

Paramount Pay TV Limited

(Registered number: 03458440)

Directors' Report And Financial Statements

31 December 1998



Paramount Pay TV Limited

Director

M O'Sullivan

Secretary

N Asai

Auditors

PricewaterhouseCoopers
No 1 London Bridge
London
SE1 9QL

Registered Office

UIP House
45 Beadon Road
Hammersmith
London W6 OEG

Paramount Pay TV Limited

Directors' Report

The directors present their report and audited financial statements for the 14 month period ended 31 December 1998 from the date of incorporation (see below).

Principal Activity And Review Of The Business

The company was incorporated on 31 October 1997 as Intercede 1286 Limited. It changed its name to Paramount Pay TV Limited on 29 December 1997. On 1 June 1998 the trading assets and liabilities of Paramount Film Services Limited (a fellow subsidiary undertaking) were transferred to the company. From that date, the principal activity of the company has been the provision of services related to film production.

Results And Dividends

The retained loss for the period to 31 December 1998 amounts to £9,529. The directors do not recommend the payment of a dividend.

Directors And Their Interests

The directors who served during the period are listed on page 1. The directors have no beneficial interest in the shares of the company which need to be disclosed in accordance with the Companies Act 1985.

Statement Of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Year 2000

Many computer systems express dates using the last two digits of the year. These systems require modification or replacement to accommodate the year 2000 and beyond in order to avoid potential malfunctions and resulting widespread commercial disruption. The business operations of the company depend not only on its computer systems but also to some degree on those of its suppliers and customers. There is, therefore, an exposure to further risk in the event that there is a failure by other parties to remedy their own year 2000 issues. The company is a participant in a year 2000 programme designed to address the impact of the year 2000 on the principal business units of Viacom Inc., the ultimate parent undertaking. The directors have reviewed the impact of date change and the compliance programme on the financial statements of the company. At present it is anticipated that the programme to have substantially all critical and non-critical systems year 2000 compliant will be completed by 31 October 1999. The costs associated with this programme have been borne by Viacom Inc.

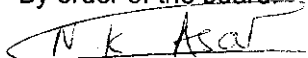
Paramount Pay TV Limited

Directors' Report (Continued)

Auditors

PricewaterhouseCoopers have indicated their willingness to continue as auditors and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By order of the board



N Asaf
Secretary

15 September 1999

Auditors' Report To The Members Of Paramount Pay TV Limited

We have audited the financial statements on pages 6 to 12 which have been prepared in accordance with the historical cost and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 2 the financial statements. Our responsibilities, as independent auditors, are established primarily by statute, the Auditing Practices Board, and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

**Auditors' Report To The Members Of
Paramount Pay TV Limited** (Continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1998 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors

15 September 1999

Paramount Pay TV Limited

Profit And Loss Account For The Period Ended 31 December 1998

	Notes	1998 £
Turnover	2	771,149
Administrative expenses		(714,427)
Operating profit	3	56,722
Interest receivable and similar income	4	767
Interest payable and similar charges	5	(67,018)
Loss on ordinary activities before taxation		(9,529)
Tax on loss on ordinary activities	7	-
Retained loss for the period		(9,529)

Statement of retained profits

Balance at 31 October 1997	-
Retained loss for the period	(9,529)
Balance at 31 December 1998	(9,529)

Turnover and loss on ordinary activities before taxation for the period relates exclusively to continuing operations.

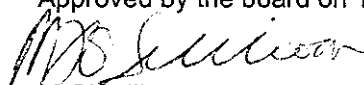
The retained loss for the period is equal to the recognised loss for the period.

Paramount Pay TV Limited

Balance Sheet As At 31 December 1998

	Notes	1998 £
Fixed assets		
Tangible assets	9	322
Current assets		
Debtors	10	1,529,061
		1,529,061
Creditors: amounts falling due within one year	11	(1,538,910)
Net current liabilities		(9,849)
Total assets less current liabilities		(9,527)
Capital and reserves		
Called up ordinary share capital	12	2
Profit and loss account		(9,529)
Equity shareholders' funds	13	(9,527)

Approved by the board on 15 September 1999 and signed on its behalf by:


M O'Sullivan
Director

The notes on pages 8 to 12 form an integral part of these financial statements.

Paramount Pay TV Limited

Notes To The Financial Statements For The Period Ended 31 December 1998

1 Accounting Policies

a) Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Depreciation

The cost of tangible fixed assets is written off by equal annual instalments over their expected useful lives as follows:

Equipment, furniture and fittings	10 years
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c) Foreign currency items

Assets and liabilities denominated in foreign currencies are expressed in sterling at the rates of exchange ruling at the balance sheet date. Trading results are expressed in sterling at the average rates ruling during the month. The resulting profits or losses are dealt with in the profit and loss account.

d) Pension benefits

The employees of the company are members of a group defined benefit pension scheme (see Note 14). The assets of the scheme are held separately from those of the company in independently administered funds. The scheme operates on a pre-funded basis, and the policy is to contribute variable amounts, based on actuarial advice, to achieve a 100% funding level on a projected salary basis. Contributions to the scheme are charged to the profit and loss account so as to spread the regular cost of pensions over the remaining service lives of the employees.

e) Leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

f) Cash flow statement

The company is a wholly owned subsidiary of Viacom Inc., and is included in the consolidated financial statements of Viacom Inc. which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1.

Paramount Pay TV Limited

Notes To The Financial Statements For The Period Ended 31 December 1998

(Continued)

2 Turnover

Turnover consists of service fees billed exclusive of VAT, but inclusive of intra-group transactions. All turnover is generated in the United Kingdom.

3 Operating Profit

	1998 £
Operating profit is stated after charging:	
Depreciation	258
Auditors' remuneration	6,500

4 Interest Receivable And Similar Income

	1998 £
Bank interest receivable	767

5 Interest Payable And Similar Charges

	1998 £
Interest payable to group undertaking	67,018

6 Staff Costs

Staff costs are as follows:

	1998 £
Salaries and wages	193,102
Social security costs	18,474
Other pensions costs	253,965
	465,541

The average number of employees during the period was 4, all employees being engaged in production and related services.

Paramount Pay TV Limited

Notes To The Financial Statements For The Period Ended 31 December 1998

(Continued)

7 Taxation On Loss On Ordinary Activities

No corporation tax charge for the period arises due to the trading loss incurred.

8 Directors' Emoluments

	1998 £
Remuneration	63,872
Pension contributions	233,167
	<hr/>
	297,039

On 1 June 1998 the employment of the directors and employees was transferred to the company from a fellow subsidiary undertaking, Paramount Film Services Limited. The emoluments of the directors prior to that date are disclosed in that company's financial statements.

9 Tangible Fixed Assets

	Equipment Furniture and Fittings £
Cost	
At 31 October 1997	-
Transfers in from fellow subsidiary undertaking	2,580
	<hr/>
At 31 December 1998	2,580
Depreciation	
At 31 October 1997	-
Transfers in from fellow subsidiary undertaking	2,000
Charge for year	258
	<hr/>
At 31 December 1998	2,258
Net book value:	
At 31 December 1998	322
	<hr/>
At 31 October 1997	-

Paramount Pay TV Limited

Notes To The Financial Statements For The Period Ended 31 December 1998 (Continued)

10 Debtors

	1998 £
Trade debtors	170,292
Amounts owed by group undertakings	1,261,143
Other debtors	97,626
	<hr/>
	1,529,061

11 Creditors: Amounts Falling Due Within One Year

	1998 £
Amounts owed to group undertakings	1,454,957
Other taxation and social security	55,084
Accruals and deferred income	28,869
	<hr/>
	1,538,910

12 Share Capital

	Authorised 1998 £	Allotted, called up and fully paid 1998 £
Ordinary shares of £1 each	100	2

13 Reconciliation Of Movements In Shareholders' Funds

	1998 £
Loss for the financial period	(9,529)
Net withdrawal from shareholders' funds	(9,529)
Opening shareholders' funds	2
Closing shareholders' funds	(9,527)

Paramount Pay TV Limited

Notes To The Financial Statements For The Period Ended 31 December 1998

(Continued)

14 Pension Costs

The company participates in a group pension plan. For the period ended 30 September 1998, the defined benefit plan, of which it was a member, was the Paramount Communications UK Pension Plan, ('the Plan').

The Plan is a defined benefit arrangement and operates on a pre-funded basis. The funding policy is to contribute such variable amounts as, on the advice on the actuary, will achieve a 100% funding level on a projected salary basis. Actuarial assessments covering expense and contributions are carried out by independent qualified actuaries, with the last such review being carried out as at 1 July 1997. The projected unit method was adopted for the last valuation of the Plan. Assets were valued by discounting income from a notional portfolio. The main actuarial assumptions used in the valuation for accounting purposes were:

Investment yield	9.0%pa
Salary growth	7.5%pa
(including 0.5% pa in respect of age related and merit increases)	
Price inflation	4.5%pa
Equity dividend growth	4.5%pa
Pension increases - pre 1997	3.0%pa
- post 1997	4.0%pa

The Plan is assessed to be fully funded on a current funding level basis, based on a market value of assets of £9.015 million at the valuation date. The actuarial value of the assets represented 106% of the on-going liabilities of the Plan. The pension expense for the year ended 31 December 1998 was £253,965.

With effect from 1 October 1998, no further contributions were made to this Plan. A new defined benefit scheme, the 'Viacom UK Defined Benefit Plan', was established to replace the previous arrangement, and contributions have since been made to this plan. The balance of funds had not been transferred into the new plan from the Paramount Communications UK Pension Plan as at 31 December 1998. There has been no actuarial valuation carried out to date of the new plan.

15 Parent Undertaking And Financial Support

The largest group for which consolidated financial statements are drawn up and of which the company is a member is Viacom Inc., incorporated in the state of Delaware in the United States of America. The consolidated financial statements of this company can be obtained from 1515 Broadway, New York 10036.

A fellow Viacom subsidiary undertaking has indicated its current intention to continue to support the activities of the company, including providing the means to enable it to meet its liabilities as they fall due.

16 Related Party Transactions

As a wholly owned subsidiary of Viacom Inc. the company has taken advantage of the exemption contained within Financial Reporting Standard Number 8 (Related Party Transactions) not to disclose related party transactions with other members of the Viacom Inc. group of companies. The ultimate controlling party of the company is National Amusements Inc., the parent undertaking of Viacom Inc.