferred Stock dividends	(60.0)	--	--	--	(60.0)
Proceeds from exercise of stock options and warrants	69.6	--	--	--	69.6
Other, net	(9.8)	--	6.0	--	(3.8)
Net cash flow provided by (used in) financing activities	(1,247.7)	(1,109.0)	194.2	--	(2,162.5)
Net increase (decrease) in cash and cash equivalents	(18.9)	30.3	71.9	--	83.3
Cash and cash equivalents at beginning of year	19.0	61.2	128.8	--	209.0
Cash and cash equivalents at end of year	$ .1	$ 91.5	$ 200.7	$ --	$ 292.3

(Tabular dollars in millions, except per share amounts)

	1996				
	Viacom Inc.	Viacom International	Non-Guarantor Affiliates	Eliminations	Viacom Inc. Consolidated
Net cash flow provided by (used in) operating activities	$ 1,150.6	$ (1,583.2)	$ 503.1	$ --	$ 70.5
Investing Activities:					
Proceeds from dispositions	--	1,700.0	138.1	--	1,838.1
Acquisitions, net of cash acquired	--	--	(299.8)	--	(299.8)
Capital expenditures	--	(125.5)	(473.1)	--	(598.6)
Investments in and advances to affiliated companies	--	(57.3)	(31.5)	--	(88.8)
Proceeds from sale of short-term investments	--	137.9	--	--	137.9
Purchases of short-term investments	--	(149.2)	--	--	(149.2)
Other, net	--	--	--	--	--
Net cash flow provided by (used in) investing activities	--	1,505.9	(666.3)	--	839.6
Financing Activities:					
Repayments of credit agreements, net	(1,293.8)	407.0	27.3	--	(859.5)
Increase (decrease) in intercompany payables	320.7	(464.3)	143.6	--	--
Repayment of notes and debentures	--	(12.0)	(38.9)	--	(50.9)
Purchase of treasury stock and warrants	(223.6)	--	--	--	(223.6)
Payment on capital lease obligations	--	(15.5)	(33.4)	--	(48.9)
Payment of Preferred Stock dividends	(60.0)	--	--	--	(60.0)
Proceeds from exercise of stock options and warrants	95.1	--	--	--	95.1
Other, net	(17.4)	--	--	--	(17.4)
Net cash flow provided (used by) financing activities	(1,179.0)	(84.8)	98.6	--	(1,165.2)
Net decrease in cash and cash equivalents	(28.4)	(162.1)	(64.6)	--	(255.1)
Cash and cash equivalents at beginning of year	47.4	223.3	193.4	--	464.1
Cash and cash equivalents at end of year	$ 19.0	$ 61.2	$ 128.8	$ --	$ 209.0

PART III

Item 10. Directors and Executive Officers.

The information contained in the Viacom Inc. Definitive Proxy Statement under the captions "Information Concerning Directors and Nominees" and "Compliance with Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

Item 11. Executive Compensation.

The information contained in the Viacom Inc. Definitive Proxy Statement under the captions "Directors' Compensation" and "Executive Compensation" is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information contained in the Viacom Inc. Definitive Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management" is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

The information contained in the Viacom Inc. Definitive Proxy Statement under the captions "Compensation Committee Interlocks and Insider Participation" and "Related Transaction" is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) and (d) Financial Statements and Schedules (see Index on Page F-1)

(b) Reports on Form 8-K

Current Report on Form 8-K of Viacom Inc. with a Report Date of November 27, 1998 relating to the sale of the Company's educational, professional and reference publishing businesses to Pearson plc for approximately $4.6 billion.

(c) Exhibits (see index on Page E-1)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Viacom Inc. has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

VIACOM INC.

By /s/ SUMNER M. REDSTONE

Sumner M. Redstone,
Chairman of the Board of Directors,
Chief Executive Officer

By /s/ GEORGE S. SMITH, Jr.

George S. Smith, Jr.,
Senior Vice President,
Chief Financial Officer

By /s/ SUSAN C. GORDON

Susan C. Gordon,
Vice President, Controller,
Chief Accounting Officer

Date: March 31, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of Viacom Inc. and in the capacities and on the dates indicated:

Signature	Title	Date
* George S. Abrams	Director	March 31, 1999
* Philippe P. Dauman	Director	March 31, 1999
* Thomas E. Dooley	Director	March 31, 1999
* Ken Miller	Director	March 31, 1999
* Brent D. Redstone	Director	March 31, 1999

Signature	Title	Date
* ------------------------------------ Shari Redstone	Director	March 31, 1999
/s/ SUMNER M. REDSTONE ------------------------------------ Sumner M. Redstone	Director	March 31, 1999
* ------------------------------------ Frederic V. Salerno	Director	March 31, 1999
* ------------------------------------ William Schwartz	Director	March 31, 1999
* ------------------------------------ Ivan Seidenberg	Director	March 31, 1999

*By /s/ MICHAEL D. FRICKLAS — March 31, 1999

Michael D. Fricklas
Attorney-in-Fact
for the Directors

VIACOM INC. AND SUBSIDIARIES

INDEX TO EXHIBITS
ITEM 14(c)

Exhibit No.		Description of Document	Page No.
(2)		Plan of Acquisition	
	(a)	Agreement and Plan of Merger dated as of January 7, 1994, as amended as of June 15, 1994, between Viacom Inc. and Blockbuster Entertainment Corporation (incorporated by reference to Exhibit 2.1 to the Registration Statement on Form S-4 filed by Viacom Inc.) (File No. 33-55271).	
	(b)	Amended and Restated Agreement and Plan of Merger dated as of February 4, 1994 between Viacom Inc. and Paramount Communications Inc., as further amended as of May 26, 1994, among Viacom, Viacom Sub Inc. and Paramount Communications Inc. (incorporated by reference to Exhibit 2.1, included as Annex I, to the Registration Statement on Form S-4 filed by Viacom Inc.) (File No. 33-53977).	
(3)		Articles of Incorporation and By-laws	
	(a)	Restated Certificate of Incorporation of Viacom Inc. (incorporated by reference to Exhibit 3(a) to the Annual Report on Form 10-K of Viacom Inc. for the fiscal year ended December 31, 1992, as amended by Form 10-K/A Amendment No. 1 dated November 29, 1993 and as further amended by Form 10-K/A Amendment No. 2 dated December 9, 1993) (File No. 1-9553).	
	(b)	Amendment to Restated Certificate of Incorporation of Viacom Inc. (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-4 filed by Viacom Inc.) (File No. 33-55271).	
	(c)	Certificate of Merger merging Blockbuster Entertainment Corporation with and into Viacom Inc. (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-3 filed by Viacom Inc.) (File No. 33-55785).	
	(d)	Certificate of the Designations, Powers, Preferences and Relative, Participating or other Rights, and the Qualifications, Limitations or Restrictions thereof, of Series B Cumulative Convertible Preferred Stock ($0.01 par value) of Viacom Inc. (incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q of Viacom Inc. for the quarter ended September 30, 1993) (File No. 1-9553).	
	(e)	By-laws of Viacom Inc. (incorporated by reference to Exhibit 3.3 to the Registration Statement on Form S-4 filed by Viacom Inc.) (File No. 33-13812).	
(4)		Instruments defining the rights of security holders, including indentures	
	(a)	Specimen certificate representing the Viacom Inc. Voting Common Stock (currently Class A Common Stock) (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-4 filed by Viacom Inc.) (File No. 33-13812).	
	(b)	Specimen certificate representing Viacom Inc. Class B Non-Voting Common Stock (incorporated by reference to Exhibit 4(a) to the Quarterly Report on Form 10-Q of Viacom Inc. for the quarter ended June 30, 1990) (File No. 1-9553).	
	(c)	Specimen certificate representing Viacom Inc. Series B Cumulative Convertible Preferred Stock of Viacom Inc. (incorporated by reference to Exhibit 4(d) to the Annual Report on Form 10-K of Viacom Inc. for the fiscal year ended December 31,	

Exhibit No.	Description of Document	Page No.
	1993, as amended by Form 10-K/A Amendment No. 1 dated May 2, 1994) (File No. 1-9553).	
(d)	Form of Warrant Agreement between Viacom Inc. and Harris Trust and Savings Bank, as Warrant Agent with respect to the Warrants expiring July 7, 1999 of Viacom Inc. (including the Form of Warrant expiring July 7, 1999) (incorporated by reference to Exhibit 4.8 to the Registration Statement on Form S-4 filed by Viacom Inc.) (File No. 33-53977).	
(e)	Amended and Restated Credit Agreement dated as of March 26, 1997 among Viacom Inc.; the Bank parties thereto; The Bank of New York ("BNY"), Citibank N.A. ("Citibank"), Morgan Guaranty Trust Company of New York ("Morgan Guaranty"), Bank of America NT&SA ("BofA") and The Chase Manhattan Bank ("Chase"), as Managing Agents; BNY, as Documentation Agent; Citibank, as Administrative Agent; JP Morgan Securities Inc. ("JP Morgan") and BofA, as Syndication Agents; and the Agents and Co-Agents named therein (incorporated by reference to Exhibit 4(f) to the Annual Report on Form 10-K of Viacom Inc. for the fiscal year ended December 31, 1996) and Amended and Restated Credit Agreement dated as of March 26, 1997 among Viacom International Inc.; the Bank parties thereto; BNY, Citibank, Morgan Guaranty, BofA and Chase, as Managing Agents; BNY, as Documentation Agent; Citibank, as Administrative Agent; JP Morgan and BofA, as Syndication Agents; and the Agents and Co-Agents named therein (incorporated by reference to Exhibit 4(f) to the Annual Report on Form 10-K of Viacom Inc. for the fiscal year ended December 31, 1996) (File No. 1-9553) as amended by Amendment No. 1, dated as of June 30, 1997 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Viacom Inc. for the quarter ended June 30, 1997) (File No. 1-9553) and as further amended by Amendment No. 2, dated as of December 19, 1997 (incorporated by reference to Exhibit 4(e) to the Annual Report on Form 10-K of Viacom Inc. for the fiscal year ended December 31, 1997) (File No. 1-9553).	
(f)	Film Finance Credit Agreement, dated as of May 10, 1996, among Viacom Film Funding Company Inc. as Borrower; Viacom Inc. and Viacom International Inc. as Guarantors; the Bank parties thereto; The Bank of New York ("BNY"), Citibank N.A. ("Citibank"), Morgan Guaranty Trust Company of New York and Bank of America NT&SA, as Managing Agents; BNY, as Documentation Agent; Citibank, as Administrative Agent; JP Morgan Securities Inc., as Syndication Agent; and the Agents and Co-Agents named therein (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Viacom Inc. for the quarter ended June 30, 1996) (File No. 1-9553), as amended by Amendment No. 1, dated as of May 9, 1997 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Viacom Inc. for the quarter ended March 31, 1997) (File No. 1-9553), as further amended by Amendment No. 2, dated as of June 30, 1997 (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Viacom Inc. for the quarter ended June 30, 1997) (File No. 1-9553), and as further amended by Amendment No. 3, dated as of May 8, 1998 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Viacom Inc. for the quarter ended March 31, 1998) (File No. 1-9553).	
(g)	The instruments defining the rights of holders of the long-term debt securities of Viacom Inc. and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item	

Exhibit No.	Description of Document	Page No.
	601 of Regulation S-K. Viacom Inc. hereby agrees to furnish copies of these instruments to the Securities and Exchange Commission upon request.	
(10)	Material Contracts	
(a)	Viacom Inc. 1989 Long-Term Management Incentive Plan (as amended and restated through April 23, 1990, as further amended and restated through April 27, 1995, and as further amended and restated through November 1, 1996) (incorporated by reference to Exhibit 10(a) to the Annual Report on Form 10-K of Viacom Inc. for the fiscal year ended December 31, 1996) (File No. 1-9553).*	
(b)	Viacom Inc. 1994 Long-Term Management Incentive Plan (as amended and restated through April 27, 1995 and as further amended and restated through November 1, 1996) (incorporated by reference to Exhibit 10(b) to the Annual Report on Form 10-K of Viacom Inc. for the fiscal year ended December 31, 1996) (File No. 1-9553).*	
(c)	Viacom Inc. 1997 Long-Term Management Incentive Plan (incorporated by reference to Exhibit A to Viacom Inc.'s Definitive Proxy Statement dated April 17, 1997).*	
(d)	Viacom Inc. Senior Executive Short-Term Incentive Plan (as amended and restated through March 27, 1996) (incorporated by reference to Exhibit 10(c) to the Annual Report on Form 10-K of Viacom Inc. for the fiscal year ended December 31, 1995).*	
(e)	Viacom Inc. Long-Term Incentive Plan (Divisional) (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Viacom Inc. for the quarter ended June 30, 1993) (File No. 1-9553).*	
(f)	Viacom International Inc. Deferred Compensation Plan for Non-Employee Directors (as amended and restated through December 17, 1992) (incorporated by reference to Exhibit 10(e) to the Annual Report on Form 10-K of Viacom Inc. for the fiscal year ended December 31, 1992, as amended by Form 10-K/A Amendment No. 1 dated November 29, 1993 and as further amended by Form 10-K/A Amendment No. 2 dated December 9, 1993) (File No. 1-9553).*	
(g)	Viacom Inc. and Viacom International Inc. Retirement Income Plan for Non-Employee Directors (incorporated by reference to Exhibit 10(f) to the Annual Report on Form 10-K of Viacom Inc., for the fiscal year ended December 31, 1989) (File No. 1-9553).*	
(h)	Viacom Inc. Stock Option Plan for Outside Directors (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Viacom Inc. for the quarter ended June 30, 1993) (File No. 1-9553).*	
(i)	Viacom Inc. 1994 Stock Option Plan for Outside Directors (incorporated by reference to Exhibit B to Viacom Inc.'s Definitive Proxy Statement dated April 28, 1995).*	
(j)	Viacom Inc. Excess Investment Plan (incorporated by reference to Exhibit 4.1 to the Viacom Inc. Registration Statement on Form S-8) (File No. 1-9553).*	

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* Management contract or compensatory plan required to be filed as an exhibit to this form pursuant to Item 14(c).

Exhibit No.	Description of Document	Page No.
(k)	Excess Pension Plan for Certain Key Employees of Viacom International Inc. (incorporated by reference to Exhibit 10(i) to the Annual Report on Form 10-K of Viacom Inc. for the fiscal year ended December 31, 1990) (File No. 1-9553).*	
(l)	Agreement, dated as of January 1, 1996, between Viacom Inc. and Philippe P. Dauman (incorporated by reference to Exhibit 10(l) to the Annual Report on Form 10-K of Viacom Inc. for the fiscal year ended December 31, 1995) (File No. 1-9553), as amended by an Agreement dated August 20, 1998 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Viacom Inc. for the quarter ended September 30, 1998) (File No. 1-9553).*	
(m)	Agreement, dated as of January 1, 1996, between Viacom Inc. and Thomas E. Dooley (incorporated by reference to Exhibit 10(m) to the Annual Report on Form 10-K of Viacom Inc. for the fiscal year ended December 31, 1995) (File No. 1-9553), as amended by an Agreement dated August 20, 1998 (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Viacom Inc. for the quarter ended September 30, 1998) (File No. 1-9553).*	
(n)	Agreement, dated as of January 1, 1996, between Viacom Inc. and Michael D. Fricklas, as amended by an Agreement dated March 31, 1998, and as further amended by an Agreement dated October 12, 1998 (filed herewith).*	
(o)	Agreement, dated as of April 1, 1995, between Viacom Inc. and George S. Smith, Jr., as amended by an Agreement dated as of March 30, 1998 (incorporated by reference to Exhibit 10(o) to the Annual Report on Form 10-K of Viacom Inc. for the fiscal year ended December 31, 1997) (File No. 1-9553).*	
(p)	Service Agreement, dated as of March 1, 1994, between George S. Abrams and Viacom Inc. (incorporated by reference to Exhibit 10(q) to the Annual Report on Form 10-K of Viacom Inc. for the fiscal year ended December 31, 1994) (File No. 1-9553).*	
(q)	Blockbuster Entertainment Corporation ("BEC") stock option plans* assumed by Viacom Inc. after the Blockbuster Merger consisting of the following:	
	(i) BEC's 1989 Stock Option Plan (incorporated by reference to BEC's Proxy Statement dated March 31, 1989).	
	(ii) Amendments to BEC's 1989 Stock Option Plan (incorporated by reference to BEC's Proxy Statement dated April 3, 1991).	
	(iii) BEC's 1990 Stock Option Plan (incorporated by reference to BEC's Proxy Statement dated March 29, 1990).	
	(iv) Amendments to BEC's 1990 Stock Option Plan (incorporated by reference to BEC's Proxy Statement dated April 15, 1991).	
	(v) BEC's 1991 Employee Director Stock Option Plan (incorporated by reference to BEC's Proxy Statement dated April 15, 1991).	
	(vi) BEC's 1991 Non-Employee Director Stock Option Plan (incorporated by reference to BEC's Proxy Statement dated April 15, 1991).	

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* Management contract or compensatory plan required to be filed as an exhibit to this form pursuant to Item 14(c).

Exhibit No.		Description of Document	Page No.
	(vii)	BEC's 1994 Stock Option Plan (incorporated by reference to Exhibit 10.35 to the Annual Report on Form 10-K of BEC for the fiscal year ended December 31, 1993) (File No. 0-12700).	
(r)		Parents Agreement dated as of July 24, 1995 among Viacom Inc., Tele-Communications, Inc. and TCI Communications, Inc. (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-4 filed by Viacom International Inc.) (File No. 33-64467).	
(s)		Implementation Agreement dated as of July 24, 1995 between Viacom International Inc. and Viacom International Services Inc. (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-4 filed by Viacom International Inc.) (File No. 33-64467).	
(t)		Subscription Agreement dated as of July 24, 1995 among Viacom International Inc., Tele-Communications, Inc. and TCI Communications, Inc. (incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-4 filed by Viacom International Inc.) (File No. 33-64467).	
(u)		Stock Purchase Agreement, dated as of February 16, 1997, between Viacom International Inc. and Evergreen Media Corporation of Los Angeles (incorporated by reference to Exhibit 10(u) to the Annual Report on Form 10-K of Viacom Inc. for the fiscal year ended December 31, 1996) (File No. 1-9553).	
(v)		Stock Purchase Agreement, dated as of May 17, 1998, among Viacom International Inc., Pearson Inc., and Pearson plc (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Viacom Inc. for the quarter ended June 30, 1998) (File No. 1-9553), as amended by Amendment No. 1 dated as of November 25, 1998 (filed herewith).	
(11)		Statements re Computation of Net Earnings Per Share	
(21)		Subsidiaries of Viacom Inc.	
(23)		Consents of Experts and Counsel	
(a)		Consent of PricewaterhouseCoopers LLP	
(24)		Powers of Attorney	
(27)		Financial Data Schedule	

VIACOM INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

Item 14a

The following consolidated financial statements and schedule of the registrant and its subsidiaries are submitted herewith as part of this report:

All other Schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule.

VIACOM INC. AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(Millions of Dollars)

Col. A	Col. B	Col. C		Col. D	Col. E
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Allowance for doubtful accounts:					
Year ended December 31, 1998	$ 99.8	$ 29.5(D)	$ 18.3	$ 48.9(A)	$ 98.7
Year ended December 31, 1997	$101.3	$ 83.1(D)	$ (6.2)	$ 78.4(B)	$ 99.8
Year ended December 31, 1996	$126.0	$ 55.1	$ 3.1	$ 82.9(B)	$101.3
Valuation allowance on deferred tax assets:					
Year ended December 31, 1998	$106.8	$ --	$ --	$ 18.5	$ 88.3
Year ended December 31, 1997	$ 81.8	$ 25.0	$ --	$ --	$106.8
Year ended December 31, 1996	$ 81.8	$ --	$ --	$ --	$ 81.8
Reserves for inventory obsolescence:					
Year ended December 31, 1998	$150.6	$ 25.7(D)	$ (8.1)	$111.5	$ 56.7
Year ended December 31, 1997	$105.8	$ 98.9(D)	$ --	$ 54.1 (C)	$150.6
Year ended December 31, 1996	$129.6	$ 11.2(D)	$(24.7)	$ 10.3 (B)	$105.8

Notes:

(A) Primarily related to the sale of Non-Consumer Publishing and amounts written off, net of recoveries.
(B) Includes amounts written off, net of recoveries and amounts related to discontinued operations.
(C) Primarily related to the second quarter 1997 Blockbuster charge associated with the reduction in the carrying value of excess inventory.
(D) Prior year amounts charged to the Statement of Operations have been restated to conform with the current discontinued operations presentation.

As of January 1, 1996

Michael D. Fricklas
60 Riverside Drive, Apt. 16-G
New York, NY 10024

Dear Mr. Fricklas:

Viacom Inc. ("Viacom"), having an address at 1515 Broadway, New York, New York 10036, agrees to employ you and you agree to accept such employment upon the following terms and conditions:

1. Term. The term of your employment hereunder shall commence on January 1, 1996 and, unless terminated by Viacom or you pursuant to paragraph 8 hereof, shall continue through and until December 31, 1998. The period from January 1, 1996 through December 31, 1998 shall hereinafter be referred to as the "Employment Term" notwithstanding any earlier termination pursuant to paragraph 8.

2. Duties. During the Employment Term, you agree to devote your entire business time, attention and energies to the business of Viacom and its subsidiaries. You will be Senior Vice President, Deputy General Counsel of Viacom and you agree to perform such duties, and such other duties reasonable and consistent with such office as may be assigned to you from time to time by the Deputy Chairman and Executive Vice President, General Counsel and Chief Administrative Officer of Viacom or such other individual as may be designated by the Chief Executive Officer of Viacom (the "CEO"). Your principal place of business shall be at Viacom's headquarters in the New York City metropolitan area.

3. Compensation.

(a) Salary: For all the services rendered by you in any capacity hereunder, Viacom agrees to pay you the sum of Four Hundred Thousand Dollars ($400,000) per annum ("Salary"), payable in accordance with Viacom's then effective payroll practices. Your Salary will be increased on January 1, 1997 to Four Hundred Fifty Thousand Dollars ($450,000) and on January 1, 1998 to Five Hundred Thousand Dollars ($500,000).

(b) Bonus Compensation: In addition to your Salary, you shall be entitled to receive bonus compensation for each of the calendar years during the Employment Term, determined and payable as follows ("Bonus"):

(i) Your Bonus for each of the calendar years during the Employment Term will be based upon a measurement of performance against objectives in accordance with the Viacom Short-Term Incentive Plan, as the same may be amended from time to time.

(ii) Your Target Bonus for each of the calendar years during the Employment Term shall be 50% of Salary.

(iii) Your Bonus for any calendar year shall be payable by February 28 of the following year.

(c) Long-Term Incentive Plans: You will be eligible to participate in one or more of Viacom's long-term incentive plans at a level appropriate to your position as determined by the Viacom Board of Directors.

4. Benefits. You shall be entitled to participate in such vacation, medical, dental and life insurance, 401(k), pension and other plans as Viacom may have or establish from time to time and in which you would be entitled to participate pursuant to the terms thereof. The foregoing, however, shall not be construed to require Viacom to establish any such plans or to prevent the modification or termination of such plans once established, and no such action or failure thereof shall affect this Agreement. It is further understood and agreed that all benefits you may be entitled to as an employee of Viacom shall be based upon your Salary, as set forth in paragraph 3(a) hereof, and not upon any bonus compensation due, payable or paid to you hereunder, except where the benefit plan expressly provides otherwise.

5. Business Expenses. During the Employment Term, you shall be reimbursed for such reasonable travel and other expenses incurred in the performance of your duties hereunder as are customarily reimbursed to senior executives of Viacom. You shall be entitled to a car allowance in accordance with Viacom's policy.

6. Exclusive Employment, Confidential Information, Etc.

(a) Non-Competition. You agree that your employment hereunder is on an exclusive basis, and that during the shorter of (x) the Employment Term and (y) one (1) year after the termination of your employment pursuant to paragraph 8(b) or 8(c) hereof or eighteen (18) months after the termination of your employment pursuant to paragraph 8(a) hereof (the "Non-Compete Period"), you will not engage in any other business activity which is in conflict with your duties and obligations hereunder. You agree that during the Non-Compete Period you shall not directly or indirectly engage in or participate as an officer, employee, director, agent of or consultant for any business directly competitive with that of Viacom, nor shall you make any investments in any company or business competing with Viacom; provided, however, that nothing herein shall prevent you from investing as less than a one (1%) percent shareholder in the securities of any company listed on a national securities exchange or quoted on an automated quotation system.

(b) Confidential Information. You agree that you shall not, during the Employment Term or at any time thereafter, use for your own purposes, or disclose to or for the benefit of any third party, any trade secret or other confidential information of Viacom or any of its affiliates (except as may be required by law or in the performance of your duties hereunder consistent with Viacom's policies) and that you will comply with any confidentiality obligations of Viacom to a third party, whether under agreement or otherwise. Notwithstanding the foregoing, confidential information shall be deemed not to include information which (i) is or becomes generally available to the public other than as a result of a disclosure by you or any other person who directly or indirectly receives such information from you or at your direction or (ii) is or becomes available to you on a non-confidential basis from a source which is entitled to disclose it to you.

(c) No Employee Solicitation. You agree that, during the Employment Term and for one (1) year thereafter, you shall not, directly or indirectly, engage, employ, or solicit the employment of any person who is then or has been within six (6) months prior thereto, an employee of Viacom or any of Viacom's affiliates.

(d) Viacom Ownership. The results and proceeds of your services hereunder, including, without limitation, any works of authorship resulting from your services during your employment with Viacom and/or any of its affiliates and any works in progress, shall be works-made-for-hire and Viacom shall be deemed the sole owner throughout the universe of any and all rights of whatsoever nature therein, whether or not now or hereafter known, existing, contemplated, recognized or developed, with the right to use the same in perpetuity in any manner Viacom determines in its sole discretion without any further payment to you whatsoever. If, for any reason, any of such results and proceeds shall not legally be a work-for-hire and/or there are any rights which do not accrue to Viacom under the preceding sentence, then you hereby irrevocably assign and agree to assign any and all of your right, title and interest thereto, including, without limitation, any and all copyrights, patents, trade secrets, trademarks and/or other rights of whatsoever nature therein, whether or not now or hereafter known, existing, contemplated, recognized or developed to Viacom, and Viacom shall have the right to use the same in perpetuity throughout the universe in any manner Viacom determines without any further payment to you whatsoever. You shall, from time to time, as may be requested by Viacom, do any and all things which Viacom may deem useful or desirable to establish or document Viacom's exclusive ownership of any and all rights in any such results and proceeds, including, without limitation, the execution of appropriate copyright and/or patent applications or assignments. To the extent you have any rights in the results and proceeds of your services that cannot be assigned in the manner described above, you unconditionally and irrevocably waive the enforcement of such rights. This paragraph 6(d) is subject to, and shall not be deemed to limit, restrict, or constitute any waiver by Viacom of any rights of ownership to which Viacom may be entitled by operation of law by virtue of Viacom or any of its affiliates being your employer.

(e) Litigation. You agree that, during the Employment Term, for one (1) year thereafter and, if longer, during the pendancy of any litigation or other proceeding, (i) you shall not communicate with anyone (other than your own attorneys and tax advisors and, except to the extent necessary in the performance of your duties hereunder) with respect to the facts or subject matter of any pending or potential litigation, or regulatory or administrative proceeding involving any of Viacom's affiliates, other than any litigation or other proceeding in which you are a party-in-opposition, without giving prior notice to Viacom or Viacom's counsel, and (ii) in the event that any other party attempts to obtain information or documents from you with respect to matters possibly related to such litigation or other proceeding, you shall promptly so notify Viacom's counsel.

(f) No Right to Give Interviews or Write Books, Articles, Etc. During the Employment Term, except as authorized by Viacom, you shall not (i) give any interviews or speeches, or (ii) prepare or assist any person or entity in the preparation of any books, articles, television or motion picture productions or other creations, in either case, concerning Viacom or any of Viacom's affiliates or any of their officers, directors, agents, employees, suppliers or customers.

(g) Return of Property. All documents, data, recordings, or other property, whether tangible or intangible, including all information stored in electronic form, obtained or prepared by or for you and utilized by you in the course of your employment with Viacom or any of its affiliates shall remain the exclusive property of Viacom. In the event of the termination of your employment for any reason, Viacom reserves the right, to the extent permitted by law and in addition to any other remedy Viacom may have, to deduct from any monies otherwise payable to you the following: (i) the full amount of any debt you owe to Viacom or any of its affiliates at the time of or subsequent to the termination of your employment with Viacom, and (ii) the value of the Viacom property which you retain in your possession after the termination of your employment with Viacom. In the event that the law of any state or other jurisdiction requires the consent of an employee for such deductions, this Agreement shall serve as such consent.

(h) Non-Disparagement. You agree that you shall not, during the Employment Term and for one (1) year thereafter, in any communications with any customer or client of Viacom or any of Viacom's affiliates, criticize, ridicule or make any statement which disparages or is derogatory of Viacom or Viacom's affiliates or any of their officers, directors, agents or employees.

(i) Injunctive Relief. Viacom has entered into this Agreement in order to obtain the benefit of your unique skills, talent, and experience. You acknowledge and agree that any violation of paragraphs 6(a) through (h) hereof will result in irreparable damage to Viacom, and, accordingly, Viacom may obtain injunctive and other equitable relief for any breach or threatened breach of such paragraphs, in addition to any other remedies available to Viacom.

(j) Survival; Modification of Terms. Your obligations under paragraphs 6(a) through (i) hereof shall remain in full force and effect for the entire period provided therein notwithstanding the termination of the Employment Term pursuant to paragraph 8 hereof or otherwise; provided, however, that your obligations under paragraph 6(a) shall cease if you terminate your employment for "Good Reason" or Viacom terminates your employment without "cause" (as such terms are defined in paragraph 8) and you notify Viacom in writing that you have elected to waive your right to receive, or to continue to receive, payments and benefits pursuant to clauses (i), (ii), (iii), (iv) and (v) of paragraph 8(d). You and Viacom agree that the restrictions and remedies contained in paragraphs 6(a) through (i) are reasonable and that it is your intention and the intention of Viacom that such restrictions and remedies shall be enforceable to the fullest extent permissible by law. If it shall be found by a court of competent jurisdiction that any such restriction or remedy is unenforceable but would be enforceable if some part thereof were deleted or the period or area of application reduced, then such restriction or remedy shall apply with such modification as shall be necessary to make it enforceable.

7. Incapacity. In the event you become totally medically disabled and cannot substantially perform your duties at any time during the Employment Term, the CEO, at any time after such disability has continued for 30 consecutive days, may determine that Viacom requires such duties and responsibilities be performed by another executive. In the event you become disabled, you will first receive benefits under Viacom's short-term disability program for the first 26 weeks of consecutive absence. Thereafter, you will be eligible to receive benefits under Viacom's Long-Term Disability ("LTD") program in accordance with its terms. Upon receipt of benefits under the LTD program, you will also be entitled to receive a pro-rated Target Bonus for the calendar year in which such benefits commence.

8. Termination.

(a) Termination for Cause. Viacom may, at its option, terminate this Agreement forthwith for "cause", and Viacom shall thereafter have no further obligations under this Agreement, including, without limitation, any obligation to pay Salary or Bonus or provide benefits under this Agreement. For purposes of this Agreement, termination of this Agreement for "cause" shall mean termination for embezzlement, fraud or other conduct which would constitute a felony, conviction of a felony, or willful unauthorized disclosure of confidential information, or if you at any time materially breach this Agreement (including, without limitation, your failure, neglect of or refusal to substantially perform your obligations hereunder as set forth in paragraphs 2 and 11 hereof), except in the event of your disability as set forth in paragraph 7. Anything herein to the contrary notwithstanding, Viacom will give you written notice prior to terminating this Agreement for your material breach setting forth the exact nature of any alleged breach and the conduct required to cure such breach. You shall have ten (10) business days from the giving of such notice within which to cure.

(b) Good Reason Termination. You may terminate your employment hereunder for "Good Reason" at any time during the Employment Term by written notice to Viacom not more than thirty (30) days after the occurrence of the event constituting "Good Reason". Such notice shall state an effective date no later than ten (10) business days after the date it is given. Good Reason shall mean, without your prior written consent, other than in connection with the termination of your employment for "cause" (as defined above) or in connection with your permanent disability, the assignment to you by Viacom of duties substantially inconsistent with your positions, duties, responsibilities, titles or offices, the withdrawal of a material part of your responsibilities as set forth in paragraph 2, or the material breach by Viacom of its material obligations hereunder.

(c) Termination Without Cause. Viacom may terminate your employment hereunder without "cause" (as defined above) at any time during the Employment Term by written notice to you.

(d) Termination Payments, Etc. In the event that your employment terminates pursuant to paragraph 8(b) or 8(c) hereof, you shall be entitled to receive, subject to applicable withholding taxes:

(i) your Salary as provided in paragraph 3(a) until the end of the Employment Term, payable in accordance with Viacom's then effective payroll practices;

(ii) bonus compensation for each calendar year during the Employment Term equal to your Target Bonus as set forth in paragraph 3(b);

(iii) your car allowance as provided in paragraph 5 until the end of the Employment Term, payable in accordance with Viacom's then effective payroll practices;

(iv) medical and dental insurance coverage under COBRA until the end of the Employment Term or, if earlier, the date on which you become eligible for medical and dental coverage from a third party employer; during this period, Viacom will pay an amount equal to the applicable COBRA premiums (or such other amounts as may be required by applicable law) (which amount will be included in your income for tax purposes to the extent required by applicable law); at the end of such period, you may elect to continue your medical and dental insurance coverage at your own expense for the balance, if any, of the period required by law;

(v) life insurance coverage until the end of the Employment Term (the amount of Salary covered by such insurance to be reduced by the amount of any salary payable to you by a third party);

(vi) stock options granted to you under Viacom's 1989 and 1994 Long-Term Management Incentive Plans and any successor plans (collectively, the "LTMIP") which are exercisable on or prior to the date of the termination of your employment under paragraph 8(b) or 8(c) or that would have vested and become exercisable on or before the last day of the Employment Term will be exercisable until six (6) months after the date of such termination or, if earlier, the expiration date of the stock options; and

(vii) if the termination of your employment occurs before July 7, 1998, a supplemental pension benefit equivalent to the benefit you would have received under the Viacom pension plan and excess pension plan based on your years of benefit service on the date of such termination and calculated as if you were fully vested in such plans on the date of termination;

provided, however, you shall be required to mitigate the amount of any payment provided for in (i), (ii) and (iii) of this paragraph 8(d) by seeking other employment or otherwise, and the amount of any such payment provided for in (i), (ii) and (iii) shall be reduced by any compensation earned by you from a third person except that mitigation shall not be required for twelve (12) months after the termination of your employment or for the period commencing with the termination of your employment and ending on the last day of the Employment Term, whichever is shorter. The payments provided for in (i) above are in lieu of any severance or income continuation or protection under any Viacom plan that may now or hereafter exist. The payments and benefits to be provided pursuant to this paragraph 8(d) shall constitute liquidated damages, and shall be deemed to satisfy and be in full and final settlement of all obligations of Viacom to you under this Agreement.

(e) Termination of Benefits. Notwithstanding anything in this Agreement to the contrary (except as otherwise provided in paragraph 8(d) with respect to medical, dental and life insurance), coverage under all Viacom benefit plans and programs (including, without limitation, vacation, 401(k) and excess 401(k) plans, pension and excess pension plans, LTD, car insurance and accidental death and dismemberment and business travel and accident insurance) will terminate upon the termination of your employment except to the extent otherwise expressly provided in such plans or programs.

(f) Non-Renewal Notice, Etc. Viacom shall notify you in writing in the event that Viacom elects not to extend or renew this Agreement. If Viacom gives you such notice less than twelve (12) months before the end of the Employment Term, or your employment terminates pursuant to paragraph 8(b) or 8(c) hereof during the final twelve (12) months of the Employment Term, you shall be entitled to receive Salary as provided in paragraph 3(a), payable in accordance with Viacom's then effective payroll practices, subject to applicable withholding requirements, for the period commencing after the end of the Employment Term which, when added to the portion of the Employment Term, if any, remaining when the notice is given or the termination occurs, equals twelve (12) months; provided, however, you shall be required to mitigate the amount of any payment pursuant to this paragraph 8(f) by seeking other employment or otherwise, and the amount of any such payment shall be reduced by any compensation earned by you from a third person. The payments provided for in this paragraph 8(f) are in lieu of any severance or income continuation or protection under any Viacom plan that may now or hereafter exist.

9. Death. If you die prior to the end of the Employment Term, your beneficiary or estate shall be entitled to receive your Salary up to the date on which the death occurs and a pro-rated Target Bonus.

10. Section 317 and 507 of the Federal Communications Act. You represent that you have not accepted or given nor will you accept or give, directly or indirectly, any money, services or other valuable consideration from or to anyone other than Viacom for the inclusion of any matter as part of any film, television program or other production produced, distributed and/or developed by Viacom and/or any of its affiliates.

11. Equal Opportunity Employer. You acknowledge that Viacom is an equal opportunity employer. You agree that you will comply with Viacom policies regarding employment practices and with applicable federal, state and local laws prohibiting discrimination on the basis of race, color, creed, national origin, age, sex or disability.

12. Indemnification.

(a) Viacom shall indemnify and hold you harmless, to the maximum extent permitted by law and by the Restated Certificate of Incorporation and/or the Bylaws of Viacom, against judgments, fines, amounts paid in settlement of and reasonable expenses incurred by you in connection with the defense of any action or proceeding (or any appeal therefrom) in which you are a party by reason of your position as Senior Vice President, Deputy General Counsel of Viacom or by reason of any prior positions held by you with Viacom, or for any acts or omissions made by you in good faith in the performance of any of your duties as an officer of Viacom.

(b) To the extent that Viacom maintains officers' and directors' liability insurance, you will be covered under such policy.

13. Notices. All notices required to be given hereunder shall be given in writing, by personal delivery or by mail at the respective addresses of the parties hereto set forth above, or at such other address as may be designated in writing by either party, and in the case of Viacom, to the attention of the General Counsel of Viacom. Any notice given by mail shall be deemed to have been given three days following such mailing.

14. Assignment. This is an Agreement for the performance of personal services by you and may not be assigned by you or Viacom except that Viacom may assign this Agreement to any affiliate of or any successor in interest to Viacom.

15. New York Law, Etc. This Agreement and all matters or issues collateral thereto shall be governed by the laws of the State of New York applicable to contracts entered into and performed entirely therein. Any action to enforce this Agreement shall be brought in the state or federal courts located in the City of New York.

16. No Implied Contract. Nothing contained in this Agreement shall be construed to impose any obligation on Viacom to renew this Agreement or any portion thereof. The parties intend to be bound only upon execution of a written agreement and no negotiation, exchange of draft or partial performance shall be deemed to imply an agreement. Neither the continuation of employment nor any other conduct shall be deemed to imply a continuing agreement upon the expiration of this Agreement.

17. Entire Understanding. This Agreement contains the entire understanding of the parties hereto relating to the subject matter herein contained, and can be changed only by a writing signed by both parties hereto.

18. Void Provisions. If any provision of this Agreement, as applied to either party or to any circumstances, shall be adjudged by a court to be void or unenforceable, the same shall be deemed stricken from this Agreement and shall in no way affect any other provision of this Agreement or the validity or enforceability of this Agreement.

19. Supersedes Previous Agreement. This Agreement supersedes and cancels all prior agreements relating to your employment by Viacom or any of its affiliates, including, without limitation, your employment agreement with Viacom dated as of July 1, 1994.

If the foregoing correctly sets forth our understanding, please sign one copy of this letter and return it to the undersigned, whereupon this letter shall constitute a binding agreement between us.

Very truly yours,

VIACOM INC.

By: /s/ William A. Roskin

Name: William A. Roskin
Title: Senior Vice President,
Human Resources and
Administration

ACCEPTED AND AGREED:

/s/ Michael D. Fricklas
- -----------------------------
Michael D. Fricklas

March 31, 1998

Michael D. Fricklas
60 Riverside Drive, Apt. 16-G
New York, New York 10024

Dear Mr. Fricklas:

Reference is made to that certain employment agreement between you and Viacom Inc. ("Viacom"), dated as of January 1, 1996 (your "Employment Agreement"). All defined terms used without definitions shall have the meanings provided in your Employment Agreement.

This letter, when fully executed below, shall amend your Employment Agreement as follows:

1. Term. Paragraph 1 shall be amended to change the date representing the end of the Employment Term in the first and second sentences from "December 31, 1998" to "December 31, 2000".

2. Compensation / Salary. Paragraph 3(a) shall be amended to replace the second sentence with the following sentence:

> "Your Salary will be increased on January 1, 1999 to Five Hundred Seventy Five Thousand Dollars ($575,000) per annum and on January 1, 2000 to Six Hundred Twenty Five Thousand Dollars ($625,000) per annum."

3. Termination / Termination for Cause. Paragraph 8(a) shall be amended to replace the last sentence with the following:

> "Except for a breach which cannot by its nature be cured, you shall have ten (10) business days from the giving of such notice within which to cure."

4. Termination / Good Reason Termination. Paragraph 8(b) shall be amended to replace the second sentence with the following sentences:

> "Such notice shall state an effective date no earlier than thirty (30) business days after the date it is given. Viacom shall have ten (10) business days from the giving of such notice within which to cure."

Except as herein amended, all other terms and conditions of your Employment Agreement shall remain the same and your Employment Agreement as herein amended shall remain in full force and effect.

If the foregoing correctly sets forth our understanding, please sign one (1) copy of this letter and return it to the undersigned, whereupon this letter shall constitute a binding amendment to your Employment Agreement.

Very truly yours,

VIACOM INC.

By: /s/ William A. Roskin

Name: William A. Roskin
Title: Senior Vice President,
Human Resources and
Administration

ACCEPTED AND AGREED:

/s/ Michael D. Fricklas
- -----------------------------
Michael D. Fricklas

October 12, 1998

Michael D. Fricklas
60 Riverside Drive, Apt. 16-G
New York, New York 10024

Dear Mr. Fricklas:

Reference is made to that certain employment agreement between you and Viacom Inc. ("Viacom"), dated as of January 1, 1996, as amended by a letter agreement dated March 31, 1998 (your "Employment Agreement"). All defined terms used without definitions shall have the meanings provided in your Employment Agreement.

This letter, when fully executed below, shall amend your Employment Agreement as follows:

1. Term. Paragraph 1 shall be amended to change the date representing the end of the Employment Term in the first and second sentences from "December 31, 2000" to "December 31, 2001".

2. Duties. Paragraph 2 shall be amended to replace the second sentence with the following sentence:

> "You will be Senior Vice President, General Counsel and Secretary of Viacom and you agree to perform such duties reasonable and consistent with such offices as may be assigned to you from time to time by the Deputy Chairman, Executive Vice President of Viacom responsible for Viacom's legal affairs or such other individual as may be designated by the Chief Executive Officer of Viacom (the "CEO")."

3. Compensation/Salary. Paragraph 3(a) shall be amended to replace the second sentence with the following sentence:

> "Your Salary will be increased on October 12, 1998 to Five Hundred Fifty Thousand Dollars ($550,000) per annum, on January 1, 1999 to Six Hundred Thousand Dollars ($600,000) per annum, on January 1, 2000 to Six Hundred Fifty Thousand Dollars ($650,000) per annum and on January 1, 2001 to Seven Hundred Thousand Dollars ($700,000) per annum."

Except as herein amended, all other terms and conditions of your Employment Agreement shall remain the same and your Employment Agreement as herein amended shall remain in full force and effect.

If the foregoing correctly sets forth our understanding, please sign one copy of this letter and return it to the undersigned, whereupon this letter shall constitute a binding amendment to your Employment Agreement.

Very truly yours,

VIACOM INC.

By: /s/ William A. Roskin

Name: William A. Roskin
Title: Senior Vice President,
Human Resources and
Administration

ACCEPTED AND AGREED:

/s/ Michael D. Fricklas
- -----------------------------
Michael D. Fricklas

EXECUTION COPY

AMENDMENT NO. 1 TO

STOCK PURCHASE AGREEMENT

dated as of November 25, 1998

among

VIACOM INTERNATIONAL INC.,

PEARSON plc

and

PEARSON INC.

AMENDMENT NO. 1, dated as of November 25, 1998 (this "Amendment"), to the Stock Purchase Agreement, dated as of May 17, 1998 (the "Stock Purchase Agreement"), among VIACOM INTERNATIONAL INC., a Delaware corporation (the "Seller"), PEARSON INC., a Delaware corporation (the "Purchaser"), and PEARSON plc, a corporation organized under the laws of the United Kingdom that is the indirect holder of all of the outstanding capital stock of the Purchaser (the "Parent").

W I T N E S S E T H :

WHEREAS, the Seller, the Purchaser and the Parent desire to amend the Stock Purchase Agreement in certain respects to provide for, among other things, (i) the designation of additional direct or indirect Subsidiaries of the Seller as Publishing Subsidiaries, Directly Acquired Publishing Subsidiaries, Directly Acquired B&P and Reference Publishing Subsidiaries (as defined herein), and Directly Acquired Foreign Subsidiaries and of certain assets as Assets; (ii) the assignment by Parent of its right to purchase the Shares of certain Directly Acquired Publishing Subsidiaries, Directly Acquired Foreign Subsidiaries, Directly Acquired B&P and Reference Publishing Subsidiaries (including certain of the additional Subsidiaries designated herein) and certain other properties (all such Shares and other properties, including those which Parent or any of its Affiliates is to purchase, together with all right, title and interest therein and thereto, collectively, the "Sold Properties"), (x) to Purchaser or other Subsidiaries of the Parent (each a "Parent Purchaser") or (y) to certain Parent Purchasers and, if Parent so elects pursuant to Section 2.01(b) hereof, the Shares of the Directly Acquired B&P and Reference Publishing Subsidiaries and the covenant not to compete set forth in Section 5.12(c) of the Stock Purchase Agreement, as amended by this Amendment, to Hicks, Muse Books LLC, a Delaware limited liability company ("Hicks Muse"; the Parent Purchasers, together with Hicks Muse if such election is made, the "Purchasing Entities"); provided, however, that no such assignment shall release the Purchaser or the Parent from any liability under the Stock Purchase Agreement or delay the consummation of the purchase and sale of the Sold Property under the Stock Purchase Agreement; (iii) the manner in which each Sold Property is to be sold and the consideration to be paid at Closing by each Purchasing Entity for each Sold Property; and (iv) if Parent makes the election pursuant to Section 2.01(b) hereof, the execution of the acknowledgment by Seller, Parent and Hicks Muse of the right of Parent to assign the right to purchase the Shares of the Directly Acquired B&P and Reference Publishing Subsidiaries and the covenant not to compete set forth in Section 5.12(c) of the Stock Purchase Agreement, as amended by this Amendment, to Hicks Muse (capitalized terms not defined herein have the meanings ascribed to them in the Stock Purchase Agreement);

NOW, THEREFORE, the parties hereto hereby agree as follows:

SECTION 1. Amendments to Stock Purchase Agreement. (a) The defined term "Ancillary Agreements" set forth in Section 1.01 is hereby deleted in its entirety and replaced with the following:

""Ancillary Agreements" means the Services Agreements, the License Agreements, the Sublease Agreement, the S&S Software License Agreement and the Purchaser Software License Agreement."

(b) The following defined term is hereby inserted in Section 1.01 immediately following the defined term "Assets" set forth therein:

""B&P and Reference Publishing Businesses" means, collectively, on the date hereof, the United States business and professional and reference publishing businesses included within the publishing segment of Viacom as reported in the Annual Report on Form 10-K of Viacom for the year ended December 31, 1997, and specifically excluding the Consumer Business, and the children's learning, higher education and non-United States business and professional and reference publishing businesses (other than the interest in New York Institute of Finance (Holdings) L.D.C.). For the purposes of this Agreement, "children's learning", "higher education", "business and professional" and "reference" shall have the meanings commonly employed by the management of Simon & Schuster on the date of this Agreement, "reference" specifically includes "reference", "library reference", "Macmillan Computer Publishing" and "Macmillan Publishing" (and any other variation on the term "Macmillan", other than in connection with Macmillan College Publishing, but specifically excluding any consumer titles listed in Schedule D attached to the Purchaser to Consumer Trademark License Agreement) and "business" refers to businesses managed as a unit, without regard to the specific legal entity that conducts such business."

(c) The defined term "Base Price" set forth in Section 1.01 is hereby deleted in its entirety and replaced with the following:

""Base Price" means $4,620,000,000."

(d) The defined term "Consumer Business" set forth in Section 1.01 is hereby deleted in its entirety and replaced with the following:

""Consumer Business" means the consumer/trade publishing business that is included within the publishing segment of Viacom as reported in the Annual Report on Form 10-K of Viacom for the year ended December 31, 1997 and the Learning Products Group. For the purposes of this Agreement, "consumer" and "trade" shall have the meanings commonly employed by the management of Simon & Schuster on the date of this Agreement."

(e) The defined term "Closing Net Assets" set forth in Section 1.01 is hereby modified by inserting the following text immediately after the phrase "total assets" and immediately before the phrase "minus total liabilities":

"(excluding intangibles, net, consisting of goodwill and publishing rights)"

(f) The defined term "Closing Net Assets Adjustment Amount" set forth in Section 1.01 is hereby modified by inserting the following text at the end thereof:

"(excluding intangibles, net, consisting of goodwill and publishing rights). For purposes of calculating the Closing Net Assets Adjustment Amount, the December 31, 1997 Audited Balance Sheet shall be adjusted to eliminate the total net assets (excluding intangibles, net, consisting of goodwill and publishing rights) of the Learning Products Group."

(g) The defined term "December 31, 1997 Audited Balance Sheet" set forth in Section 1.01 is hereby modified by inserting the following sentence immediately after the first sentence thereof:

"For purposes of computing the Closing Net Assets Adjustment Amount, the December 31, 1997 Audited Balance Sheet and the Estimated Closing Net Assets shall be adjusted to exclude intangibles, net, consisting of goodwill and publishing rights."

(h) The following defined term is hereby inserted in Section 1.01 immediately following the defined term "December 31, 1997 Audited Balance Sheet":

""Directly Acquired B&P and Reference Publishing Subsidiaries" means the entities set forth on Schedule 5."

(i) The defined term "Final Net Assets Adjustment Amount" set forth in Section 1.01 is hereby modified by (i) inserting the phrase "(excluding intangibles, net, consisting of goodwill and publishing rights)" immediately after the phrase "total assets" and immediately before the phrase "minus total liabilities" and (ii) inserting the following sentence to the end thereof:

"For purposes of calculating the Final Net Assets Adjustment Amount, the December 31, 1997 Audited Balance Sheet shall be adjusted to eliminate the total net assets (excluding intangibles, net, consisting of goodwill and publishing rights) of the Learning Products Group."

(j) The following defined terms are hereby inserted in Section 1.01 immediately following the defined term "Hazardous Materials" set forth therein:

""Hicks Muse" means Hicks, Muse Books LLC, a Delaware limited liability company.

"Hicks Muse Transfer" means the transfer and delivery of all of the outstanding capital stock of the Directly Acquired B&P and Reference Publishing Subsidiaries by the Seller or its Affiliates to Hicks Muse, if the Parent elects to assign the right to purchase such capital stock to Hicks Muse pursuant to Section 2.01(b) of this Agreement."

(k) The following defined term is hereby inserted in Section 1.01 immediately following the defined term "Law" set forth therein:

""Learning Products Group" means all right, title and interest in the assets and liabilities comprising the Simon & Schuster Learning Products Group (which shall have the meaning commonly employed by the management of Simon & Schuster on the date of this Agreement), including, without limitation, all rights to the business known as the "Red Rocket" website, which includes, without limitation, the domain name (being "redrocket.com"), the trademark (being "Red Rocket"), and any third-party contracts and equipment used exclusively in such business."

(l) The following defined term is hereby inserted in Section 1.01 immediately following the defined term "Lien" set forth therein:

""Macmillan Trademark Sharing Agreement" means the agreement, dated November 8, 1993, between Macmillan, Inc. and Macmillan Limited relating to names and marks."

(m) The defined term "Permitted Reorganization" set forth in Section 1.01 is hereby deleted in its entirety and replaced with the following:

""Permitted Reorganization" means an internal reorganization of assets owned and employees employed by the Seller or its Subsidiaries, including the Restructuring, to be completed prior to the Closing Date (1) to effect any transfer (a) of Assets and employees to the Publishing Subsidiaries (or otherwise in connection with an assignment permitted pursuant to Section 11.08 hereof), (b) of assets and employees from the Publishing Subsidiaries to the Seller or an Affiliate of the Seller (other than a Publishing Subsidiary) and (c) of assets and employees from any Publishing Subsidiary to any other Publishing Subsidiary and (2), at the election of the Seller, in its sole discretion, to transfer any inactive Subsidiary to the Seller or one of its Affiliates that is not a Publishing Subsidiary."

(n) The following defined term is hereby inserted in Section 1.01 immediately following the defined term "Purchase Price":

""Purchaser Software License Agreement" means the Software License Agreement between Simon & Schuster and Silver Burdett Ginn Inc. in the form attached hereto as Exhibit 1.01(d)".

(o) The following defined term is hereby inserted in Section 1.01 immediately following the defined term "Purchase Price" set forth therein:

""Restructuring" means the series of transactions effected on September 30, 1998 whereby the Seller has caused (i) Prentice-Hall, Inc., a Delaware corporation ("PHI"), to contribute to Arco Publishing, Inc. ("Arco"), Executive Reports Corporation, Executive Tax Reports, Inc., and Robert J. Brady Co. certain United States business and professional and reference publishing business assets owned by PHI and (ii) Macmillan, Inc., a Delaware corporation ("Macmillan"), to contribute to Jossey-Bass, Inc., Publishers, a California corporation ("Jossey-Bass"), certain United States business and professional and reference publishing business assets owned by Macmillan."

(p) The following defined term is hereby inserted in Section 1.01 immediately following the defined term "Simon & Schuster":

""Simon & Schuster Software License Agreement" means the Software Licence Agreement between Simon & Schuster and Silver Burdett Ginn Inc. in the form attached as Exhibit 1.01(e)".

(q) The defined term "Sublease Agreement" is hereby deleted in its entirety and replaced with the following:

""Sublease Agreement" means, collectively, (i) the Sublease Agreement between the Purchaser (or an assignee reasonably acceptable to the Seller and acceptable to the landlord for such property) and the Seller and (ii) the Sublease Agreement between the Purchaser, or if Parent makes the election pursuant to Section 2.01(b) of this Agreement, Hicks Muse (or, in each case, an assignee reasonably acceptable to the Seller and acceptable to the landlord for such property) on the one hand and the Seller on the other, in the case of each of clause (i) and (ii) hereof with respect to 1633 Broadway, each substantially in the form attached hereto as Exhibit 1.01(c) and containing representations and warranties with respect to subleased property comparable to those contained in Section 3.19 of this Agreement."

(r) Section 1.02 is hereby amended as follows:

(i) To insert the terms "Competing Computer Business", "Competing Education Business" and "Competing International Business" and the section references "5.12(c)", "5.12(a)" and "5.12(b)", respectively, immediately following the term and corresponding section reference for "COBRA";

(ii) To insert the term "Initial Allocation" and the section reference "2.02(a)" immediately following the term and corresponding section reference for "Indemnifying Party";

(iii) To insert the term "Parent Purchaser" and the section reference "Recitals" immediately following the term and corresponding section reference for "Parent Board Recommendation";

(iv) To insert the term "Purchasing Entities" and the section reference "Recitals" immediately following the term and corresponding section reference for "Purchaser's DC Plan";

(v) To insert the term "Sold Properties" and the section reference "Recitals" immediately following the term and corresponding reference for "Shares";

(vi) To delete the term "Competing Business" and the corresponding section reference;

(vii) To delete the term "Draft Allocation Statement" and the corresponding section reference; and

(viii) To delete the term "Stock Allocation" and the corresponding section reference.

(s) Section 2.01 is hereby deleted in its entirety and replaced with the following text:

"SECTION 2.01 Purchase and Sale (a) On the terms and subject to the conditions set forth in this Agreement, at the Closing the Seller shall sell, convey, assign, transfer and deliver to each Purchasing Entity (and/or cause one or more of its Subsidiaries to sell, convey, assign, transfer and deliver to such Purchasing Entity) each Sold Property being acquired by such Purchasing Entity and each Purchasing Entity shall purchase, acquire and accept from the Seller or such Subsidiaries each Sold Property, with each Sold Property being sold by the party shown under the column "Seller" and purchased by the party shown under the column "Purchaser" on Schedule A. Such transactions shall occur in the following order, with all such transactions constituting the Closing: all of the transactions shown under Step I of Schedule A shall be completed first and prior to any of the transactions shown under Steps II or III of Schedule A; all of the transactions shown under Step II of Schedule A shall be completed second and prior to any of the transactions shown under Step III of Schedule A; all of the transactions shown under Step III of Schedule A shall be completed last and after any of the transactions shown under Steps I and II of Schedule A; and all proceeds received by a Publishing Subsidiary in connection with any such Step shall be distributed by such Publishing Subsidiary to a non-Publishing Subsidiary before the sale of such Publishing Subsidiary pursuant to any subsequent Step.

(b) Parent shall have the right to elect to assign its right to purchase the Shares of the Directly Acquired B&P and Reference Publishing Subsidiaries and the covenant not to compete set forth in Section 5.12(c) hereof to Hicks Muse and/or Hicks Muse's Affiliates. In order for such election to be effective, (i) Parent must notify Seller in writing of such election at least five days prior to the Closing and (ii) such notice shall have attached to it an original of a parallel notice from Hicks Muse to Parent whereby Hicks Muse notifies Parent of its intent to consummate the purchase of the Shares of the Directly Acquired B&P and Reference Publishing Subsidiaries and the covenant not to compete set forth in Section 5.12(c) hereof, as contemplated by the Stock Purchase Agreement, dated July 2, 1998, among Purchaser, Parent and Hicks Muse, as such agreement may be amended, and as further set forth in this Agreement."

(t) The first sentence of Section 2.02(a) is hereby deleted in its entirety and replaced with the following text:

"Each Purchasing Entity shall pay that portion of the Purchase Price relating to each Sold Property as is specified in the Purchase Price Notice (in accordance with the amounts shown under the column "Purchase Price" in Schedule A next to each such Sold Property (the "Initial Allocations"); the Initial Allocation with respect to Prentice-Hall, Inc. shall be increased or decreased from the amount listed on Schedule A, as the case may be, to reflect the portion of the Closing Net Assets Adjustment Amount required to be taken into account pursuant to Section 2.05(a)), in cash to the "Seller" shown next to such Sold Property in Schedule A at the Closing, as provided in Section 2.05(a). Parent and Purchaser agree that the Initial Allocations shall be the maximum amounts allocated with respect to each Sold Property other than Prentice-Hall, Inc., and, notwithstanding anything else contained herein, such Initial Allocations to each Sold Property other than Prentice-Hall, Inc. shall not be adjusted upward at any time. In addition, Parent and Purchaser agree that at the Closing if any Purchasing Entity is for any reason unwilling or unable to so pay or for any reason fails to pay such portion of the Purchase Price so specified in the Purchase Price Notice, Parent and Purchaser shall be liable and shall pay such portion of the Purchase Price at Closing."

(u) The following text is hereby inserted at the end of Section 2.02(a):

"Notwithstanding the foregoing, no assignment of rights and obligations to any Purchasing Entity shall release the Purchaser or Parent from any liability hereunder. In the event that Parent has previously elected to assign the rights to purchase certain Sold Property to Hicks Muse and/or one or more of its Affiliates pursuant to Section 2.01(b) hereof, and Hicks Muse and/or such Affiliates fail to perform at the Closing, then the Closing shall proceed as though such election was not made, and such Sold Property shall be sold directly to Parent and certain of Parent's Affiliates at the Closing."

(v) The first sentence of Section 2.02(b) is hereby deleted in its entirety. The second sentence of Section 2.02(b) is hereby amended by substituting the phrase "IBD Holdings" for the phrase "Viacom Holdings [name to be changed]", deleting the word "and" before the phrase "at least $300 million," and adding at the end of such sentence the phrase "and, in the aggregate, $708 million to the Directly Acquired B&P and Reference Publishing Subsidiaries and the covenant set forth in Sections 5.12(c), with the aggregate amount allocated to all the Sold Properties with respect to the Base Price in all events not to exceed the Base Price." The fifth sentence of Section 2.02(b) is hereby deleted in its entirety and replaced with the following text:

"Within 75 days after the Closing Date, the Seller shall notify the Purchaser either (i) that it consents to the Initial Allocations as set forth in Schedule A or (ii) that it disagrees with the Initial Allocations."

(w) The sixth sentence of Section 2.02(b) is hereby amended by substituting the phrase "Initial Allocations," for the phrase "Draft Allocation Statement,".

(x) Following the last sentence of Section 2.02(b), the following sentence shall be added:

"If the resolution of any dispute regarding the Initial Allocations results in a different amount of consideration being allocated to the purchase of any Sold Property, the excess of any Initial Allocation paid by the party listed in Schedule A as "Purchaser" over the amount of any final allocation determined under this Section 2.02(b) shall be deemed paid by such party on behalf of the actual "Purchaser" of Prentice-Hall, Inc. and received by the "Seller" of Prentice-Hall, Inc."

(y) The first sentence of Section 2.02(c) is hereby deleted in its entirety and replaced with the following text:

"The Seller, the Parent and the Purchaser shall, and, if applicable, the Parent and the Purchaser shall cause Hicks Muse to, report the federal, state, local and foreign Tax consequences of the transactions contemplated by this Agreement in a manner consistent with the transactions and order and timing of steps described in Section 2.01(a) and the Initial Allocations, revised as agreed by the Seller, the Parent and the Purchaser or as determined by the Independent Accounting Firm, as the case may be."

(z) The second sentence of Section 2.02(c) is hereby amended by substituting for the phrase "Stock Allocations" the phrase "transactions, order and timing of steps and Initial Allocations, as so revised,"

(aa) The final sentence of Section 2.03 shall be amended by inserting the following text at the start thereof:

"Except as otherwise contemplated by the sequence of steps set forth in Section 2.01(a),"

(bb) Section 2.04 is hereby deleted in its entirety and replaced with the following text:

"SECTION 2.04. Closing Deliveries by the Seller. At the Closing, the Seller shall deliver or cause to be delivered to each Purchasing Entity (or Parent, on behalf of Parent, Purchaser and, if applicable, Hicks Muse):

(i) stock certificates evidencing all of the shares of capital stock acquired by such Purchasing Entity of (A) the Directly Acquired Publishing Subsidiaries, (B) the Directly Acquired Foreign Subsidiaries and (C) the Directly Acquired B&P and Reference Publishing Subsidiaries, duly endorsed in blank or accompanied by stock powers and transfer forms duly executed in blank;

(ii) receipts for the portion of the Purchase Price as is specified in the Purchase Price Notice relating to each Sold Property;

(iii) the Ancillary Agreements required to be delivered pursuant to Section 8.02; and

(iv) any required stock transfer tax stamps."

(cc) Section 2.05 is hereby amended by substituting for the phrase "Parent and the Purchaser shall deliver to the Seller" the phrase "each Purchasing Entity shall deliver to the "Seller" noted opposite its name on Schedule A with respect to each Sold Property being purchased by such Purchasing Entity" and by inserting after the words "wire transfer" in Section 2.05(a) the words "or intra-bank transfer".

(dd) Section 2.06(e) is hereby amended by substituting for the phrase "the Parent and the Purchaser" the phrase "Pearson AG" and for the word "Seller" the phrase "Paramount Communications Acquisitions Corp.", and inserting in the first sentence of such Section 2.06(e) after the word "excess" the phrase ",which amount shall be deemed to be paid in respect of the Shares of Prentice-Hall, Inc.," (ee) Section 2.07 is hereby amended by inserting after the words "wire transfer" the words "or intra-bank transfer."

(ff) Section 3.03 is hereby amended by inserting the following text immediately after the phrase "Directly Acquired Publishing Subsidiaries":

", the Directly Acquired B&P and Reference Publishing Subsidiaries"

(gg) Section 3.12 is hereby amended by inserting the following text immediately after the Section heading "Intellectual Property" and immediately before clause (a):

"Except to the extent caused by (i) the direct sale of additional Publishing Subsidiaries pursuant to this Amendment, (ii) the series of transactions contemplated by clauses (i) and (ii) of the defined term "Restructuring" set forth in Section 1.01 hereof or (iii) the Hicks Muse Transfer (but, in the case of the Hicks Muse Transfer, only to the extent that any inaccuracy or breach of the representations or warranties set forth in this Section 3.12 would not have occurred had the transactions contemplated by the Stock Purchase Agreement as in effect prior to this Amendment been consummated in the manner set forth therein);"

(hh) Section 3.13(a) of the Stock Purchase Agreement is hereby amended by adding the following sentence to the end thereof:

"Anything in this Section 3.13(a) to the contrary notwithstanding, no individual currently or formerly employed in the Learning Products Group, which individuals are listed on Section 3.13(a)(iv) of the Disclosure Schedule, shall be a "Business Employee" or a "Former Business Employee" for any purpose under this Agreement.

(ii) Section 3.13(a)(iv) is hereby added to the Disclosure Schedule in the form attached to this Amendment.

(jj) Section 5.04(d) is hereby amended by inserting the following text immediately after the phrase "consents and approvals" and immediately before the phrase "that may be required":

"(including, without limitation, any consents, approvals, authorizations or other actions or filings or notifications that are the responsibility of Parent and Purchaser pursuant to Section 5.04(e); provided, however, that in no event shall Seller or its Affiliates be liable under this Agreement or otherwise for the failure to obtain any such consents, approvals, authorizations or other actions or filings or notifications, which shall be the sole responsibility of Parent and Purchaser pursuant to Section 5.04(e))".

(kk) Section 5.04 is hereby amended by inserting the following text immediately after Section 5.04(d):

"(e) The Parent and the Purchaser shall be solely responsible, to the extent not previously obtained, for (i) obtaining any consents, approvals, authorizations or other action of or by, or making any filing with or notification to, any Governmental Authority, including, but not limited to, trademark or copyright filings, and (ii) obtaining any consents, approvals, waivers, authorizations or other actions or giving (or instructing the Seller to give) any notice under or pursuant to any bond, note, Contract, Real Property Lease, license, permit, franchise or other instrument to which the Seller or any B&P and Reference Publishing Subsidiary is a party or by which any shares or assets of any B&P and Reference Publishing Businesses may be bound or affected, arising from or made necessary by, in the case of each of clause (i) and (ii), the direct sale of additional Publishing Subsidiaries pursuant to this Amendment, the Restructuring or the Hicks Muse Transfer. The Parent and the Purchaser hereby acknowledge and agree that neither the Seller nor its Affiliates shall have any liability to the Parent or the Purchaser in connection with any Losses arising from the failure to obtain or to give any notice on the consents, approvals, authorizations or other matters set forth in this Section 5.04(e) including, without limitation, any change in the rights granted to Macmillan, Inc. under the Macmillan Trademark Sharing Agreement."

(ll) The first sentence of Section 5.08 is hereby deleted in its entirety and replaced with the following text:

"Prior to the Closing Date, the Seller shall, and shall cause its Subsidiaries to, effect the Permitted Reorganization."

(mm) Section 5.12 is hereby deleted in its entirety and replaced with the following:

"SECTION 5.12. Non-Competition. (a) The Seller acknowledges that reasonable limits on its ability to engage in activities competitive with the Purchaser are warranted to protect the Purchaser's substantial investment in acquiring the Shares, the Assets and the Businesses. Accordingly, the Seller hereby covenants and agrees that during the period commencing with the Closing Date and ending on the third anniversary of the Closing Date, Viacom and the Seller shall not, and shall cause their direct and indirect Subsidiaries not to (subject, in the case of its existing Subsidiaries that are not wholly owned, to its fiduciary duties to holders of minority interests), for the Seller's own account or jointly with any other Person, publish or produce textbooks intended for use primarily in instruction in academic institutions of higher learning in the United States (a "Competing Education Business"); provided, however, that the foregoing shall not be breached as a result of (a) the ownership or other right to acquire by Viacom or the Seller (or any of their Subsidiaries) of not more than an aggregate of 10% of any class of stock of a Person engaged, directly or indirectly, in a Competing Education Business; (b) the acquisition of, holding by, operation of, or disposition by Viacom or the Seller (or any of their Subsidiaries) of an interest in any Person whose primary business is not a Competing Education Business; (c) the licensing or sale of any of the Seller's or its Subsidiaries' intellectual property for use in connection with any Competing Education Business; (d) any activity relating to the publication of fiction or non-fiction (other than in the subject matter of computer applications and operation systems) sold primarily into the consumer retail channel; or (e) any activity relating to any book or category of books presently published by Simon & Schuster's Consumer division or similar in genre to any such book or category.

"(b) The Seller acknowledges that reasonable limits on its ability to engage in activities competitive with the Purchaser are warranted to protect the Purchaser's substantial investment in acquiring the Shares, the Assets and the Businesses. Accordingly, the Seller hereby covenants and agrees that during the period commencing with the Closing Date and ending on the third anniversary of the Closing Date, Viacom and the Seller shall not, and shall cause their direct and indirect Subsidiaries not to (subject, in the case of its existing Subsidiaries that are not wholly owned, to its fiduciary duties to holders of minority interests), for the Seller's own account or jointly with any other Person, publish or produce (i) textbooks intended for use primarily in instruction in academic institutions of higher learning outside of the United States or (ii) any branded series of tutorial reference books in the computer applications and operating systems categories outside of the United States (a "Competing International Business"); provided, however, that the foregoing shall not be breached as a result of (a) the ownership or other right to acquire by Viacom or the Seller (or any of their Subsidiaries) of not more than an aggregate of 10% of any class of stock of a Person engaged, directly or indirectly, in a Competing International Business; (b) the acquisition of, holding by, operation of, or disposition by Viacom or the Seller (or any of their Subsidiaries) of an interest in any Person whose primary business is not a Competing International Business; (c) the licensing or sale of any of the Seller's or its Subsidiaries' intellectual property for use in connection with any Competing International Business; (d) any activity relating to the publication of fiction or non-fiction (other than in the subject matter of computer applications and operation systems) sold primarily into the consumer retail channel; or (e) any activity relating to any book or category of books presently published by Simon & Schuster's Consumer division or similar in genre to any such book or category.

"(c) The Seller acknowledges that reasonable limits on its ability to engage in activities competitive with the Purchaser are warranted to protect the Purchaser's substantial investment in acquiring the Shares, the Assets and the Businesses. Accordingly, the Seller hereby covenants and agrees that during the period commencing with the Closing Date and ending on the third anniversary of the Closing Date, the Seller shall not, and shall cause their direct and indirect Subsidiaries not to (subject, in the case of its existing Subsidiaries that are not wholly owned, to its fiduciary duties to holders of minority interests), for the Seller's own account or jointly with any other Person, publish or produce any branded series of tutorial reference books in the computer applications and operating systems categories in the United States (a "Competing Computer Business"); provided, however, that the foregoing shall not be breached as a result of (a) the ownership or other right to acquire by the Seller (or any of their Subsidiaries) of not more than an aggregate of 10% of any class of stock of a Person engaged, directly or indirectly, in a Competing Computer Business; (b) the acquisition of, holding by, operation of, or disposition by the Seller (or any of their Subsidiaries) of an interest in any Person whose primary business is not a Competing Computer Business; (c) the licensing or sale of any of the Seller's or its Subsidiaries' intellectual property for use in connection with any Competing Computer Business; (d) any activity relating to the publication of fiction or non-fiction (other than in the subject matter of computer applications and operation systems) sold primarily into the consumer retail channel; or (e) any activity relating to any book or category of books presently published by Simon & Schuster's Consumer division or similar in genre to any such book or category."

(nn) The following text is hereby inserted immediately following Section 5.13:

"SECTION 5.14. Harvard Medical School Publishing Program. (a) Each party hereto agrees to cooperate in obtaining the consent of the President and Fellows of Harvard College ("Harvard") under the agreement, dated as of September 24, 1996, between Simon & Schuster and Harvard regarding the Harvard Medical School Publishing Program (the "Harvard Agreement") in connection with the division of the rights granted to Simon & Schuster under the Harvard Agreement as between the Business and the Consumer Business in connection with (i) the sale by Seller of the Business as contemplated by this Agreement and the Ancillary Agreements and (ii) the possible sale by Parent and Purchaser, or Affiliates thereof, of the B&P and Reference Publishing Business following the Closing. Such consent and division of rights, including, without limitation, any related amendment to the Harvard Agreement, shall be in a form reasonably satisfactory to the Seller and the Parent.

(b) Seller represents and warrants to Parent and Purchaser that as of November 25, 1998, (i) $1,993,332 has been paid to Harvard as advances under the Harvard Agreement ("Advances"), of which $1,160,000 has been internally allocated to the Consumer Business, $166,666 to the B&P and Reference Publishing Business and $666,666 to the "education business" (as commonly used by the management of Simon & Schuster on the date of this Agreement) and (ii) $4,006,668 in Advances remains to be paid. Commencing from the Closing Date and ending on the date which is the earlier of (x) the termination of the Harvard Agreement or (y) such time as all Advances have been paid, each milestone comprising all of the remaining Advances shall be payable as between Seller or its Affiliates on the one hand and Parent and/or Purchaser or their

Affiliates on the other hand, in a ratio of 58.33% by the Seller or its Affiliates and 41.67% by Parent and/or Purchaser or their Affiliates. To the extent that there are any reductions in the Advances payable to Harvard from those payable under the Harvard Agreement on the date hereof, the Advances payable by Seller or its Affiliates on the one hand and by Parent and/or Purchaser on the other hand shall be reduced by a proportionate amount of such reduction equal to the proportionate amount of all remaining Advances payable by each party, as set forth in the preceding sentence.

As used in this Agreement (i) "Consumer Business Advance Amount" means (x) $3.5 million plus (y) any Budget amounts (as the term "Budget" is defined in the Harvard Agreement) expended from the date hereof by the Seller or its Affiliates minus (z) any reduction in remaining Advances payable by Seller or its Affiliates and (ii) "Business Advance Amount" means (x) $2.5 million plus (y) any Budget amounts (as the term "Budget" is defined in the Harvard Agreement) expended from the date hereof by Parent and/or Purchaser or their Affiliates minus (z) any reduction in remaining Advances payable by Parent and/or Purchaser or their Affiliates.

(c) Any royalties owed under the Harvard Agreement in connection with books, imprints, titles and the like published thereunder ("Royalties") relating to (i) the Consumer Business, up to the Consumer Business Advance Amount, shall be the property of and paid over to Seller or its Affiliates and (ii) the Business, up to the Business Advance Amount, shall be the property of and paid over to Purchaser or its Affiliates, in each case as a recoupment against the Consumer Business Advance Amount or the Business Advance Amount, as the case may be. If at any time Seller or its Affiliates has recouped the Consumer Business Advance Amount and Purchaser or its Affiliates has not recouped the Business Advance Amount, then from such time all Royalties relating to the Consumer Business shall be the property of and paid over to Purchaser or its Affiliates until Purchaser or its Affiliates has recouped the Business Advance Amount. Similarly, if at any time Purchaser or its Affiliates has recouped the Business Advance Amount and Seller or its Affiliates has not recouped the Consumer Business Advance Amount, then from such time all Royalties relating to the Business shall be the property of and paid over to Seller or its Affiliates until Seller or its Affiliates has recouped the Consumer Business Advance Amount. At such time as Seller or its Affiliates has recouped the Consumer Business Advance Amount and Purchaser or its Affiliates has recouped the Business Advance Amount, all Royalties shall be paid to Harvard in accordance with the Harvard Agreement.

(d) Each party hereto agrees to cooperate with each other party in sharing all information in its possession from time to time relating to the Harvard Agreement necessary for the calculation of the Royalties and all amounts advanced in respect of Consumer Business Advance Amounts and Business Advance Amounts, as the case may be, and any further information which the parties reasonably believe is necessary or desirable for the proper administration of their mutual relationship under the Harvard Agreement and as set forth in this Section 5.14.

(e) In the event that the consents described in Section 5.14(a) are not obtained or are only partially obtained, each party hereto agrees to negotiate in good faith to reach an agreement as between them that accomplishes the same economic result as is set forth in Sections 5.14(b) and (c) hereof."

(oo) Section 6.02(a) of the Stock Purchase Agreement is hereby deleted in its entirety and replaced with the following:

"SECTION 6.02. Retirement Plans. (a) It is agreed by both parties that the Seller or one of its Affiliates will continue to maintain the VPP and the Viacom Excess Pension Plan, with the benefit accruals of the Business Employees under such plans ceasing as of the Closing Date and Seller shall retain all liabilities thereunder. The Seller shall cause the Business Employees to be fully vested in their accrued benefits in each such plan as of the Closing Date."

(pp) Section 6.02(b) of the Stock Purchase Agreement is hereby amended by inserting the following text at the end of the fifth full sentence thereof:

"and Seller shall retain all other liabilities under the VIP. Notwithstanding anything to the contrary in this Section 6.02(b), in the event that the Parent makes the election pursuant to Section 2.01(b) of this Agreement, the Seller shall transfer and deliver the VIP account balances of Business Employees and Former Business Employees designated in writing by the Parent and the Purchaser, and the Seller shall also transfer and deliver to Hicks Muse, or, if so directed by the Parent and the Purchaser, cause the trustee of the VIP to transfer and deliver to the trustee of a Hicks Muse defined contribution plan designated in writing by the Parent and the Purchaser or Hicks Muse, if applicable, an amount equal to the aggregate account balances of Business Employees and Former Business Employees of the B&P and Reference Publishing Businesses so designated by the Parent and the Purchaser."

(qq) Section 6.02(b) of the Stock Purchase Agreement is hereby further amended by adding the following text to the end thereof:

"Notwithstanding anything to the contrary in this Section 6.02(b), in the event that the Parent makes the election pursuant to Section 2.01(b) of this Agreement, then (i) the Seller shall, (A) prior to Closing, establish a separate non-qualified deferred compensation plan (the "HM EIP") with terms, benefits and commitments identical to those provided under the VEIP for the benefit of participating Business Employees and Former Business Employees of the B&P and Reference Publishing Businesses designated in writing by the Parent and the Purchaser and (B) at Closing, transfer the HM EIP to Hicks Muse, (ii) the HM EIP shall assume responsibility for all account balances and earnings thereon of such designated individuals under the VEIP (it being understood that the S&S EIP shall not assume any responsibility for the VEIP account balances and earnings thereon with respect to such individuals) and (iii) the Parent and the Purchaser shall cause Hicks Muse to assume the HM EIP at Closing and to honor the terms of any elections previously made by participants under the VEIP. The Purchaser and the Parent acknowledge that no assets will be transferred to Hicks Muse in connection with the establishment of the HM EIP and the assumption thereof by Hicks Muse."

(rr) Section 6.02(e) of the Stock Purchase Agreement is hereby amended by (i) inserting the phrase "as soon as practicable, after the Closing," immediately after the phrase "and the Seller shall" in the first sentence thereof and (ii) adding the following text to the end thereof:

"Notwithstanding anything to the contrary in this Section 6.02(e), in the event that the Parent makes the election pursuant to Section 2.01(b) of this Agreement, then (i) the Seller shall, (A) prior to Closing, (I) establish a separate non-qualified deferred compensation plan (the "HM DCP") providing for the payment of deferred benefits to participating Business Employees and Former Business Employees of the B&P and Reference Publishing Businesses designated in writing by the Parent and the Purchaser who have previously deferred the settlement of performance awards under the terms of the Paramount DCP and (II) transfer assets, if any, and liabilities related to each designated individual's account balance in the Paramount DCP, including all earnings thereon, into the HM DCP (it being understood that no assets or liabilities related to any such individual's account balance in the Paramount DCP will be transferred to the S&S DCP) and (B) at Closing, transfer of the HM DCP to Hicks Muse and (ii) the Parent and the Purchaser shall cause Hicks Muse to assume the HM DCP at Closing and to honor the terms of the distribution election previously made by the designated individuals, subject to the terms of the HM DCP."

(ss) The following sentence is hereby inserted at the end of Section 6.03:

"For the avoidance of doubt, the Purchaser and the Seller acknowledge that the term "Former Business Employees" for all purposes under this Agreement shall mean all individuals who were at any time employed in a publishing business other than the Consumer Business, including but not limited to former employees of those businesses previously disposed of and set forth on Schedule 8 attached hereto."

(tt) Section 6.05(a) of the Stock Purchase Agreement is hereby amended by inserting the text "(other than severance liability arising from any claim by any Business Employee for the disputed severance benefits described in Schedule 7)" at the end of clauses (ii), (v) and (vii) thereof.

(uu) Section 6.05(b) of the Stock Purchase Agreement is hereby amended by inserting the following text at the beginning thereof:

"Except as may be otherwise agreed by a Business Employee and Purchaser,"

(vv) Section 6.05 of the Stock Purchase Agreement is hereby amended by inserting the following text immediately following Section 6.05(b):

"(c) Subject to Section 6.09, the Purchaser acknowledges that it shall make all required stay bonus and cash severance payments to Business Employees under the plans, programs, arrangements and agreements referred to in Sections 3.13(a)(i)(A)(I)(13), (A)(I)(14) and (A)(III)(1) of the Disclosure Schedule (as such plans, programs, arrangements and agreements may be amended by the Purchaser and, with respect to the agreements referenced in Section 3.13(a)(i)(A)(III)(1) of the Disclosure Schedule, with the consent of the Business Employees) and shall not look to the Seller for the cash payment of any amounts required to be paid thereunder."

(ww) The following text is hereby inserted immediately following Section 6.07:

"SECTION 6.08. Transition Period. During the period between the Closing and December 31, 1998, the Seller shall maintain the benefits of the Business Employees and Former Business Employees under each of the Viacom Plans listed on Schedule 6 attached hereto. Purchaser or Parent shall promptly reimburse Seller for Seller's direct out-of-pocket expenses for maintaining such Viacom Plans upon transmission to Purchaser or Parent of a statement of such expenses in relation thereto.

SECTION 6.09. Enhanced Severance and Retention Agreements. The Seller agrees to reimburse the Parent and the Purchaser for any severance payment that the Parent or the Purchaser becomes obligated to make to any Business Employee who received an Enhanced Severance and Retention Agreement pursuant to the claim of any Business Employee described on Schedule 7 attached hereto; provided, however, that the Parent and the Purchaser agree (i) to notify the Seller promptly and in writing of any such claim brought against the Parent, the Purchaser or any of the Publishing Subsidiaries on or after the Closing Date and (ii) not to settle any such claim without approval of the Seller, such approval not to be unreasonably withheld or delayed; and, provided, further, that the Parent and the Purchaser have not amended the employment agreement and/or the Enhanced Severance Retention Agreement with the Business Employee in a manner that adversely impacts Seller's ability to defend the claim of such Business Employee. Seller shall notify Parent and Purchaser promptly after receiving the notice described in clause (i) whether or not it intends to defend such claim and, if no such notice is received by Parent or Purchaser within thirty days after such receipt, Seller shall be deemed to intend not to defend. The Parent and the Purchaser agree that the Seller shall be entitled to assume and control the defense of any such claim through counsel of its choice, reasonably acceptable to Parent and Purchaser, and that, in the event the Seller undertakes any such defense, the Parent and the Purchaser shall, and shall cause the Publishing Subsidiaries to, cooperate with the Seller in such defense (or, if related to the claim in question, in making a counterclaim or any cross-complaint) and make available to the Seller all witnesses, records materials and information in the possession or under the control of the Parent, the Purchaser or any of the Publishing Subsidiaries as is reasonably requested by the Seller.

SECTION 6.10. Business Employee. Notwithstanding any other provision of this Agreement to the contrary, including any Schedules or Exhibits attached hereto, each of the parties hereto agrees that Jonathan Newcomb shall not be considered a Business Employee or Former Business Employee for purposes of this Agreement."

(xx) Section 7.07 is hereby amended by adding at the end of such Section the following sentence:

"The party responsible under local law for filing the Tax Return with respect to each such Tax shall file such return, pay such Tax and notify the other party of the amount of such Tax, and the other party shall promptly pay to such party 50% of the amount of such Tax."

(yy) Section 7.09 is hereby amended by adding at the end of such Section the following phrase:

"or, at the Parent or the Purchaser's request, a certificate that one or more of the Publishing Subsidiaries being sold pursuant to this Agreement and identified in such request is not a "United States real property holding company" within the meaning of Section 897 of the Code."

(zz) Section 7.10(b) is hereby amended by inserting "(i)" immediately following the phrase "except for" and by inserting "and (ii) the indemnity contained in Section 10.01(a)(iv) of this Agreement" immediately following the phrase "Section 3.14 of this Agreement".

(aaa) Section 7.10(d) is hereby amended by adding at the end of such Section the following sentence:

"Notwithstanding the preceding sentence, any foreign Publishing Subsidiary that receives any proceeds pursuant to Section 2.01(a) shall distribute such proceeds as provided in Section 2.01(a), and Prentice-Hall Hispanoamericana, S.A. will, at and in accordance with the request of Parent or Purchaser, if agreed to by Seller, distribute before the Closing an amount reflecting its "CUFIN" account, as determined for Mexican tax law purposes."

(bbb) Section 10.01(a) is hereby amended by deleting the word "or" at the end of paragraph (ii), by inserting the text"; or" at the end of paragraph (iii) and by inserting the following text immediately thereafter:

"(iv) any claim or cause of action against any Seller Indemnified Party or as to which any Seller Indemnified Party is otherwise involved (through discovery, as a witness or otherwise) by or through Hicks Muse or any of its Affiliates relating to or arising out of (A) the assignment contemplated by Section 11.08(b)(i) or (B) the direct sale to Hicks Muse or any of its Affiliates of any Directly Acquired B&P and Reference Publishing Subsidiaries, the business or operations of the B&P and Reference Publishing Businesses, this Agreement or the transactions contemplated hereby or any assignment to Hicks Muse or any of its Affiliates contemplated by Section 11.08(b)(ii) of this Agreement, other than any claim or cause of action by or through Hicks Muse or any of its Affiliates with respect to the Ancillary Agreements to which any of them may be a party or to the transactions contemplated thereby; provided that nothing contained in this clause (iv) shall preclude the Parent or Purchaser from asserting any claim against any Seller Indemnified Party, to the extent otherwise permitted by and subject to the applicable terms and conditions of this Agreement, with respect to the Directly Acquired B&P and Reference Publishing Subsidiaries, the business or operations of the B&P and Reference Publishing Business, this Agreement or the transactions contemplated hereby."

(ccc) Section 11.08 is hereby amended by deleting subsection (b) thereof in its entirety and substituting the following phrase therefor:

"each of the Parent and the Purchaser may assign any or all of its rights and obligations under this Agreement (but with respect to clauses (i) and (ii) below, Parent and Purchaser may only assign the right to purchase the Shares of the Directly Acquired B&P and Reference Publishing Subsidiaries and the covenant not to compete set forth in Section 5.12(c) hereof) (i) in connection with the sale by the Parent or the Purchaser or any wholly-owned Subsidiary of the Parent or the Purchaser, as the case may be, to Hicks, Muse, Tate and Furst Incorporated (and/or any Affiliate thereof) of certain Sold Property; provided that Hicks, Muse, Tate and Furst Incorporated shall execute, and the effectiveness of such assignment shall be conditional upon such execution, the form of Acknowledgment and Covenant Not to Sue attached hereto as Exhibit 11.08(b)(i), (ii) if Parent makes the election pursuant to Section 2.01(b) of this Agreement, to Hicks, Muse, Tate and Furst Incorporated (and/or any Affiliate thereof); provided that Hicks, Muse, Tate and Furst Incorporated shall execute, and the effectiveness of such assignment shall be conditional upon such execution, the form of Acknowledgment and Covenant Not to Sue attached hereto as Exhibit 11.08(b)(ii) and (iii) to any Subsidiary of the Parent;

provided that no such assignment pursuant to clauses (i), (ii) and (iii) of this Section 11.08(b) shall release the Parent or the Purchaser from any liability hereunder or delay the consummation of the purchase and sale of the Sold Properties hereunder; provided, further, that no assignment shall be permitted by this sentence that would result in the sale by the Seller or the Seller's Subsidiaries at the Closing of any assets or Shares to any party other than the Parent, any wholly-owned Subsidiary of the Parent or the Purchaser, or Hicks Muse, Tate and Furst Incorporated (and/or any Affiliate thereof)"

(ddd) Schedule A is hereby added to the Stock Purchase Agreement in the form attached to this Amendment.

(eee) Schedule 2 of the Stock Purchase Agreement is hereby deleted in its entirety and replaced with the Schedule 2 attached to this Amendment.

(fff) Schedule 2A of the Stock Purchase Agreement is hereby deleted in its entirety and replaced with the Schedule 2A attached to this Amendment.

(ggg) Schedule 3 of the Stock Purchase Agreement is hereby modified by deleting the following subsidiaries from the list captioned "Inactive Domestic"and adding them to the list captioned "Domestic":

"Arco Publishing, Inc., Executive Reports Corporation, Executive Tax Reports, Inc. and Robert J. Brady Co.".

(hhh) Schedule 5 is hereby added to the Stock Purchase Agreement in the form attached to this Amendment.

(iii) Schedule 6 is hereby added to the Stock Purchase Agreement in the form attached to this Amendment.

(jjj) Schedule 7 is hereby added to the Stock Purchase Agreement in the form attached to this Amendment.

(kkk) Schedule 8 is hereby added to the Stock Purchase Agreement in the form attached to this Amendment.

(lll) Exhibit 1.01(a) of the Stock Purchase Agreement is hereby deleted in its entirety and replaced with the Exhibit 1.01(a) attached to this Amendment.

(mmm) Exhibit 1.01(b) of the Stock Purchase Agreement is hereby deleted in its entirety and replaced with the Exhibit 1.01(b) attached to this Amendment.

(nnn) Exhibit 1.01(c) of the Stock Purchase Agreement is hereby deleted in its entirety and replaced with the Exhibit 1.01(c) attached to this Amendment.

(ooo) Exhibit 1.01(d) is hereby added to the Stock Purchase Agreement in the form attached to this Amendment.

(ppp) Exhibit 1.01(e) is hereby added to the Stock Purchase Agreement in the form attached to this Amendment.

(qqq) Exhibit 11.08(b)(i) is hereby added to the Stock Purchase Agreement in the form attached to this Amendment.

(rrr) Exhibit 11.08(b)(ii) is hereby added to the Stock Purchase Agreement in the form attached to this Amendment.

(sss) Section 5.07 of the Disclosure Schedule is hereby amended to delete the Standby Letters of Credit listed in items (i) and (ii) thereto.

SECTION 2. Representations and Warranties; Indemnity. (a) The Parent and the Purchaser each agree and acknowledge that the Seller shall have no liability as a result of the inaccuracy of any representations and warranties made by the Seller in the Stock Purchase Agreement if such representations and warranties were accurate when made and in light of the form of transaction contemplated by the Stock Purchase Agreement prior to this Amendment but are inaccurate as of the Closing Date as a result of the direct sale of any additional Publishing Subsidiaries pursuant to this Amendment, the Restructuring or the Hicks Muse Transfer. In addition, the Parent and the Purchaser each agree and acknowledge that the inaccuracy of any representations and warranties arising under the circumstances set forth in the preceding sentence shall not (i) relieve the Parent and the Purchaser from their respective obligations to consummate the transactions contemplated by the Stock Purchase Agreement, as amended by this Amendment, pursuant to Section 8.02(a) thereof or (ii) give the Parent the right to terminate the Stock Purchase Agreement, as amended by this Amendment, prior to Closing pursuant to Section 9.01(d) thereof.

(b) The Parent and the Purchaser agree, jointly and severally, to indemnify and hold harmless the Seller Indemnified Parties for any Losses that any Seller Indemnified Party may at any time suffer or incur, or become subject to, as a result of any claim or cause of action by any third party against any Seller Indemnified Party for any matter that is the subject of a representation or warranty made by the Seller in the Stock Purchase Agreement if such representation or warranty was accurate when made and in light of the form of transaction contemplated by the Stock Purchase Agreement prior to this Amendment but is inaccurate as of the Closing Date as a result of the direct sale of any additional Publishing Subsidiaries pursuant to this Amendment, the Restructuring or the Hicks Muse Transfer, including, without limitation, any losses related to or arising under that certain Macmillan Trademark Sharing Agreement.

SECTION 3. No Contractual Relationship with Hicks Muse. The Parent and the Purchaser each acknowledge and agree neither (i) the agreement by the Seller to transfer and deliver the Shares of the Directly Acquired B&P and Reference Publishing Subsidiaries to Hicks Muse pursuant to Section 2.01(a) of the Stock Purchase Agreement, if the Parent so elects pursuant to Section 2.01(b) of the Stock Purchase Agreement, in each case as amended by this Amendment nor (ii) any assignment by the Parent and the Purchaser permitted by Section 11.08(b)(i) of any or all of its rights and obligations under this Agreement in connection with the sale by the Parent or the Purchaser or any wholly owned Subsidiary of the Parent or the Purchaser, as the case may be, to Hicks, Muse, Tate and Furst Incorporated, or any Affiliate thereof, of certain Sold Property, is intended to create, and does not in any way create, a contractual relationship between the Seller or any of its Affiliates on the one hand and Hicks Muse, or any Affiliates thereof, on the other, except as otherwise provided in any of the Ancillary Agreements.

SECTION 4. Effect of Amendments. Except as and to the extent expressly modified by this Amendment, the Stock Purchase Agreement shall remain in full force and effect in all respects.

SECTION 5. Acknowledgment and Covenant Not to Sue. (a) If Parent makes the election pursuant to Section 2.01(b) of the Stock Purchase Agreement, as amended by this Amendment, each of Seller, Parent, Purchaser and Hicks Muse, simultaneously with the execution hereof, shall execute and deliver to the other the Acknowledgment and Covenant Not to Sue attached as Exhibit 11.08(b)(ii).

(b) Seller, Parent and Purchaser acknowledge and agree that in the event of any sale of Sold Property following the Closing contemplated by Section 11.08(b)(i), Seller, Parent, Purchaser and Hicks Muse shall execute and deliver to the other the Acknowledgment and Covenant Not to Sue attached as Exhibit 11.08(b)(i).

SECTION 6. Governing Law. This Amendment shall be governed by, and construed in accordance with, the Laws of the State of New York, and, for greater certainty, the provisions set forth in Section 11.12 of the Stock Purchase Agreement are incorporated herein by reference and made a part hereof.

SECTION 7. Counterparts. This Amendment may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this

Amendment by telecopier shall be effective as delivery of a manually executed counterpart of this Amendment.

IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment to be executed as of the date first written above by its respective officer thereunto duly authorized.

VIACOM INTERNATIONAL INC.

By

PEARSON INC.

By

PEARSON PLC

By

Viacom Inc. and Subsidiaries
Computation of Net Earnings (Loss) Per Share

	Year ended December 31, 1998	1997	1996
	(In millions, except per share amounts)		
Earnings (loss):			
Earnings (loss) from continuing operations	$ (43.5)	$ 373.5	$ 152.2
Cumulative convertible preferred stock dividend requirement	(57.2)	(60.0)	(60.0)
Discount on repurchase of preferred stock	30.0	--	--
Earnings (loss) from continuing operations attributable to common stock	(70.7)	313.5	92.2
Earnings (loss) from discontinued operations, net of tax	(54.1)	14.9	(62.0)
Net gain on dispositions, net of tax	49.9	405.2	1,157.7
Extraordinary loss, net of tax	(74.7)	--	--
Net earnings (loss)	$ (149.6)	$ 733.6	$ 1,187.9
Basic computation:			
Shares:			
Weighted average number of common shares	708.7	705.8	728.0
Net earnings per common share:			
Earnings (loss) from continuing operations	$ (0.10)	$ 0.44	$ 0.13
Earnings (loss) from discontinued operations, net of tax	(0.08)	0.02	(0.09)
Net gain on dispositions, net of tax	0.07	0.58	1.59
Extraordinary loss, net of tax	(0.10)	--	--
Net earnings (loss)	$ (0.21)	$ 1.04	$ 1.63
Diluted computation:			
Shares:			
Weighted average number of common shares (basic)	708.7	705.8	728.0
Common shares potentially issuable in connection with:			
Stock options and warrants(1):	--	2.7	6.7
Weighted average number of common shares (diluted)	708.7	708.5	734.7
Net earnings (loss) per common share:			
Earnings (loss) from continuing operations	$ (0.10)	$ 0.44	$ 0.13
Earnings (loss) from discontinued operations, net of tax	(0.08)	0.02	(0.09)
Net gain on dispositions, net of tax	0.07	0.58	1.58
Extraordinary loss, net of tax	(0.10)	--	--
Net earnings (loss)	$ (0.21)	$ 1.04	$ 1.62

(1) For the year ended December 31, 1998, the assumed exercise of stock options had an anti-dilutive effect on earnings per share, and therefore was excluded from the diluted earnings per share calculation.

Exhibit 21

SUBSIDIARY NAME	STATE OF INCORPORATION	PERCENT OWNED
2 Day Video, Inc.	Texas	100
2 Day Video, Inc. of Georgia	Georgia	100
37th Floor Productions Inc.	Delaware	100
5555 Communications Inc.	Delaware	100
Addax Music Co., Inc.	Delaware	100
Aetrax International Corporation	Delaware	100
Ages Electronics, Inc.	Delaware	100
Ages Entertainment Software, Inc.	Delaware	100
All Media Inc.	Delaware	100
Antics G.P. Inc.	Delaware	100
Antics Inc.	Delaware	100
A-R Acquisition Corp.	Delaware	100
Around the Block Productions, Inc.	Delaware	100
Atlantic Associates, Inc.	Delaware	100
Atlantic Home Video	Delaware	80
Bardwire Inc.	Delaware	100
Beta Theatres Inc.	Delaware	100
Big Planet Video, Inc.	New Hampshire	100
Big Shows Inc.	Delaware	100
Blockbuster Airships, Inc.	Delaware	100
Blockbuster Amphitheater Corporation	Delaware	100
Blockbuster Canada Inc.	Delaware	100
Blockbuster Computer Systems Corporation	Florida	100
Blockbuster Distribution, Inc.	Delaware	100
Blockbuster Entertainment Corporation	Delaware	100
Blockbuster Global Services Inc.	Delaware	100
Blockbuster Inc.	Delaware	100
Blockbuster International Spain Inc.	Delaware	100
Blockbuster Investments LLC	Delaware	100
Blockbuster Mid-America, Inc.	Delaware	100
Blockbuster On-Line Services, Inc.	Delaware	100
Blockbuster Park Lands, Inc.	Florida	100
Blockbuster Park, Inc.	Delaware	100
Blockbuster SC Video Operating Corporation	Delaware	100

SUBSIDIARY NAME	STATE OF INCORPORATION	PERCENT OWNED
Blockbuster Services Inc.	Delaware	100
Blockbuster Technology Holding Corporation	Delaware	100
Blockbuster Video Acquisition Corp.	Delaware	100
Blockbuster Video Italy, Inc.	Delaware	100
Blue Cow Inc.	Delaware	100
BN Productions Inc.	Delaware	100
Bombay Hook Limited	Delaware	100
Broadcast Leasing Inc.	Delaware	100
Bruin Music Company	Delaware	100
BS Hotel, Inc.	Delaware	100
California Holdings LLC	Delaware	100
Centurion Satellite Broadcast Inc.	Delaware	100
Charlotte Amphitheater Corporation	Delaware	100
Cinamerica Service Corporation	Delaware	100
Classless Inc.	Delaware	100
Cloverleaf Productions Inc.	Delaware	100
Columbus Circle Films Inc.	Delaware	100
D.E.J. Productions Inc.	Delaware	100
Desilu Music Corp.	New York	50
Desilu Productions, Inc.	Delaware	100
Direct Court Productions, Inc.	Delaware	100
Eighth Century Corporation	Delaware	100
Energy Development Associates, Inc.	Delaware	100
Ensign Music Corporation	Delaware	100
EWB Corporation	Delaware	100
Family Entertainment Centers, Inc.	Florida	100
Famous Music Corporation	Delaware	100
Famous Orange Productions Inc.	Delaware	100
Fifty-Sixth Century Antrim Iron Company, Inc.	Delaware	100
Film Intex Corporation	Delaware	100
FLC Holding Corp.	Florida	100
Forty-Fourth Century Corporation	Delaware	100
French Street Management Inc.	Delaware	100
Fried Worms Productions Inc.	Delaware	100

Exhibit 21

SUBSIDIARY NAME	STATE OF INCORPORATION	PERCENT OWNED
Front Street Management Inc.	Delaware	100
FT Productions Inc.	Delaware	100
Future General Corporation	Delaware	100
G & W Leasing Company	Delaware	100
G & W Natural Resources Company, Inc.	Delaware	100
Games Animation Inc.	Delaware	100
Games Productions Inc.	Delaware	100
GC Productions Inc.	Delaware	100
Glendale Property Corp.	Delaware	100
Gloucester Titanium Company, Inc.	Delaware	100
GNS Productions Inc.	Delaware	100
Gramps Company, Inc., The	Delaware	100
Green Tiger Press, Inc.	California	100
Gulf & Western Indonesia, Inc.	Delaware	100
Imagine Radio, Inc.	California	52.5
IMR Acquisition Corp.	Delaware	100
International Overseas Film Services, Inc.	Delaware	66.67
International Overseas Productions, Inc.	California	66.67
Interstitial Programs Inc.	Delaware	100
Joseph Productions Inc.	Delaware	100
Katled Systems Inc.	Delaware	100
Kilo Mining Corporation	Pennsylvania	100
Kings Island Company	Delaware	100
Low Key Productions Inc.	Delaware	100
LT Holdings Inc.	Delaware	100
Magicam, Inc.	Delaware	83.5
Major Video National Advertising Council Corporation	Nevada	100
Major Video Super Stores, Inc.	Nevada	100
Matlock Company, The	Delaware	100
Mattalex Corporation	Delaware	100
Merritt Inc.	Delaware	100
Michaela Productions Inc.	Delaware	100
Montgomery Acquisition, Inc.	Delaware	100
MTV Animation Inc.	Delaware	100

Exhibit 21

SUBSIDIARY NAME	STATE OF INCORPORATION	PERCENT OWNED
MTV Asia Development Company Inc.	Delaware	100
MTV Australia Inc.	Delaware	100
MTV India Development Company Inc.	Delaware	100
MTV Networks Company	Delaware	100
MTV Networks Europe Inc.	Delaware	100
MTV Networks Global Services Inc.	Delaware	100
MTV Networks Latin America Inc.	Delaware	100
MTV Networks Shopping Inc.	Delaware	100
MTV Networks South Africa Inc.	Delaware	100
MTV Songs Inc.	Delaware	100
MTVN Online Inc.	Delaware	100
MTVN Shopping Inc.	Delaware	100
Music By Nickelodeon Inc.	Delaware	100
Music By Video Inc.	Delaware	100
New Jersey Zinc Exploration Company, The	Delaware	100
New Leaf Entertainment Corporation	Delaware	100
Nick At Nites TV Land Retromercials Inc.	Delaware	100
Nickelodeon Animation Studios Inc.	Delaware	100
Nickelodeon Australia Inc.	Delaware	100
Nickelodeon Direct Inc.	Delaware	100
Nickelodeon Germany Inc.	Delaware	100
Nickelodeon Global Network Ventures Inc.	Delaware	100
Nickelodeon India Corporation	Delaware	100
Nickelodeon Magazines Inc.	Delaware	100
Nickelodeon Movies Inc.	Delaware	100
Nickelodeon Online Inc.	Delaware	100
Noggin LLC	Delaware	50
OM/TV Productions Inc.	Delaware	100
Our Home Productions Inc.	Delaware	100
Outatown Productions Inc.	Delaware	100
Paramount (PDI) Distribution Inc.	Delaware	100
Paramount Advertiser Services Inc.	Delaware	100
Paramount Asia Inc.	Delaware	100
Paramount Canadian Productions, Inc.	Delaware	100

Exhibit 21

SUBSIDIARY NAME	STATE OF INCORPORATION	PERCENT OWNED
Paramount Communications Technology Group Inc.	Delaware	100
Paramount Digital Entertainment Inc.	Delaware	100
Paramount Films of Australia Inc.	Delaware	100
Paramount Films of China, Inc.	Delaware	100
Paramount Films of Egypt, Inc.	Delaware	100
Paramount Films of India, Ltd.	Delaware	100
Paramount Films of Italy, Inc.	New York	100
Paramount Films of Lebanon, Inc.	New York	100
Paramount Films of Pakistan Ltd.	New York	100
Paramount Films of Southeast Asia Inc.	Delaware	100
Paramount General Entertainment Australia Inc.	Delaware	100
Paramount Home Video, Inc.	Delaware	100
Paramount Images Inc.	Delaware	100
Paramount LAPTV Inc.	Delaware	100
Paramount Music Corporation	Delaware	100
Paramount Overseas Productions, Inc.	Delaware	100
Paramount Parks Experience Inc.	Nevada	100
Paramount Parks Inc.	Delaware	100
Paramount Pictures Corporation	Delaware	100
Paramount Production Support Inc.	Delaware	100
Paramount Productions Service Corporation	Delaware	100
Paramount Stations Group Inc.	Virginia	100
Paramount Stations Group of Fort Worth/Dallas Inc.	Virginia	100
Paramount Stations Group of Houston Inc.	Virginia	100
Paramount Stations Group of Miami Inc.	Delaware	100
Paramount Stations Group of Oklahoma City LLC	Delaware	100
Paramount Stations Group of Philadelphia Inc.	Delaware	100
Paramount Stations Group of Pittsburgh Inc.	Delaware	100
Paramount Stations Group of Washington Inc.	Virginia	100
Paramount Television Service, Inc.	Delaware	100
Paramount-Roy Rogers Music Co., Inc.	New York	50
Para-Sac Music Corporation	Delaware	100
Park Court Productions, Inc.	Delaware	100
Part-Time Productions Inc.	Delaware	100

Exhibit 21

SUBSIDIARY NAME	STATE OF INCORPORATION	PERCENT OWNED
PCCGW Company, Inc.	Delaware	100
PCI Canada Inc.	Delaware	100
PCI Network Partner II Inc.	Delaware	100
PCI Network Partner Inc.	Delaware	100
Pet II Productions Inc.	Delaware	100
PMV Productions Inc.	Delaware	100
Possum Point Incorporated	Delaware	100
Premiere House, Inc.	Delaware	100
PSG of PHA Inc.	Virginia	100
Quemahoning Coal Processing Company	Pennsylvania	100
Real TV Music Inc.	Delaware	100
Reality Check Productions Inc.	Delaware	100
Remote Productions Inc.	Delaware	100
RTV News Inc.	Delaware	100
RTV News Music Inc.	Delaware	100
Satellite Holdings Inc.	Delaware	100
Saucon Valley Iron and Railroad Company, The	Pennsylvania	100
Scarab Publishing Corporation	Delaware	100
Scott Mattson Farms, Inc.	Florida	100
Showtime Networks Inc.	Delaware	100
Showtime Networks Inc. (U.K.)	Delaware	100
Showtime Networks Middle East Inc.	Delaware	100
Showtime Networks Satellite Programming Company	California	100
Showtime Online Inc.	Delaware	100
Showtime Satellite Networks Inc.	Delaware	100
Showtime/Sundance Holding Company Inc.	Delaware	100
SIFO One Inc.	Delaware	100
SIFO Two Inc.	Delaware	100
Simon & Schuster Global Services Inc.	Delaware	100
Simon & Schuster, Inc.	New York	100
SNI Development Corp.	Delaware	100
Solar Service Company	Delaware	100
Southeastern Home Video, Inc.	Delaware	100
SP Productions Inc.	Delaware	100

Exhibit 21

SUBSIDIARY NAME	STATE OF INCORPORATION	PERCENT OWNED
Special Effects Merchandise, Inc.	Delaware	100
Spelling Entertainment Group Inc.	Delaware	80
State of Mind Inc.	Delaware	100
Sundance Channel L.L.C.	Delaware	45
Superstar Productions USA Inc.	Delaware	100
T.V. Factory, Inc., The	New York	100
Talent Court Productions, Inc.	Delaware	100
Taylor Forge Memphis, Inc.	Delaware	100
They Productions Inc.	Delaware	100
Things of the Wild Songs Inc.	Delaware	100
Third Century Company	Delaware	100
Thirteenth Century Corporation	Delaware	100
Thirtieth Century Corporation	Delaware	100
Toe-To-Toe Productions Inc.	Delaware	100
Total Warehouse Services Corporation	Delaware	100
Trans-American Resources, Inc.	Delaware	100
TRF III Entertainment, Inc.	Delaware	100
TS Video, Inc.	Louisiana	100
TSM Services Inc.	Delaware	100
Tunes By Nickelodeon Inc.	Delaware	100
TV Scoop Inc.	Delaware	100
UI Video Stores, Inc.	Colorado	100
Universal American Corporation	Delaware	100
Uptown Productions Inc.	Delaware	100
VE Development Company	Delaware	100
VE Drive Inc.	Delaware	100
VE Television Inc.	Delaware	100
VHONE Inc.	Delaware	100
VIA Aircraft Management Inc.	Delaware	100
Viacom Animation of Korea Inc.	Delaware	100
Viacom Asia Inc.	Delaware	100
Viacom Broadcasting of Seattle Inc.	Delaware	100
Viacom Broadcasting West Inc.	Delaware	100
Viacom Camden Lock Inc.	Delaware	100

Exhibit 21

SUBSIDIARY NAME	STATE OF INCORPORATION	PERCENT OWNED
Viacom Consumer Products Inc.	Delaware	100
Viacom DBS Inc.	Delaware	100
Viacom Film Funding Company Inc.	Delaware	100
Viacom First Run Development Company Inc.	Delaware	100
Viacom First Run Limited	Delaware	100
Viacom Global Services Inc.	Delaware	100
Viacom HA! Holding Company	Delaware	100
Viacom IDA Inc.	Delaware	100
Viacom International Inc.	Delaware	100
Viacom International Inc. Political Action Committee Corporation	New York	100
Viacom IRB Acquisition Inc.	Delaware	100
Viacom Japan Inc.	New York	100
Viacom K-Band Inc.	Delaware	100
Viacom Networks Europe Inc.	Delaware	100
Viacom Networks Inc.	New York	100
Viacom Phoenix Inc.	Delaware	100
Viacom Pictures Development Company	Delaware	100
Viacom Pictures Inc.	Delaware	100
Viacom Pictures Movie Music Inc.	Delaware	100
Viacom Pictures Overseas Inc.	Delaware	100
Viacom Pictures Songs Inc.	Delaware	100
Viacom PNW Sports Inc.	Delaware	100
Viacom Productions Inc.	Delaware	100
Viacom Properties Inc.	Delaware	100
Viacom Realty Corporation	Delaware	100
Viacom Receivables Funding I Corporation	Delaware	100
Viacom Receivables Funding II Corporation	Delaware	100
Viacom Retail Stores, Inc.	Delaware	100
Viacom Satellite News Inc.	Delaware	100
Viacom Shopping Inc.	Delaware	100
Viacom Telecommunications (D.C.) Inc.	Delaware	100
Viacom World Wide Ltd.	New York	100
Via-Sac Music Inc.	Delaware	100
Virgin Interactive Entertainment USA, Inc.	Delaware	100

Exhibit 21

SUBSIDIARY NAME	STATE OF INCORPORATION	PERCENT OWNED
VISI Services Inc.	Delaware	100
VJK Inc.	Delaware	100
VNM Inc.	Delaware	100
VP Direct Inc.	Delaware	100
VP Programs Inc.	California	100
VSC Communications Inc.	Delaware	100
VSC Compositions Inc.	New York	100
VSC Music Inc.	New York	100
Western Row Properties, Inc.	Ohio	100
Westside Amphitheater Corporation, The	Arizona	100
WF Cinema Holdings, L.P.	Delaware	50
Wilshire Court Productions, Inc.	Delaware	100
Worldwide Productions, Inc.	Delaware	100
WT Animal Music Inc.	Delaware	100
WT Productions Inc.	Delaware	100
WVIT Inc.	Delaware	100
Young Reader's Press, Inc.	Delaware	100

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statements on Form S-3 (No. 33-53485 and No. 33-55785) of Viacom Inc. and Viacom International Inc. and in the Registration Statements on Form S-8 (No. 333-42987, No. 333-34125, No. 33-41934, No. 33-56088, No. 33-59049, No. 33-59141, No. 33-55173, No. 33-55709, and No. 33-60943) of Viacom Inc. of our report dated February 8, 1999, except for the first paragraph of Note 2, which is as of February 25, 1999, included in Item 8 of this Form 10-K.

PricewaterhouseCoopers LLP
New York, New York
March 30, 1999

VIACOM INC.

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of VIACOM INC., a Delaware corporation (the "Company"), hereby constitutes and appoints Michael D. Fricklas and Mark C. Morril his true lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 (and any amendments thereto); granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully for all intents and purposes as he might or could do in person hereby ratifying and confirming all that the said attorney-in-fact and agent, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto signed my name this 18th day of March, 1999.

/s/ George S. Abrams

George S. Abrams

VIACOM INC.

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of VIACOM INC., a Delaware corporation (the "Company"), hereby constitutes and appoints Michael D. Fricklas and Mark C. Morril his true lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 (and any amendments thereto); granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully for all intents and purposes as he might or could do in person hereby ratifying and confirming all that the said attorney-in-fact and agent, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto signed my name this 18th day of March, 1999.

/s/ Ivan Seidenberg

Ivan Seidenberg

VIACOM INC.

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of VIACOM INC., a Delaware corporation (the "Company"), hereby constitutes and appoints Michael D. Fricklas and Mark C. Morril his true lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 (and any amendments thereto); granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully for all intents and purposes as he might or could do in person hereby ratifying and confirming all that the said attorney-in-fact and agent, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto signed my name this 18th day of March, 1999.

/s/ Thomas E. Dooley

Thomas E. Dooley

VIACOM INC.

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of VIACOM INC., a Delaware corporation (the "Company"), hereby constitutes and appoints Michael D. Fricklas and Mark C. Morril his true lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 (and any amendments thereto); granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully for all intents and purposes as he might or could do in person hereby ratifying and confirming all that the said attorney-in-fact and agent, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto signed my name this 18th day of March, 1999.

/s/ Ken Miller

Ken Miller

VIACOM INC.

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of VIACOM INC., a Delaware corporation (the "Company"), hereby constitutes and appoints Michael D. Fricklas and Mark C. Morril his true lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 (and any amendments thereto); granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully for all intents and purposes as he might or could do in person hereby ratifying and confirming all that the said attorney-in-fact and agent, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto signed my name this 18th day of March, 1999.

/s/ Brent D. Redstone

Brent D. Redstone

VIACOM INC.

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of VIACOM INC., a Delaware corporation (the "Company"), hereby constitutes and appoints Michael D. Fricklas and Mark C. Morril her true lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for her and in her name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 (and any amendments thereto); granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully for all intents and purposes as she might or could do in person hereby ratifying and confirming all that the said attorney-in-fact and agent, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto signed my name this 18th day of March, 1999.

/s/ Shari Redstone

Shari Redstone

VIACOM INC.

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of VIACOM INC., a Delaware corporation (the "Company"), hereby constitutes and appoints Michael D. Fricklas and Mark C. Morril his true lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 (and any amendments thereto); granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully for all intents and purposes as he might or could do in person hereby ratifying and confirming all that the said attorney-in-fact and agent, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto signed my name this 18th day of March, 1999.

/s/ Frederic V. Salerno

Frederic V. Salerno

VIACOM INC.

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of VIACOM INC., a Delaware corporation (the "Company"), hereby constitutes and appoints Michael D. Fricklas and Mark C. Morril his true lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 (and any amendments thereto); granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully for all intents and purposes as he might or could do in person hereby ratifying and confirming all that the said attorney-in-fact and agent, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto signed my name this 18th day of March, 1999.

/s/ William Schwartz

William Schwartz

VIACOM INC.

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS that the undersigned director of VIACOM INC., a Delaware corporation (the "Company"), hereby constitutes and appoints Michael D. Fricklas and Mark C. Morril his true lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 (and any amendments thereto); granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully for all intents and purposes as he might or could do in person hereby ratifying and confirming all that the said attorney-in-fact and agent, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto signed my name this 18th day of March, 1999.

/s/ Philippe P. Dauman

Philippe P. Dauman

THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF VIACOM INC. FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1996 RESTATED FOR DISCONTINUED OPERATIONS AND ADJUSTED TO REFLECT THE 2-FOR-1 STOCK SPLIT EFFECTIVE MARCH 31, 1999. EARNINGS PER SHARE ARE PRESENTED IN ACCORDANCE WITH SFAS 128.

1,000,000

YEAR
DEC-31-1996
DEC-31-1996
209
0
2,254
101
2,342
5,718
3,890
734
28,834
4,269
9,856
7
0
1,200
11,380
28,834
9,684
9,684
6,340
8,487
0
0
786
410
243
152
1,096
0
0
1,188
1.63
1.62

RESTATEMENT REFLECTED HEREIN IS THE RESULT OF RESTATEMENTS AND RECLASSIFICATIONS TO PRIOR PERIODS' FINANCIAL STATEMENTS TO CONFORM TO THE CURRENT PERIOD PRESENTATION.

THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF VIACOM INC. FOR THE THREE MONTHS ENDED MARCH 31, 1997 RESTATED FOR DISCONTINUED OPERATIONS AND ADJUSTED TO REFLECT THE 2-FOR-1 STOCK SPLIT EFFECTIVE MARCH 31, 1999. EARNINGS PER SHARE ARE PRESENTED IN ACCORDANCE WITH SFAS 128.

1,000,000

3-MOS
DEC-31-1997
MAR-31-1997
261
0
2,088
104
2,455
5,881
4,039
873
29,079
3,728
10,753
7
0
1,200
11,343
29,079
2,496
2,496
1,710
2,249
0
0
194
53
27
11
(30)
0
0
(34)
(.05)
(.05)

RESTATEMENT REFLECTED HEREIN IS THE RESULT OF RESTATEMENTS TO PRIOR PERIODS' FINANCIAL STATEMENTS TO CONFORM TO THE CURRENT PERIOD PRESENTATION.

THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF VIACOM INC. FOR THE SIX MONTHS ENDED JUNE 30, 1997 RESTATED FOR DISCONTINUED OPERATIONS AND ADJUSTED TO REFLECT THE 2-FOR-1 STOCK SPLIT EFFECTIVE MARCH 31, 1999. EARNINGS PER SHARE ARE PRESENTED IN ACCORDANCE WITH SFAS 128.

1,000,000

6-MOS
DEC-31-1997
JUN-30-1997
202
0
2,177
114
2,359
5,996
4,151
951
29,197
3,889
10,820
7
0
1,200
11,144
29,197
4,972
4,972
3,597
4,791
0
0
396
(148)
(46)
(155)
58
0
0
(244)
(.35)
(.35)

RESTATEMENT REFLECTED HEREIN IS THE RESULT OF RESTATEMENTS TO PRIOR PERIODS' FINANCIAL STATEMENTS TO CONFORM TO THE CURRENT PERIOD PRESENTATION.

THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF VIACOM INC. FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997 RESTATED FOR DISCONTINUED OPERATIONS AND ADJUSTED TO REFLECT THE 2-FOR-1 STOCK SPLIT EFFECTIVE MARCH 31, 1999. EARNINGS PER SHARE ARE PRESENTED IN ACCORDANCE WITH SFAS 128.

1,000,000

9-MOS
DEC-31-1997
SEP-30-1997
219
0
2,610
112
2,441
5,934
4,229
1,051
29,054
4,056
9,925
7
0
1,200
11,578
29,054
7,778
7,778
5,483
7,310
0
0
584
(49)
84
(201)
422
0
0
176
.25
.25

RESTATEMENT REFLECTED HEREIN IS THE RESULT OF RESTATEMENTS TO PRIOR PERIODS' FINANCIAL STATEMENTS TO CONFORM TO THE CURRENT PERIOD PRESENTATION.

THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF VIACOM INC. FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1997 RESTATED FOR DISCONTINUED OPERATIONS AND ADJUSTED TO REFLECT THE 2-FOR-1 STOCK SPLIT EFFECTIVE MARCH 31, 1999. EARNINGS PER SHARE ARE PRESENTED IN ACCORDANCE WITH SFAS 128.

1,000,000

YEAR
DEC-31-1997
DEC-31-1997
292
0
2,498
100
2,253
5,714
4,320
1,123
28,289
5,053
7,423
7
0
1,200
12,176
28,289
10,685
10,685
7,476
10,000
0
0
751
1,179
646
374
420
0
0
734
1.04
1.04

RESTATEMENT REFLECTED HEREIN IS THE RESULT OF RESTATEMENTS TO PRIOR PERIODS' FINANCIAL STATEMENTS TO CONFORM TO THE CURRENT PERIOD PRESENTATION.

THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF VIACOM INC. FOR THE THREE MONTHS ENDED MARCH 31, 1998 RESTATED FOR DISCONTINUED OPERATIONS AND ADJUSTED TO REFLECT THE 2-FOR-1 STOCK SPLIT EFFECTIVE MARCH 31, 1999. EARNINGS PER SHARE ARE PRESENTED IN ACCORDANCE WITH SFAS 128.

1,000,000

3-MOS
DEC-31-1998
MAR-31-1998
321
0
2,062
101
2,285
5,381
4,392
1,212
27,845
4,160
7,973
7
0
1,200
12,250
27,845
2,686
2,686
1,804
2,412
0
0
154
123
68
48
(46)
0
0
(14)
(.02)
(.02)

RESTATEMENT REFLECTED HEREIN IS THE RESULT OF RESTATEMENTS TO PRIOR PERIODS' FINANCIAL STATEMENTS TO CONFORM TO THE CURRENT PERIOD PRESENTATION.

THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF VIACOM INC. FOR THE SIX MONTHS ENDED JUNE 30, 1998 RESTATED FOR DISCONTINUED OPERATIONS AND ADJUSTED TO REFLECT THE 2-FOR-1 STOCK SPLIT EFFECTIVE MARCH 31, 1999. EARNINGS PER SHARE ARE PRESENTED IN ACCORDANCE WITH SFAS 128.

1,000,000

6-MOS
DEC-31-1998
JUN-30-1998
336
0
2050
108
2,535
5,621
4,497
1,333
27,503
3,958
8,171
7
0
1,200
11,962
27,503
5,465
5,465
4,114
5,417
0
0
311
(267)
(65)
(220)
(60)
0
0
(309)
(.43)
(.43)

RESTATEMENT REFLECTED HEREIN IS THE RESULT OF RESTATEMENTS TO PRIOR PERIODS' FINANCIAL STATEMENTS TO CONFORM TO THE CURRENT PERIOD PRESENTATION.

THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF VIACOM INC. FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998 RESTATED FOR DISCONTINUED OPERATIONS AND ADJUSTED TO REFLECT THE 2-FOR-1 STOCK SPLIT EFFECTIVE MARCH 31, 1999. EARNINGS PER SHARE ARE PRESENTED IN ACCORDANCE WITH SFAS 128.

1,000,000

9-MOS
DEC-31-1998
SEP-30-1998
313
0
2,577
118
2,218
5,810
4,508
1,401
27,815
4,432
8,270
7
0
1,200
11,798
27,815
8,754
8,754
6,259
8,298
0
0
469
(28)
86
(133)
(8)
0
0
(186)
(.26)
(.26)

RESTATEMENT REFLECTED HEREIN IS THE RESULT OF RESTATEMENTS TO PRIOR PERIODS' FINANCIAL STATEMENTS TO CONFORM TO THE CURRENT PERIOD PRESENTATION.

THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF VIACOM INC. FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1998. EARNINGS PER SHARE ARE PRESENTED IN ACCORDANCE WITH SFAS 128 AND HAVE BEEN ADJUSTED TO REFLECT THE 2-FOR-1 STOCK SPLIT EFFECTIVE MARCH 31, 1999.

1,000,000

YEAR
DEC-31-1998
DEC-31-1998
767
0
1,858
99
1,806
5,065
4,537
1,458
23,613
5,633
3,813
7
0
600
11,442
23,613
12,096
12,096
8,506
11,345
0
0
599
137
139
(44)
(4)
(75)
0
(150)
(.21)
(.21)