

**Initiation of Coverage****CBS Corp.****Higher Up the Value Chain, at a Discount**

We have initiated coverage of CBS Corp. with a 1-Overweight rating and a \$32 price target within the context of our 3-Negative broadcasting sector rating.

|                      |              |
|----------------------|--------------|
| Stock Rating:        | 1-OVERWEIGHT |
| Sector View:         | 3-NEGATIVE   |
| Ticker:              | CBS          |
| Price (05-Jan-2006): | \$ 26.36     |
| Price Target:        | \$ 32.00     |
| S&P 500:             | 1294.18      |

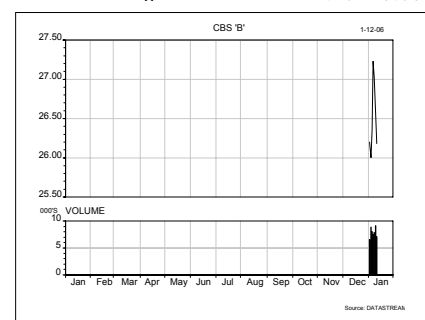
- CBS currently possesses the most attractive valuation metrics in our universe, with potential upside to our estimates given easing comps in 2006, and leverage to TV station margin improvement driven by CBS's strong ratings.
- Significant free cash flow generation supports a 2.2% (and growing) dividend yield, and affords potential for increasing regular dividend payments, pension liability reduction, and share buybacks.
- Well-documented risks include the gradual effect of media fragmentation on network TV, and the impact of CBS Radio's loss of Howard Stern (5% of radio revenue/EBITDA).
- CBS is attractively valued at 7.7x estimated 2006 EBITDA, versus 11.2x for the broadcasting sector, and a 6.5% fully taxed FCF yield. Our DCF-based 12-month price target of \$32 implies a 9.1x estimated 2006 EV/EBITDA multiple, and is supported by our sum-of-the parts analysis.

Anthony J. DiClemente, CFA  
1.212.526.1341  
adicleme@lehman.com

| EPS (FY DEC) | 2004 | 2005  | 2006  |
|--------------|------|-------|-------|
| 1Q           | N/A  | N/A   | N/A   |
| 2Q           | N/A  | N/A   | N/A   |
| 3Q           | N/A  | N/A   | N/A   |
| 4Q           | N/A  | N/A   | N/A   |
| Year         | N/A  | 1.60E | 1.78E |
| P/E          | N/A  | 16.5  | 14.8  |

**Market Data**

|                           |               |
|---------------------------|---------------|
| Market Cap (Mil.)         | 21183         |
| Shares Outstanding (Mil.) | 803.60        |
| Float (%)                 | 0             |
| Dividend Yield            | -             |
| Convertible               | No            |
| 52 Week Range             | 77.98 - 25.60 |

**Analyst Certification**

I, Anthony J. DiClemente, CFA, hereby certify (1) that the views expressed in this research Company Report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Company Report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Report.

**Financial Summary**

|                     |         |
|---------------------|---------|
| Revenue FY05 (Mil.) | 14494.0 |
| Five-Year EPS CAGR  | 999.9   |
| Return on Equity    | N/A     |
| Current BVPS        | N/A     |
| Debt To Capital (%) | 35.00   |

Lehman Brothers does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Customers of Lehman Brothers in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at [www.lehmanlive.com](http://www.lehmanlive.com) or can call 1-800-2LEHMAN to request a copy of this research.

Investors should consider this report as only a single factor in making their investment decision.

January 12, 2006

<http://www.lehman.com>

PLEASE SEE IMPORTANT DISCLOSURES BEGINNING ON PAGE 27

LEHMAN BROTHERS

## **Table of Contents**

---

|  |    |
|--|----|
| Investment Thesis.....                             | 3  |
| Lehman Brothers Broadcasting Stock Scorecard ..... | 4  |
| CBS Scoring Summary.....                           | 6  |
| Investment Positives.....                          | 6  |
| Investment Concerns .....                          | 15 |
| Ratings Trends.....                                | 17 |
| What to Watch For.....                             | 20 |
| Valuation.....                                     | 20 |
| Financials.....                                    | 25 |

## Investment Thesis

*CBS has emerged from the highly anticipated split of Viacom as the more mature company, focused on improving margin at its cash-rich stations by virtue of its ratings strength for prime-time network television.*

*With a disciplined management team led by CEO Les Moonves, CBS offers a distinct value proposition, in our view, by virtue of 1) its attractive valuation metrics, and 2) the opportunity and willingness of management to return substantial free cash to shareholders.*

**We have initiated coverage of CBS Corp. shares with a 1-Overweight rating and a price target of \$32 within the context of our 3-Negative broadcasting sector rating.**

CBS has emerged from the highly anticipated split of Viacom as the more mature company, focused on improving margin at its cash-rich stations by virtue of its ratings strength for prime-time network television. CBS Corp. is financially structured with a regular dividend to appeal to value investors—a dividend highly likely to grow materially over time. With a disciplined management team led by CEO Les Moonves, CBS offers a distinct value proposition, in our view, by virtue of 1) its attractive valuation metrics, and 2) the opportunity and willingness of management to return substantial free cash to shareholders.

CBS benefits from a diversified portfolio of assets: With over 60% of revenues stemming from the television business (of which about one-third is derived from the CBS Television network) and a track record of producing compelling, top-ranking programming content, CBS appears relatively better positioned than any of the companies in our terrestrial broadcasting coverage universe. CBS management is determined to push forward in a transitional broadcasting environment by cultivating its television content, first and foremost, in exploring ancillary forms of content delivery to preserve long-term value. In 2006, the CBS network should benefit from continued strong ratings as CBS Network currently holds the No. 1 rank among adults ages 25–54 and total viewers along with the No. 2 rank among adults ages 18–49. Ratings growth has translated into strong double-digit advertising growth of late at the network level—revenue was up 11% year over year in 3Q05. We believe margins at the station level, which we estimate are in the low 40%-range, could grow to the high-40% in the next three years by virtue of continued strong ratings and significant operating leverage.

The company's TV production studio should benefit from positive comparisons for the syndication pipeline in 2006 and especially 2007, as multiple CBS network hits such as "Star Trek: Voyager," "Frasier," "Cold Case" and "Without a Trace" begin to enter the lucrative syndication market. And while the radio business may experience difficulty in 2006 given the departure of Howard Stern, radio revenue and EBITDA grew to the low-single-digits in 3Q05 and have trended upward in 2005. CBS's outdoor business continues to drive growth, and unlike radio and TV, global outdoor advertising presents an unusual media growth story, as 1) the medium is insulated from the impacts of ad-skipping and ratings/viewership declines, 2) competition is limited with high barriers to entry, and 3) technology is helping the outdoor business with digital billboard displays. Management's willingness to return free cash flow to shareholders by way of a healthy dividend further supports our positive stance.

CBS management is committed to an annual \$450 million dividend outflow, equating to \$0.58 per share, or a 2.2% dividend yield. We expect this dividend to increase by 30%–40% over the next two years. Given CBS's relatively low leverage and financial reengineering, strategic recapitalization opportunities exist. We estimate a potential paydown of legacy unfunded pension liabilities would be 130 basis points accretive to estimated 2006 operating income.

*While the television broadcasting industry, including network television, faces structural and cyclical challenges, we believe that at current trading levels the market does not give CBS credit for prospects of monetizing the company's content within the network content industry.*

Our concerns relate primarily to the well-documented secular challenges facing the radio broadcasting industry. While the expansive reach of CBS's network business has somewhat muted by the effects of an uneven advertising environment, new advancements in technology and general fragmentation of audiences (from cable TV, satellite TV, and the Internet) continue to affect all media and CBS is not insulated from these secular concerns. While the television broadcasting industry, including network television, faces structural and cyclical challenges, we believe that at current trading levels the market does not give CBS credit for prospects of monetizing the company's content within the network content industry. Moreover, we are concerned that CBS Radio, which comprises over one quarter of consolidated EBITDA, will modestly weigh down the 2006 and long-term growth prospects of the company, although we again stress that, with a dividend yield and highly attractive valuation multiples, this enterprise is not built for excess growth, which if delivered would be construed as "upside" by investors. Although likely discounted in the stock, CBS's high-profile loss of Howard Stern as of the beginning of 2006 will translate to \$100 million revenue loss (lower-margin), or 5% of CBS Radio revenue and EBITDA. His morning show was carried on 27 CBS Radio stations. Furthermore, the effect of CCU's "Less is More" (LIM) initiative on large-market clusters could have a competitive impact on CBS Radio's stations.

On valuation, CBS appears attractive on an EV/EBITDA basis where it trades at an estimated 2006 EV/EBITDA of 7.7x, versus 11.2x for the general market broadcasters and at a fully taxed P/FCF (price-to-free cash flow) of 15.6x, versus 16.3x for the other broadcasters as CBS is a full taxpayer. We estimate that EBITDA growth should approach 4%–6% over the next five years, and with investors fully expecting CBS to be the "low-growth" alternative to the new Viacom, investors' growth expectations remain lower than that of many CBS peers. Relative to the large-cap entertainment companies, CBS trades at a slight discount on an EV/EBITDA basis and in-line on a P/FCF basis. **Our DCF-based price target of \$32 corroborated by our sum-of-the-parts analysis**, based on an 8.8x blended multiple for the television assets, a 9.5x multiple for Radio, an 11.0x multiple for Outdoor, and a 6.0x multiple for Parks & Publishing. Our price target implies a blended EV/EBITDA multiple of 9.1x and a blended adjusted P/FCF multiple of 18.9x.

## **Lehman Brothers Broadcasting Stock Scorecard**

In order to put a quantitative framework around how we look at 12 broadcasting stocks from most attractive to least, we have developed the **Lehman Brothers Broadcasting Stock Scorecard**. We have chosen 10 criteria that we view as the most critical in evaluating our

stocks under coverage. Each metric is assigned a score from 1 to 5, with 1 reflecting a more positive outlook and 5 a more cautious outlook for each metric. Each of the 10 metrics is equally weighted for each company and summed up into an overall score, which we then apply to determine our company ratings:

- 1) **Estimated 2006 Relative Multiples:** We examine individual company trading multiples including EV/EBITDA, adjusted P/FCF, and to a lesser extent P/E, all in the context of the overall broadcasting sector.
- 2) **Estimated 2006 Growth:** Company-specific 2006 estimated growth of EBITDA and FCF in relation to the broader growth expectations for the overall broadcasting sector.
- 3) **Three-Year Growth:** Company-specific growth of EBITDA and FCF over the next three years in relation to the broader growth expectations for the overall broadcasting sector.
- 4) **Upside/Risk to Estimates:** Deviation of our own estimates relative to company guidance and consensus estimates.
- 5) **Station Ratings:** Analysis of recent revenue-weighted ratings trends relative to other operators, and use a forward-looking qualitative approach to extrapolate future ratings trends.
- 6) **LBO/Takeout Candidate:** As determined by relative levels of FCF and leverage, management willingness to consider privatization, and scarcity value of assets.
- 7) **Acquisition Posture:** As determined by management, willingness to remain financially prudent and use of disciplined acquisition criteria to potential deals.
- 8) **Share Buybacks:** As determined by management's track record and current intentions to implement share buyback plans, as well as the firm's current financial flexibility.
- 9) **Dividends:** As determined by current dividend yield as well as our own subjective view of whether management teams are likely to implement or raise current dividends in the future.
- 10) **Potential Catalysts:** Our own subjective view of future positive catalysts for the stock.

We have based each of our investment ratings on where each company falls in our Lehman Brothers Broadcasting Stock Scorecard (Figure 1). We emphasize that our scoring system is designed as a forced ratings distribution, as each ranked category foots to an average neutral rating of 3, implying an equal weighting of scores above and below 3.

Consequently, our scorecard is modeled as a relative ratings system, not an absolute one, much like our corresponding stock rating system. We assigned a 1-Overweight rating to the best scorecard performers with average scores of 2.60 and better, 2-Equal weight to performers with scores between 2.75 and 3.35, and 3-Underweight to companies with scores of 3.40.

Figure 1: Lehman Brothers Broadcasting Stock Scorecard

| Overall Score | Company              | Ticker | Stock Rating   | 2006E Valuation | 2006E Growth | 3-Yr Growth | Upside/Risk to Estimates | Ratings    | LBO/Takeout Candidate | Acquisition Posture | Share Buyback | Dividends  | Potential Catalysts | Average Score |
|---------------|----------------------|--------|----------------|-----------------|--------------|-------------|--------------------------|------------|-----------------------|---------------------|---------------|------------|---------------------|---------------|
| 1             | Univision            | UVN    | 1-Overweight   | 5               | 1            | 2           | 3                        | 1          | 2                     | 3                   | 2             | 5          | 1                   | 2.40          |
| 2             | CBS Corp             | CBS    | 1-Overweight   | 1               | 2            | 3           | 3                        | 3          | 5                     | 2                   | 4             | 2          | 2                   | 2.45          |
| 3             | Radio One            | ROIAK  | 1-Overweight   | 2               | 2            | 3           | 3                        | 3          | 2                     | 3                   | 2             | 4          | 3                   | 2.60          |
| 4             | Clear Channel        | CCU    | 2-Equal weight | 3               | 2            | 3           | 3                        | 2          | 5                     | 2                   | 3             | 2          | 3                   | 2.75          |
| 5             | Entravision          | EVC    | 2-Equal weight | 4               | 2            | 2           | 2                        | 2          | 3                     | 4                   | 3             | 5          | 3                   | 2.85          |
| 6             | Westwood One         | WON    | 2-Equal weight | 2               | 4            | 4           | 3                        | 3          | 4                     | 2                   | 3             | 2          | 4                   | 3.05          |
| 7             | Spanish Broadcasting | SBBSA  | 2-Equal weight | 3               | 3            | 2           | 3                        | 3          | 3                     | 4                   | 5             | 4          | 3                   | 3.15          |
| 8             | Citadel              | CDL    | 2-Equal weight | 3               | 4            | 4           | 3                        | 4          | 3                     | 4                   | 3             | 1          | 4                   | 3.15          |
| 9             | Entercom             | ETM    | 2-Equal weight | 3               | 4            | 4           | 3                        | 4          | 3                     | 4                   | 2             | 4          | 4                   | 3.35          |
| 10            | Cox Radio            | CXR    | 3-Underweight  | 3               | 4            | 4           | 3                        | 5          | 3                     | 3                   | 4             | 4          | 3                   | 3.40          |
| 11            | Cumulus              | CMLS   | 3-Underweight  | 4               | 4            | 4           | 4                        | 4          | 3                     | 3                   | 3             | 4          | 3                   | 3.40          |
| 12            | Emmis                | EMMS   | 3-Underweight  | 4               | 4            | 4           | 4                        | 3          | 3                     | 4                   | 3             | 4          | 3                   | 3.40          |
|               |                      |        |                | <b>3.0</b>      | <b>3.0</b>   | <b>3.0</b>  | <b>3.0</b>               | <b>3.0</b> | <b>3.0</b>            | <b>3.0</b>          | <b>3.0</b>    | <b>3.0</b> | <b>3.0</b>          | <b>3.0</b>    |

Note: 1-rating is most positive for the stock, 5-rating is least positive.

Source: Lehman Brothers estimates

## CBS Scoring Summary

As it pertains to our Broadcasting Stock Scorecard, CBS scores the highest marks on valuation, as CBS trades at the most attractive valuation in our 12-stock broadcasting universe. CBS also achieves a 2 for dividends, given its 2.2% yield with potential to grow. Moreover, estimated 2006 growth will be above average, as we project 4.7% EBITDA growth, versus 2%–4% normalized growth for the industry. On acquisition posture and financial discipline, we rank CBS 2 as management has indicated it is seeking tuck-in acquisitions. As a result of these positives, CBS achieves an average score of 2.45, No. 2 overall in the context of our 12-stock broadcasting universe.

## Investment Positives

**Diversified entertainment company refocused on broadcasting capacities by leveraging its scale and dominance across platforms.** CBS Corp. owns assets clustered in the largest markets in order to be able to sell advertising across multiple markets and multiple formats. CBS's Radio/TV/Outdoor clusters in the majority of the top 20 domestic markets allow advertisers to leverage multiple mediums to reinforce their messages. Advertisers are often attracted by CBS Corp.'s widespread distribution of compelling programming across a range of platforms within domestic and international markets. CBS Corp. operations span four primary segments: Television, Radio, Outdoor and Parks & Publishing. Its broad reach and compelling programming have contributed to the cultivation of several top-ranking media franchises:

- **Television (64% of estimated 2005 revenue, 54% of EBITDA):** CBS Corp.'s Television segment includes the CBS and UPN broadcast networks, 39 owned broadcast television stations, and the television production and syndication businesses. The CBS Network and UPN reach 99% and 95% of U.S. households, respectively. CBS television stations reach approximately 47 million U.S. households with a presence in 15 of the top 20 U.S. television markets with independent stations carrying the CBS signal in most non-owned markets. With about 42 million subscriptions in the United States, Showtime, The Movie Channel, and FLIX provide CBS exposure to the high-margin pay-TV business model. Paramount Television and King World Productions are the production and syndication divisions of CBS Corp. King World Productions' programming itself reaches approximately 77 million U.S. households weekly and is watched by over 111 million adults ages 18-plus in the U.S. weekly. CBS leverages its content library beyond initial network broadcasts via Paramount Television's library of programs in more than 230 countries.
  
- **Radio (15% of estimated 2005 revenue, 27% of EBITDA):** CBS Radio is the second-largest station group in terms of revenue and the fourth-largest in terms of number of stations. According to BIA, in 2004 CBS Radio consisted of 181 stations in 40 U.S. markets and generated \$2.2 billion in revenue, 11% of the industry's \$20 billion total. About 90% of its radio stations fall within the top 50 U.S. radio markets with 58% in the top 25 radio markets. CBS Radio is primarily focused on large radio markets with its top three U.S. markets being New York, Los Angeles, and Chicago. Combined these three markets generate 31% of the company's total radio revenue. For information about station ratings, see the "Rating Trends" section of this report.

Moreover, the company has taken equity interests in strategic partners in hopes to garner gains in niche segments of the radio business—traffic and weather, Spanish-language, online media and HD radio. The company owns the Westwood One (WON)-managed CBS Radio Network along with its 18% stake in WON. WON produces and distributes syndicated and network radio programming, including traffic and weather information, to both CBS Radio stations and its competitors. To increase its exposure to the fast-growing Hispanic demographic, in October 2004 CBS acquired a 10% interest in Spanish Broadcasting System (SBSA). CBS Corp. has committed to converting approximately 131 of its radio stations to HD radio and owns a 5% interest in technology developer iBiquity Digital Corporation.

- **Outdoor (13% of estimated 2005 revenue, 14% of EBITDA):** Viacom Outdoor ranks as the No. 1 out-of-home advertising unit within North America, and second overall behind Clear Channel Outdoor. The segment has over two million billboard faces and transit advertising properties in North America and Europe. The Outdoor business covers more than 100 markets in North America, including all 50 of the largest metropolitan markets in the United States, 19 of the 20 largest metropolitan markets in Canada, and 44 of the 45 largest metropolitan markets in Mexico. In Europe, the business includes a variety of outdoor advertising displays in the United Kingdom, Netherlands, France, Italy, the Republic of Ireland, Northern Ireland, Spain,

Finland, and Puerto Rico. In the transit category, Viacom Outdoor has a dominant position in London with exclusive rights to manage advertising space within the London Underground and on London buses (as well as approximately 87% of the total bus fleet in the United Kingdom).

- **Parks & Publishing (8% of estimated 2005 revenue, 5% of EBITDA):** CBS publishes and distributes consumer books names, including Simon & Schuster, Pocket Books, Scribner, and The Free Press in more than 100 countries. CBS Corp.'s Paramount Parks consists of five theme parks and one themed attraction; on the whole, the parks entertain over 12.5 million guests annually in the United States and Canada. In 2004, Simon & Schuster published 100 titles that were *New York Times* bestsellers, including 17 *New York Times* No. 1 bestsellers. In our opinion, the Parks & Publishing business is a less obvious fit with the overall CBS Corp. portfolio and we believe the company would benefit from reevaluating its strategy related to this division. The business has experienced subpar growth in 2005 and the company may consider capital could be reinvested in businesses that promise more value long-term, such as content development and production.

*Management has communicated its intention to institute a competitive dividend yield versus peers, which should be attractive to the value investor.*

**A healthy dividend and capacity to return cash to shareholders should provide value investors with reason to invest in CBS Corp.** Management has communicated its intention to institute a competitive dividend yield versus peers, which should be attractive to the value investor. We expect CBS Corp. will retain the approximate \$450 million annual dividend currently paid by Viacom, which equates to \$0.58 per share, or a 2.2% yield currently. Although less than competitor CCU's yield, we view the dividend positively and we believe management is committed to enhancing the payout over time. We expect this dividend to increase by 30%–40% over the next two years. CBS's clean balance sheet allows for financial flexibility, and as of 3Q05, CBS was allocated \$7 billion in gross debt from which we estimate a 2006 net debt/EBITDA leverage ratio of approximately 1.7x. We believe CBS's longer-term target leverage ratio will be higher, at 2.5x–3.0x.

**Furthermore, prepayment of \$1.2 billion in unfunded legacy pension liabilities presents another avenue to boost free cash flow.** Assuming CBS retains all of old Viacom's legacy pension obligations of \$1.2 billion (acquired from Westinghouse at the time of its 1999 merger with CBS), we recognize an accretive opportunity for CBS shareholders in 2006. Potential prepayment of these pension liabilities would allow CBS to 1) lower operating expenses (costs of servicing the obligations are embedded above the line in operating income as "residual costs" of previously divested businesses) and 2) receive an IRS tax benefit as outlined by ERISA. Given all contributions to fund the \$1.2 billion pension liabilities are fully tax deductible, full repayment assuming a 40% tax rate would create a \$480 million effective tax refund. The rebate itself has a zero net-net impact on CBS's income statement, yet CBS's balance sheet would reflect a \$480 million increase in its deferred tax liability; the result is an immediate increase in current cash flow and long-term decrease in cash flow as the deferred tax liability comes due. In addition, converting pension liabilities into assets has the potential to generate pretax income of \$84 million under Viacom's current 7% return on assets assumption (which the company bases

on its target asset allocation and return estimates for equity and debt securities). We expect CBS to fund its pension liabilities by \$500 million in both 2006 and 2007, and using the rest for funding in 2008, and we forecast a more conservative 6% return on assets. Assuming CBS does not issue more long-term debt, we estimate this strategy of reinvesting free cash flow has the potential to increase 2006 operating income by approximately 130 basis points.

Figure 2: Prepayment of Pension Obligation Scenario Analysis (US\$ in millions)

| (\$US Millions)                                     | 2004A        | 2005E        | 2006E        | 2007E        | 2008E        |
|---|--------------|--------------|--------------|--------------|--------------|
| Components of net periodic cost:                    |              |              |              |              |              |
| Service cost  | \$63         | \$64         | \$64         | \$64         | \$64         |
| Interest cost                                       | 325          | 344          | 344          | 344          | 344          |
| <b>Expected return on plan assets</b>               | <b>(298)</b> | <b>(303)</b> | <b>(333)</b> | <b>(363)</b> | <b>(375)</b> |
| Amortization of transition obligation               | 0.2          | 0.2          | 0.2          | 0.2          | 0.2          |
| Amortization of prior service cost                  | 1.6          | 1.6          | 1.6          | 1.6          | 1.6          |
| Recognized actuarial loss (gain)                    | 36.9         | 36.9         | 36.9         | 36.9         | 36.9         |
| Net periodic cost of pension obligation             | \$128        | \$144        | \$114        | \$84         | \$72         |
| Operating Income, Unfunded                          | \$2,843      | \$2,645      | \$2,760      | \$2,951      | \$3,131      |
| Operating Income, Funded                            | 2,843        | 2,666        | 2,795        | 2,986        | 3,145        |
| <b>Operating Income Accretion</b>                   | -            | -            | <b>1.27%</b> | <b>1.19%</b> | <b>0.45%</b> |
| <i>Fair value of plan assets, beginning of year</i> |              |              | \$4,640      | \$5,140      | 5,640        |
| <b>Change in plan assets</b>                        |              |              | <b>500</b>   | <b>500</b>   | <b>200</b>   |
| <i>Fair value of plan assets, end of year</i>       | \$4,505      | \$4,640      | \$5,140      | \$5,640      | \$5,840      |

Source: Company reports and Lehman Brothers estimates

We believe CBS's rights to exceptional programming increase its ability to monetize various content deployment initiatives involving alternative channels such as international syndication, Internet, DVD sales, wireless technologies, and digital media licensing.

**Highly acclaimed programming drives a competitive edge in today's media industry where content is king.** CBS supplements its widespread distribution arm with content produced in-house and content acquired through strategic alliances. We believe CBS's rights to exceptional programming increase its ability to monetize various content deployment initiatives involving alternative channels such as international syndication, Internet, DVD sales, wireless technologies, and digital media licensing. CBS Network programs consistently dominate the top prime-time ratings charts across multiple demographics. For the current broadcast television season prime-time day programming (September 19, 2005 to December 25, 2005), Nielsen Media Research reported CBS Network held the No. 1 rank among total households for adults ages 25–54 and ages 18–49. Popular titles include "CSI," "Without a Trace," "NCIS" and "Cold Case." Strong CBS programs translate into top positions for affiliated television stations, including the No. 1 spot in New York, No. 2 in Los Angeles, No. 3 in Chicago. We furthermore note upside potential in CBS's inclination to build its content production capacity.

**Recent agreements point to management's willingness to aggressively explore new potential revenue streams.** We believe CBS management continues to consider new business development opportunities to advance its exposure to new technologies and higher-growth demographics. To date, such deals have been relatively small, but represent management's willingness to embrace changing dynamics of the broadcasting industry.

The recent business development activity exhibits a commitment of management to preserve the long-term value of its content. Examples of new ancillary businesses include college sports, online search and on-demand video, and other forms of alternative content distribution. At CBS Radio, Joel Hollander has spearheaded the segment's plan to incorporate, rather than defeat, emerging technologies such as podcasting, multicasting and streaming. Recent CBS business development deals include:

- **CSTV (College Sports TV)** – On November 3, CBS announced its plans to acquire CSTV for \$325 million as a complement to CBS Sports. CSTV reaches about 1.5 million cable and direct-broadcast satellite households, having distribution agreements with Comcast, DirecTV, Time Warner, Charter, Cox and EchoStar's DISH Network. We project CSTV should breakeven next year, presenting potential synergies in operations, sales force, and distribution negotiations. With CBS Sports providing existing strength in NCAA football and basketball, the deal makes strategic sense to bolster its college sports programming.
- **Comcast (CMCSA – \$26.42; 2-Equal weight/2-Neutral, covered by Lehman Brothers entertainment analyst Vijay Jayant)** – On November 8, CBS announced it intends to make select prime-time episodes of "CSI: Crime Scene Investigation," "NCIS," "Survivor" and "The Amazing Race" available on demand to Comcast for 99 cents each. The deal will apply to 17 markets served by CBS's owned-and-operated stations, and these shows, which will include commercials, will be available after midnight following their broadcast for 24 hours of unlimited viewing after purchase.

*We believe CBS's ability to negotiate deals and create a market in VOD highlight the value of its primary asset—content.*

We believe the on-demand platform is a viable future revenue generator for broadcast networks. On-demand programming has been limited to date to pay-network shows such as "The Sopranos" and syndicated reruns of older off-network programs. While these deals are trial runs for the broadcasters, the moves mark a significant change in TV broadcasting strategy and modest traction has the potential to create a meaningful shift in the current business model. For years, broadcasters avoided cable operator requests to offer on-demand viewing of popular TV programs for fear that the move would cannibalize prime time advertising sales efforts and compromise lucrative syndication profits on reruns. For example, should CBS capture a conservative 3% of "CSI: Crime Scene Investigation's" approximate 20 million general audience base through VOD, assuming monthly VOD usage, the product would offer incremental revenue of \$7 million. And, in comparing the attractiveness of VOD versus DVR, we recognize that VOD consumers often unexpectedly miss their favorite programs and are willing to pay for convenient, hassle-free viewing. We believe CBS's ability to negotiate deals and create a market in VOD highlight the value of its primary asset—content.

- **HD Radio** – On December 6, 2005, a consortium of radio operators including CBS Radio announced plans to create the HD Digital Radio Alliance to lobby auto makers, radio manufacturers, and retailers for the rollout of digital radios. We view the alliance

formation as a positive step, adding buzz around HD radio technology, although meaningful revenue is several years away, in our view.

- **Additional Highlights** – In addition to the aforementioned deals, CBS is in discussions with Google (GOOG – \$451.24; 1-Overweight/2-Neutral, covered by Lehman Brothers analyst Doug Anmuth) to provide video search and on-demand video. Verizon Wireless also announced plans on December 8 to feature CBS clips of “CSI”, “Survivor” and “Late Show with David Letterman” to V Cast-enabled mobile phones. Both deals demonstrate CBS’s determination to find innovative ways to maintain its grasp on coveted audiences. To further the company’s new media initiatives, CBS Radio launched Web site [www.radiomat.com](http://www.radiomat.com), with the aim to integrate stations online through streaming, podcasting, etc.

*Without the expense of prime-time program production at the station level, monetization of incremental ratings translates largely to operating profit.*

**Top network ratings momentum and return of political dollars translates into strong prospects for owned and operated TV stations.** We believe CBS’s television station group is capable of outpacing its competitor stations across its markets as a result of the strength of CBS’s prime-time lineup and improving 10 PM Schedule, which is providing better lead-in programming for local news. Top network ratings have positive implications for the stations that carry network’s regularly scheduled programming. We expect stations similar to the network to command higher rates given continued strength in ratings, while accounting for a lag-effect between ratings gains and revenue growth as advertisers prefer to see three to four consecutive ratings books (quarters) of improved ratings before committing to consistently higher unit rates.

Without the expense of prime-time program production, monetization of incremental ratings translates largely to operating profit. While we estimate CBS’s TV Station group’s revenue share to remain roughly level in 2005 and 2006, we expect a trend of improving operating margin capacity given its large market exposure and strength in program ratings. While we note there is some cyclical in station results due to political advertising in even-odd year comparisons, we expect year-over-year margin expansion of roughly 100 basis points for the TV station group. In addition, we expect a boost in revenue at CBS TV stations as a result of returning political spend (midterm gubernatorial and congressional elections) in 2006. As witnessed in 2004, where CBS station group benefited from approximately \$110 million in political advertising, the group exhibits operating leverage with political; that is, political EBIT margin is above the station group’s normalized average.

Figure 3: CBS TV Station Operating Margin Analysis (US\$ in millions)

|   | 2004A    | 2005E    | 2006E    |
|---|----------|----------|----------|
| CBS TV Station Revenue                  | \$1,838  | \$1,841  | \$1,909  |
| Market TV Station Revenue               | \$11,821 | \$12,093 | \$12,371 |
| CBS TV as % of Market Revenue           | 15.5%    | 15.2%    | 15.4%    |
| Estimated CBS TV Station EBITDA Margins | 41.6%    | 42.4%    | 43.3%    |
| YOY Improvement (basis points)          | 500      | 300      | 600      |

Note: 2004A revenues adjusted for \$35 million of Super Bowl revenues.  
Assumed adjusted annual growth rate for market revenues of 2%-3%.

Source: BIA and Lehman Brothers estimates

The strong 2006–07 syndication pipeline should provide an additional lift in 2006. Syndication deals are booked upfront by CBS's Paramount Television and King World Productions, creating some lumpiness in revenue, with the most significant deals negotiated for roughly three to four years with one-year renewal options thereafter. Proceeds are typically split among program owners, producers, and distributors. "Star Trek: Voyager" and a second cycle of "Frasier" enter off-network syndication in 2006, along with less significantly sized deals including "Without a Trace" and "CSI: Miami." "NCIS" and "Cold Case" are expected to follow in 2007.

Figure 4: CBS Syndication Synopsis and Pipeline (US\$ in millions)

| Program            | Announced | Buyer         | Expected Timing                               | Est. Price Paid per Episode |
|--------------------|-----------|---------------|---|-----------------------------|
| CSI                | 2002      | TNN/ Spike TV | Weekly Fall 2002; Daily Fall 2004             | \$1.6                       |
| Without a Trace    | 2003      | TNT           | Repurpose previous season Fall 2004           | 1.4                         |
| CSI: Miami         | 2003      | A&E           | Weekly Fall 2004, Daily Fall 2006 - Fall 2007 | 1.2                         |
| Cold Case          | 2004      | TNT           | Weekly Fall 2005; Daily Fall 2007             | 1.4                         |
| CSI: New York      | 2004      | TNN/ Spike TV | Weekly Fall 2006; Daily Fall 2008             | 1.9                         |
| Star Trek: Voyager | 2006      | TBD           | 4-5 seasons                                   | TBD                         |
| Frasier            | 2006      | TBD           | 4-5 seasons                                   | TBD                         |
| Without a Trace    | 2006      | TNT           | Exclusive off-network Fall 2006 -             | 1.4                         |
| CSI: Miami         | 2006      | TBD           | Weekend Fall 2006 -                           | TBD                         |
| NCIS               | 2007      | TBD           | Weekly and/or Daily Fall 2007 -               | TBD                         |
| Cold Case          | 2007      | TBD           | Weekend Fall 2007 -                           | TBD                         |

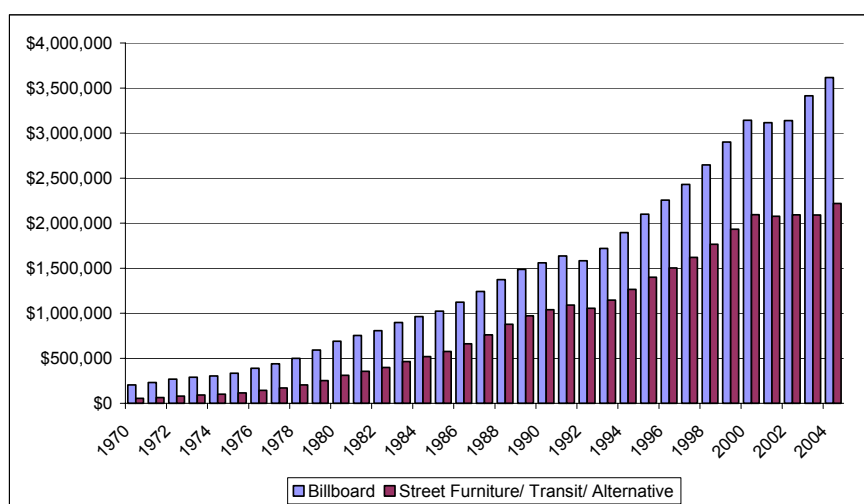
Note: Deal statistics estimated and future timing is subject to change

Source: Industry articles and Lehman Brothers research

Albeit a small segment of the overall business, Viacom Outdoor is showing early signs of a turnaround. CBS's outdoor advertising business is the second-largest outdoor advertising company in the United States and represents 14% of estimated 2005 revenue and 10% of estimated 2005 operating income. While CBS's outdoor margins are below those of outdoor peers, plausibly due to greater exposure to recent international weakness, we believe the business is poised to contribute moderate top-line growth. On a general

note, we believe positive fundamentals underlie outdoor businesses for the following reasons: 1) unlike radio and TV, outdoor advertising is insulated from the impacts of ad-skipping and ratings/viewership declines, 2) competition is limited with high barriers to entry, and 3) technology is helping the outdoor business with digital billboard displays. Measurability and ROI for advertisers will continue to improve as new media measurement technologies also contribute. We expect Viacom Outdoor to benefit from improving domestic trends (the Outdoor Advertising Association announced outdoor business grew 10.2% in 2Q05), although it may likely be offset by continued softness in Europe and less favorable currency trends. CBS's recent Magic Media acquisition, a Beijing-based outdoor advertising company, has shown strength in building strategic global assets; the deal should position this segment to benefit from 2008 Olympic Games. We expect the segment to increase revenue to the mid-single-digit range over the next two years.

Figure 5: Outdoor Advertising Expenditures, 1970–2004 (US\$ in thousands)



Source: Outdoor Advertising Association of America

*More selective approach to commercial inventory cuts may shield or defeat radio from CCU's LIM aftereffects.*

**Despite Howard Stern-related uncertainty, reinvestment in CBS Radio stations along with format changes may preserve top-line growth beyond 2006.** The 3Q05 marked the third consecutive quarter of top-line growth for CBS Radio with revenue and EBITDA growing 2% each to \$542 million and \$233 million, respectively. Management indicated within the top 10 markets that top-line growth reached 5%. Joel Hollander, CBS Radio's fourth CEO in eight years, has followed Mel Karmazin, Farid Suleman, and John Sykes with bold moves in attempt to reposition its stations. Hollander's goal over the past six months has been to reinvest in marketing, promotion, and future technologies. While we believe this strategy could result in a slightly accelerated pace for the radio segment, CBS Radio faces great challenges in 2006, which could offset any gains from such initiatives. Management has pointed out that Stern's departure will likely have a bigger negative impact on revenue than EBITDA. More selective approach to commercial inventory cuts may shield or defeat radio from CCU's LIM aftereffects. While management recognizes

CCU's LIM initiative as a key industry defining move, management supports a more selective approach to commercial inventory cuts internally. Rather than a universal slash, CBS Radio employed a strategic approach of only cutting spot loads at stations struggling with mediocre ratings. CBS Radio may be prone to share shift in 2006 if CCU proves it is able to recapture losses from 2005. Revenue losses may be offset by ratings gains with station upgrades. We recognize CBS Radio's investment in revitalizing its stations could pay off given recent positive ratings momentum along with a return of political advertising in 2006, offsetting potential downside from LIM and program shifts.

Figure 6: CBS Radio Revenue Growth Relative to the Industry (FY04A–FY06E)

|   | 2004A | 3/05A | 6/05A | 9/05A | 12/05E | 2005E | 2006E |
|---|-------|-------|-------|-------|--------|-------|-------|
| <b>LBER Radio Industry Growth</b>                 | 1.8%  | 2.0%  | 0.1%  | 0.7%  | -3.0%  | -0.2% | 1.0%  |
| <b>CBS Radio Performance Relative to Industry</b> | -1.9% | -0.3% | 0.9%  | 1.7%  | 0.0%   | 0.6%  | -1.0% |

Source: Lehman Brothers estimates

*In addition, the recent surge of content deals leveraging new technology platforms suggest CBS's ownership of compelling programming and its broad reach have tangible value in an evolving media marketplace.*

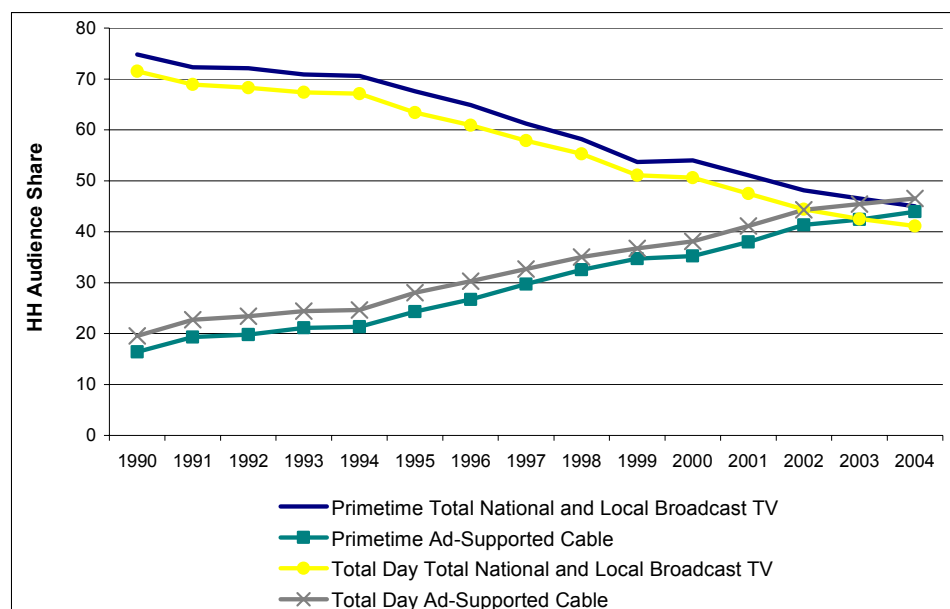
**Network business and content library offers unparalleled reach for national advertisers.** While the broadcasting industry as a whole is in a period of maturity, advertisers still view network TV as a highly efficient, competitively priced platform to reach the masses. The approximately 30 million persons garnered by the three nightly network newscasts exceeds the prime-time audience brought in by cable networks by a factor of 10. We believe large national brands to some extent continue to advertise on network TV at benchmark levels regardless of economic conditions in order to maintain key touch-points with consumers. By comparison, in our view, radio station revenue is more subject to fluctuation in times of economic instability being highly dependent on local spot advertising as opposed to upfront deals. In addition, the recent surge of content deals leveraging new technology platforms suggests CBS's ownership of compelling programming and its broad reach have tangible value in an evolving media marketplace. CBS's content library also allows expansive international reach primarily through syndicated programming. In our opinion, the more in-demand programming CBS is able to offer, the greater future audience shares it will be able to deliver to national and multinational advertisers.

**Retransmission consent could present a long-term cash opportunity.** CBS's split from Viacom may present an opportunity for CBS to negotiate future carriage from cable operators. In the past, Viacom leveraged carriage of cable properties such as MTV, VH1, and Nickelodeon, often at the expense of its broadcast signal fees. CBS management is determined to apply pressure to cable systems for retransmission payment as a newly independent entity. While we anticipate CBS will face much resistance from cable operators and many contracts are not up for renegotiation for several years, this opportunity exists down the line and shareholders could benefit from renegotiation of contracts.

## Investment Concerns

While CBS management is determined to thrive in an “on demand” digital universe of digital video recorders, secular industry trends continue to reshape the larger broadcasting industry. While the expansive reach of CBS’s network business has somewhat muted the effects of an uneven advertising environment, new advancements in technology and general fragmentation of audiences continue to affect all media, and CBS is not insulated from these secular concerns. As it has over the past decade, cable continues to siphon viewership and profitability at the expense of broadcasters, and we note this trend may contribute to further erosion of prime-time TV network viewers with even more pronounced effects among younger demographics. Between 2003 and 2004, cable’s share surpassed that of broadcasters at a total household audience share of about 44% as it continued its upward trajectory.

Figure 7: Broadcast Vs. Ad-Supported Cable Viewership Comparison 1990–2004



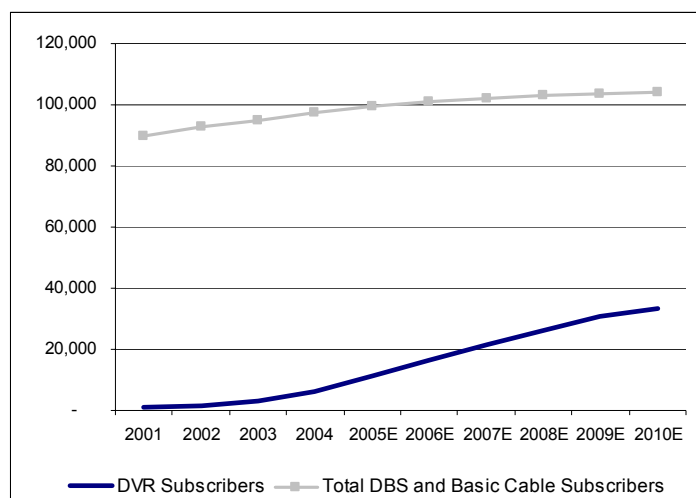
Note: Includes ABC/CBS/NBC/FOX/WB/UPN/PAX affiliate and local independents. All shares based on the sum of total U.S.HH delivery (not HUT). Primetime indicates 4th-3rd Quarter, Monday-Saturday 8pm-11pm & Sunday 7-11pm; Total Day 4th-3rd Quarter Monday-Sunday 24 hours.

Source: NHI Quarterly NTAR; Cabletelevision Advertising Bureau

In addition, the threat of increasingly digitized universe with greater penetration of digital-video recorders (DVRs) continues to be a concern for CBS ratings, although CBS may be better positioned than its rival networks with lower ratings to compete given CBS’s better prospects of DVD and/or subscription sales from its top-rated-owned content. Magna Global forecasts that DVRs will likely grow to represent about one-third of total DBS and U.S. basic cable subscribers by 2010. Research presented at a recent investor conference by CBS’s David Poltrack, EVP of Research and Planning, related to DVR household behavior has pointed out some positive implications for broadcast networks; however, we

still believe the fast-forwarding and ad-skipping enabled by DVRs poses an obstacle in locking in advertisers. Initial findings show that DVR homes, with an estimated 7% penetration today, watch more TV than non-DVR homes and broadcast-network programs account for a greater share of DVR homes' viewing. On December 26, Nielsen began including programs recorded on DVRs in its viewership ratings. The move allows networks and advertisers to review "live plus" ratings, which factor viewership in playback mode, in addition to standard "live" ratings. As a result, networks, media buyers, and advertisers are likely to selectively recognize the ratings that promise the greatest advantage in negotiations. For that reason, we do not expect the change to have a near-term impact on average advertiser rates garnered by CBS.

Figure 8: DVR Forecast 2001–10E (subscribers in thousands)



Source: MAGNA Global Research, company reports, Lehman Brothers estimates

**CBS Radio not immune to secular industry concerns.** Threats to radio appear to be more severe than they do to network television in light of the striking penetration of iPods and other portable devices that allow listeners to customize music selections to their own preferences and listen on demand. Moreover, the emergence of satellite radio offers more variety than terrestrial stations and is likely steps ahead of HD radio in arranging critical strategic alliances with OEMs and auto manufacturers to enable larger scale rollout. Furthermore, CBS Radio is highly exposed to other industry concerns, as outlined in our detailed industry report ("Broadcasting: Initiation of Coverage," dated January 6, 2006), including 1) broadcasting valuations in general remain extended relative to other media sectors, 2) leveraged buyouts are unlikely to drive upward revaluation of sector, 3) 2006 Street revenue and EBITDA estimates for the industry in too high, 4) revenue stagnation is bound to drive EBITDA declines, and 5) reallocation of local ad dollars is likely to continue to more targeted media such as the Internet.

**Personality swaps and format changes in radio build uncertainty around the results of major program overhauls.** CBS Radio is currently grappling with the formidable task of finding replacement talent since the departure of Howard Stern. Currently, the plan is to replace Stern with 10 feature personalities, including David Lee Roth, and develop other morning drive programs for the remaining Stern stations. The Howard Stern show represented annual revenue of about \$100 million for CBS Radio and roughly \$40 million–\$45 million in EBITDA, or about 5% of the segment's total revenue and EBITDA. We expect CBS Radio to experience similar audience attrition as Clear Channel's stations, which dropped the show in 2004, or about 30%–40% loss in audience share. The change in programming may even present an opportunity for CBS Radio to bring in advertisers that were previously opposed to the program. More significant than the lost audience share is the impact of ongoing investment in new programming to build upside from here. Like peer CCU, CBS Radio has also invested in switching station formats. While a small percentage of its overall portfolio, CBS Radio has also seen mixed results from newly formatted Jack radio stations and slow monetization of ratings gains. In our opinion, format flips at best serve as a stopgap to larger secular issues such as audience fragmentation.

**Network business somewhat hit-driven.** As we detail in our industry report, cyclical concerns and sluggishness in the overall advertising market could have an adverse impact on broadcasting companies and CBS, especially since its out-of-home, non-network businesses are not immune from this trend. Furthermore, network ratings tend to be cyclical revolving around programming peaks and troughs. Syndication deals also contribute to lumpiness in results and potentially pose tough comps. Both point to how critical it is that CBS continues to build its content library by reinvesting in programming and superior creative talent.

**Fewer shared interests with new Viacom.** We expect a slight long-term risk in CBS's ability to negotiate key programming arrangements due to its separation from the new Viacom. For example, Showtime currently has exclusive rights to Paramount Pictures' feature films through 2007. Without shared corporate interests, we wonder whether CBS will have less leverage or pricing power upon renewal of existing agreements. And without being a part of a more powerful media conglomerate, CBS could end up renegotiating less favorable marketing terms in the near term.

---

## Ratings Trends

### Television Ratings Trends

In the most recent season-to-date Nielsen prime-time viewership ratings, CBS commanded half of the top 10 programs, compared with ABC's three programs and Fox's two programs. The "CSI" franchise continued to top the charts, although prime-time viewership of the original series declined year over year for total audiences and adults ages 18–49 (–2% and –6%, respectively). In the Big Six rankings chart, CBS maintained its No. 1 position, with a 25% share premium to its next highest ranked competitor ABC.

Figure 9: Top 20 Network Primetime Series: Total Households and Adults Ages 18–49: Season-to-Date Ratings September 19, 2005 to December 25, 2005

| Rank | Programs                  | Total Households |               |              |                   | Adults 18-49 |               |              |            |      |
|------|---------------------------|------------------|---------------|--------------|-------------------|--------------|---------------|--------------|------------|------|
|      |                           | Live US AA%      | Live US Share | Live AA(000) | Y/Y Change (AA %) | Live US AA%  | Live US Share | Live AA(000) | Y/Y Change |      |
| 1    | CSI                       | CBS              | 16.4          | 25           | 18,100            | -2%          | 9.0           | 22           | 11,680     | -6%  |
| 2    | Desperate Housewives      | ABC              | 14.7          | 21           | 16,196            | 7%           | 10.1          | 22           | 13,140     | 1%   |
| 3    | Without a Trace           | CBS              | 12.8          | 21           | 14,082            | 2%           | 6.1           | 16           | 7,869      | -3%  |
| 4    | FOX NFL Sunday-National   | FOX              | 12.7          | 24           | 14,027            | -2%          | 7.5           | 25           | 9,798      | -3%  |
| 5    | CBS NFL National          | CBS              | 12.5          | 23           | 13,748            | 0%           | 7.3           | 24           | 9,458      | 0%   |
| 6    | CSI: Miami                | CBS              | 11.8          | 19           | 13,035            | -11%         | 6.0           | 15           | 7,841      | -19% |
| 7    | Grey's Anatomy            | ABC              | 11.5          | 18           | 12,672            | NA           | 8.0           | 19           | 10,391     | NA   |
| 8    | Survivor: Guatemala       | CBS              | 10.9          | 17           | 11,979            | NA           | 6.5           | 18           | 8,392      | NA   |
| 9    | NFL Monday Night Football | ABC              | 10.7          | 18           | 11,772            | -1%          | 6.3           | 17           | 8,141      | -3%  |
| 10   | FOX NFL Sunday-Single     | FOX              | 10.6          | 23           | 11,669            | -2%          | 6.0           | 23           | 7,790      | -3%  |
| 11   | Lost                      | ABC              | 10.2          | 15           | 11,210            | 0%           | 7.1           | 17           | 9,185      | 18%  |
| 11   | NCIS                      | CBS              | 10.2          | 16           | 11,218            | 7%           | 3.9           | 11           | 5,037      | 15%  |
| 13   | Cold Case                 | CBS              | 10.1          | 15           | 11,154            | 0%           | 3.9           | 9            | 5,017      | 3%   |
| 14   | 60 Minutes                | CBS              | 9.9           | 16           | 10,914            | -2%          | 3.5           | 9            | 4,560      | -3%  |
| 14   | Law and Order:SVU         | NBC              | 9.9           | 16           | 10,874            | 8%           | 5.2           | 14           | 6,812      | -4%  |
| 14   | Two and a Half Men        | CBS              | 9.9           | 14           | 10,911            | -7%          | 5.1           | 12           | 6,587      | -11% |
| 17   | Commander in Chief        | ABC              | 9.7           | 14           | 10,705            | NA           | 4.0           | 10           | 5,203      | NA   |
| 17   | CSI: NY                   | CBS              | 9.7           | 16           | 10,638            | -2%          | 4.9           | 13           | 6,413      | -13% |
| 19   | CBS NFL Single            | CBS              | 9.3           | 21           | 10,197            | -5%          | 5.2           | 21           | 6,762      | -9%  |
| 20   | E.R.                      | NBC              | 9.1           | 15           | 9,982             | -17%         | 6.0           | 16           | 7,761      | -23% |

Note: Includes MTWTFSS 6:00 a.m. - 6:00 a.m.

Source: Nielsen Media Research

Figure 10: Big Six Network Prime Average Ratings, Total Households: Season-to-Date September 19, 2005 to December 25, 2005

| Network      | 2005        |             |               | 2004        |             |               | Y/Y Change (AA%) |
|--------------|-------------|-------------|---------------|-------------|-------------|---------------|------------------|
|              | AA%         | Share       | ('000s)       | AA%         | Share       | ('000s)       |                  |
| ABC          | 6.8         | 11.0        | 7,490         | 6.6         | 10.7        | 7,200         | 3.4%             |
| CBS          | 8.5         | 13.7        | 9,340         | 8.5         | 13.8        | 9,280         | 0.1%             |
| NBC          | 6.1         | 9.9         | 6,760         | 6.6         | 10.7        | 7,220         | -6.9%            |
| FOX          | 5.1         | 8.2         | 5,640         | 5.6         | 9.0         | 6,090         | -7.9%            |
| PAX          | 0.4         | 0.6         | 440           | 0.4         | 0.7         | 460           | -6.1%            |
| WB           | 2.2         | 3.5         | 2,470         | 2.4         | 3.8         | 2,670         | -7.9%            |
| <b>Total</b> | <b>29.2</b> | <b>47.1</b> | <b>32,140</b> | <b>30.0</b> | <b>48.7</b> | <b>32,920</b> | <b>-2.9%</b>     |

Note: Strict Prime Daypart (Mon-Sat 8p-11p, Sun 7p-11p).

As of August 29 2005, there are an estimated 110.2 million television households in the USA. A single national household ratings point represents 1% or 1,102,000 households.

Source: Nielsen Media Research

## Radio Ratings Trends

On a weighted-revenue basis (average quarter hours for those ages 12-plus), the *Summer 2005 Ratings Book* suggests CBS Radio ratings declined by 1.2% year over year, exceeding the industry decline of 0.5%. CBS Radio's ratings declined in several of the company's top markets, including New York (-6.6%), Chicago (-4.0%), and San Francisco (-8.8%). Nevertheless, CBS Radio did experience an increase in ratings in some key markets, including Los Angeles (4.3%), Detroit (5.3%), Washington D.C. (4.8%), and Seattle (8.4%).

- **New York, New York** – During summer 2005, CBS Radio experienced significant ratings gain from some stations and substantial ratings loss from others. CBS Radio's largest revenue-generating station, WINS (1010-AM), gained 16.7% market share year over year during summer 2005. WFAN (660-AM), another large revenue-producing station, grew ratings by 8.0%. However, these gains were partially offset by WCBS (880-AM) and WXRK (92.3), which had a decline in ratings of 6.9% and 11.1%, respectively.
- **Los Angeles, California** – Among CBS Radio's top four revenue-producing stations in Los Angeles, none of the stations had an increase in ratings. KROQ (106.7), KLSX (97.1), and KNX's (1070-AM) ratings decline by 11.6%, 10.7%, and 5.6%, respectively and KTWV (94.7) ratings were flat. Of special significance was a Jack station, KCBS (93.1), which increased its markets share by 112.5% year over year. By comparison, New York's recently Jack-converted station WCBS (101.1-FM) ratings declined 58% over the same period.

Figure 11: CBS Radio's Top 10 Markets and Market Ratings (US\$ in thousands)

| Market                         | Total Revenue<br>(2004) | % of<br>Total | Station<br>Count | Market Share, AQH, 12+, All Day |        |        |       |        | Summer Y/Y<br>% Change |
|--------------------------------|-------------------------|---------------|------------------|---------------------------------|--------|--------|-------|--------|------------------------|
|                                |                         |               |                  | SU '04                          | FA '04 | WI '05 | SP'05 | SU '05 |                        |
| New York, NY                   | \$263,000               | 11.6%         | 6                | 17.8                            | 16.5   | 16.5   | 17.7  | 16.6   | -6.7%                  |
| Los Angeles, CA                | 250,100                 | 11.0%         | 6                | 16.4                            | 17.2   | 17.2   | 16.8  | 17.1   | 4.3%                   |
| Chicago, IL                    | 180,300                 | 8.0%          | 7                | 20.1                            | 19.8   | 20.4   | 19.4  | 19.3   | -4.0%                  |
| Boston, MA                     | 128,400                 | 5.7%          | 5                | 21.3                            | 22.2   | 21.4   | 20.0  | 21.1   | -0.9%                  |
| Philadelphia, PA               | 104,800                 | 4.6%          | 5                | 22.0                            | 22.9   | 23.0   | 22.1  | 21.2   | -3.6%                  |
| Dallas-Ft. Worth, TX           | 101,500                 | 4.5%          | 6                | 16.8                            | 17.3   | 15.7   | 15.7  | 16.6   | -1.2%                  |
| Detroit, MI                    | 87,500                  | 3.9%          | 5                | 22.8                            | 23.5   | 23.7   | 23.7  | 24.0   | 5.3%                   |
| Washington, DC                 | 86,200                  | 3.8%          | 4                | 14.6                            | 13.6   | 15.0   | 14.1  | 15.3   | 4.8%                   |
| San Francisco, CA              | 82,000                  | 3.6%          | 4                | 10.2                            | 10.2   | 10.5   | 9.9   | 9.3    | -8.8%                  |
| Seattle-Tacoma, WA             | 63,900                  | 2.8%          | 4                | 16.7                            | 16.4   | 16.6   | 18.2  | 18.1   | 8.4%                   |
| Other                          | \$915,900               | 40.5%         | 129              |                                 |        |        |       |        |                        |
| <b>Total, Reported</b>         | <b>\$2,263,600</b>      |               | <b>181</b>       |                                 |        |        |       |        | <b>-1.7%</b>           |
| <b>Total, Weighted Revenue</b> |                         |               |                  |                                 |        |        |       |        | <b>-1.2%</b>           |

Note: Total revenues and station ownership reflect the total revenues and station ownership at 2004 year-end as reported by BIA. Total revenues and station ownership do not account for pending acquisitions at 2004 year-end, and in some cases, it may not reflect non-BIA rated markets.

Source: BIA, Company filings, Lehman Brothers

Figure 12: CBS Radio's Top 10 Stations and Station Ratings (US\$ in thousands)

| Station                | AM/<br>FM | Frequency | Market           | Station Revenue<br>(2004) | % of<br>Total | Format      | Market Share, AQH, 12+, All Day |        |        |       |        | Summer Y/Y<br>% Change |
|------------------------|-----------|-----------|------------------|---------------------------|---------------|-------------|---------------------------------|--------|--------|-------|--------|------------------------|
|                        |           |           |                  |                           |               |             | SU '04                          | FA '04 | WI '05 | SP'05 | SU '05 |                        |
| WINS                   | AM        | 1010      | New York, NY     | \$60,600                  | 2.7%          | News        | 3.6                             | 3.3    | 3.9    | 3.7   | 4.2    | 16.7%                  |
| KROQ                   | FM        | 106.7     | Los Angeles, CA  | 60,300                    | 2.7%          | Alternative | 4.3                             | 4.1    | 4.2    | 3.7   | 3.8    | -11.6%                 |
| WCBS                   | AM        | 880       | New York, NY     | 55,700                    | 2.5%          | News        | 2.9                             | 2.6    | 2.4    | 3.0   | 2.7    | -6.9%                  |
| WFAN                   | AM        | 660       | New York, NY     | 52,500                    | 2.3%          | Sprts/Talk  | 2.5                             | 2.4    | 2.1    | 2.6   | 2.7    | 8.0%                   |
| WXRK                   | FM        | 92.3      | New York, NY     | 52,200                    | 2.3%          | Rock        | 3.6                             | 3.3    | 3.1    | 3.4   | 3.2    | -11.1%                 |
| WBBM                   | AM        | 780       | Chicago, IL      | 45,800                    | 2.0%          | News        | 4.5                             | 4.3    | 4.5    | 4.0   | 4.7    | 4.4%                   |
| KTWV                   | FM        | 94.7      | Los Angeles, CA  | 41,700                    | 1.8%          | NAC/Jazz    | 3.0                             | 3.9    | 3.6    | 3.8   | 3.0    | 0.0%                   |
| KLSX                   | FM        | 97.1      | Los Angeles, CA  | 41,500                    | 1.8%          | Talk        | 2.8                             | 3.0    | 2.5    | 2.3   | 2.5    | -10.7%                 |
| KNX                    | AM        | 1070      | Los Angeles, CA  | 41,500                    | 1.8%          | News        | 1.8                             | 1.6    | 2.2    | 1.5   | 1.7    | -5.6%                  |
| KYW                    | AM        | 1060      | Philadelphia, PA | 37,700                    | 1.7%          | News        | 6.3                             | 6.1    | 7.2    | 6.6   | 6.3    | 0.0%                   |
| Other                  |           |           |                  | \$1,774,100               | 78.4%         |             |                                 |        |        |       |        |                        |
| <b>Total, Reported</b> |           |           |                  | <b>\$2,263,600</b>        |               |             |                                 |        |        |       |        | <b>-1.7%</b>           |

Note: Total revenues and station ownership reflect the total revenues and station ownership at 2004 year-end as reported by BIA. Total revenues and station ownership do not account for pending acquisitions at 2004 year-end, and in some cases, it may not reflect non-BIA rated markets.

Source: BIA, Company filings, Lehman Brothers

## What to Watch For

- Revenue and ratings impact of Howard Stern departure and replacement programming
- Dividend declarations above levels benchmarked at the close of the split or announcement of a CBS buyback program
- Potential tuck-in acquisition activity (e.g., investment in sources with incremental revenue)
- Potential sale of non-core businesses such as Parks & Publishing and the UPN network and sale or swap of smaller non-top-20 radio market assets
- Marketplace traction of paid-for, "on demand" content distribution
- Impact of political drivers in 2006
- Renegotiation of key contracts, including outdoor property leases and long-term retransmission consent

## Valuation

We utilize three methodologies in our valuation of CBS Corp.: 1) relative multiples, including P/FCF (which fully taxes CBS Corp.'s reported free cash flow and credits CBS's share price for the PV of future tax shields), P/E and EV/EBITDA multiples, in the context of the radio industry group and broader media market; 2) a sum-of-the-parts analysis of CBS's four segments; and 3) a 10-year discounted cash flow analysis. From a valuation standpoint, CBS Corp. has a slight disadvantage to pure-play operators in our radio industry group given its full tax payer status.

### Relative Multiple Analysis

CBS appears attractive on an EV/EBITDA basis where it trades at an estimated 2006 EV/EBITDA of 7.7x, versus 11.2x for the general market broadcasters and at a fully taxed

P/FCF of 15.6x, versus 16.3x for the general market broadcasters. We estimate that EBITDA growth should approach 4%–6% over the next five years. Relative to the large-cap entertainment companies, CBS trades at a discount on an EV/EBITDA basis and in line on a P/FCF basis. We believe that the market has already discounted CBS shares for a low-to no-growth scenario at CBS Radio and has not credited it for viable alternative plays on content. In our opinion, CBS deserves an in-line valuation to the broader radio group, accounting for strength in the network TV business and its conglomerate discount. We believe this modest benefit is appropriate given CBS's grasp on premium programming and relative resistance to swings in national budgets relative to broadcast network.

Figure 13: Broadcasting Comparative Valuation Multiples (US\$ in millions, except per share data)

| (in US\$ millions, except per share data)<br>Prices updated as of 1/5 close | General Market Broadcasting |                               |  |            |                                |                              |                 |                     |                        |                                 | Spanish Language   |                  |                  |                             |  |
|---|-----------------------------|-------------------------------|--|------------|--------------------------------|------------------------------|-----------------|---------------------|------------------------|---------------------------------|--------------------|------------------|------------------|-----------------------------|--|
|   | CBS Corp<br>CBS             | Citadel <sup>(1)</sup><br>CDL | Clear<br>Channel <sup>(2)</sup><br>CCU | Cox<br>CXR | Cumulus <sup>(3)</sup><br>CMLS | Emmis <sup>(4)</sup><br>EMMS | Entercom<br>ETM | Radio One<br>ROI/AK | Westwood<br>One<br>WON | Gen Mkt<br>Broadcast<br>Average | Entravision<br>EVC | Spanish<br>SBBSA | Univision<br>UVN | Spanish<br>Media<br>Average |  |
| Stock Rating  | 1-OW                        | 2-EW                          | 2-EW                                   | 3-UW       | 3-UW                           | 3-UW                         | 2-EW            | 1-OW                | 2-EW                   |                                 | 2-EW               | 2-EW             | 1-OW             |                             |  |
| Price   | \$26.36                     | \$13.43                       | \$32.22                                | \$14.21    | \$13.06                        | \$20.55                      | \$30.46         | \$10.54             | \$16.30                |                                 | \$7.12             | \$5.26           | \$30.55          |                             |  |
| Diluted Shares Outstanding (FY06E)  | 770                         | 127                           | 520                                    | 98         | 62                             | 37                           | 42              | 99                  | 84                     |                                 | 111                | 72               | 333              |                             |  |
| Market Capitalization   | \$20,297                    | \$1,702                       | \$16,746                               | \$1,393    | \$812                          | \$764                        | \$1,285         | \$1,042             | \$1,376                |                                 | \$787              | \$381            | \$10,164         |                             |  |
| Net Debt 2006E  | 5,624                       | 575                           | 7,072                                  | 349        | 543                            | 557                          | 460             | 879                 | 397                    |                                 | 426                | 338              | 1,304            |                             |  |
| Other (Non-Consol. Investments)   | (430)                       | ---                           | 710                                    | ---        | ---                            | (1,100)                      | ---             | (150)               | ---                    |                                 | ---                | ---              | (263)            |                             |  |
| Firm Value 2005E  | 26,367                      | 2,347                         | 24,838                                 | 1,805      | 1,361                          | 1,370                        | 1,759           | 1,807               | 1,758                  |                                 | 1,228              | 779              | 11,277           |                             |  |
| Firm Value 2006E  | \$25,491                    | \$2,278                       | \$24,527                               | \$1,742    | \$1,355                        | \$1,322                      | \$1,744         | \$1,771             | \$1,773                |                                 | \$1,213            | \$719            | \$11,206         |                             |  |
| <b>EBITDA VALUATION</b>   |                             |                               |  |            |                                |                              |                 |                     |                        |                                 |                    |                  |                  |                             |  |
| <b>EBITDA</b>   |                             |                               |  |            |                                |                              |                 |                     |                        |                                 |                    |                  |                  |                             |  |
| 2005E   | \$3,149                     | \$169                         | \$2,072                                | \$159      | \$101                          | \$100                        | \$164           | \$158               | \$178                  |                                 | \$89               | \$54             | \$656            |                             |  |
| 2006E   | 3,290                       | 168                           | 2,235                                  | 161        | 98                             | 100                          | 162             | 174                 | 178                    |                                 | 97                 | 57               | 773              |                             |  |
| 2006E Growth  | 4.5%                        | -1.1%                         | 7.8%                                   | 1.0%       | -2.9%                          | -0.1%                        | -1.0%           | 9.8%                | 0.0%                   | 2.0%                            | 9.5%               | 6.3%             | 17.9%            | 11.2%                       |  |
| 3-year CAGR ('05E - '08E)   | 4.9%                        | -0.4%                         | 6.0%                                   | 1.0%       | -0.5%                          | 0.9%                         | 0.9%            | 6.7%                | 0.7%                   | 2.2%                            | 6.5%               | 5.8%             | 12.1%            | 8.1%                        |  |
| <b>EV / EBITDA</b>  |                             |                               |  |            |                                |                              |                 |                     |                        |                                 |                    |                  |                  |                             |  |
| 2005E   | 8.4 X                       | 13.9 X                        | 12.0 X                                 | 11.4 X     | 13.4 X                         | 13.7 X                       | 10.7 X          | 11.4 X              | 9.9 X                  | 11.6 X                          | 13.8 X             | 14.5 X           | 17.2 X           | 15.2 X                      |  |
| 2006E   | 7.7 X                       | 13.6 X                        | 11.0 X                                 | 10.8 X     | 13.8 X                         | 13.3 X                       | 10.8 X          | 10.2 X              | 10.0 X                 | 11.2 X                          | 12.5 X             | 12.6 X           | 14.5 X           | 13.2 X                      |  |
| <b>FREE CASH FLOW VALUATION (FULLY TAXED)</b>                               |                             |                               |  |            |                                |                              |                 |                     |                        |                                 |                    |                  |                  |                             |  |
| <b>Fully-Taxed FCF</b>  |                             |                               |  |            |                                |                              |                 |                     |                        |                                 |                    |                  |                  |                             |  |
| 2005E   | \$1,262                     | \$84                          | \$932                                  | \$70       | \$44                           | \$28                         | \$74            | \$48                | \$135                  |                                 | \$38               | \$(22)           | \$280            |                             |  |
| 2006E   | 1,301                       | 82                            | 1,032                                  | 74         | 40                             | 31                           | 70              | 53                  | 95                     |                                 | 35                 | (7)              | 332              |                             |  |
| 2006E Growth  | 3.1%                        | -3.1%                         | 10.7%                                  | 5.8%       | -8.0%                          | 10.6%                        | -5.9%           | 10.3%               | -29.9%                 | -0.7%                           | -7.6%              | NM               | 18.3%            | 5.4%                        |  |
| <b>Fully-Taxed FCF Per Share</b>  |                             |                               |  |            |                                |                              |                 |                     |                        |                                 |                    |                  |                  |                             |  |
| 2005E   | \$1.64                      | \$0.66                        | \$1.79                                 | \$0.71     | \$0.71                         | \$0.75                       | \$1.76          | \$0.48              | \$1.60                 |                                 | \$0.34             | \$(0.30)         | \$0.84           |                             |  |
| 2006E   | 1.69                        | 0.64                          | 1.99                                   | 0.75       | 0.65                           | 0.83                         | 1.66            | 0.53                | 1.12                   |                                 | 0.32               | (0.10)           | 1.00             |                             |  |
| <b>Fully-Taxed FCF Yield</b>  |                             |                               |  |            |                                |                              |                 |                     |                        |                                 |                    |                  |                  |                             |  |
| 2005E   | 6.2%                        | 6.3%                          | 6.0%                                   | 5.5%       | 6.7%                           | 4.4%                         | 6.9%            | 5.8%                | 9.8%                   | 6.4%                            | 5.4%               | NM               | 2.9%             | 4.2%                        |  |
| 2006E   | 6.4%                        | 6.1%                          | 6.6%                                   | 5.8%       | 6.2%                           | 4.8%                         | 6.5%            | 6.4%                | 6.9%                   | 6.2%                            | 5.0%               | NM               | 3.4%             | 4.2%                        |  |
| <b>EARNINGS PER SHARE VALUATION</b>   |                             |                               |  |            |                                |                              |                 |                     |                        |                                 |                    |                  |                  |                             |  |
| <b>Earnings Per Share<sup>(5)</sup></b>                                     |                             |                               |  |            |                                |                              |                 |                     |                        |                                 |                    |                  |                  |                             |  |
| 2005E   | \$1.52                      | \$0.52                        | \$1.09                                 | \$0.72     | \$0.32                         | \$0.08                       | \$1.64          | \$0.44              | \$0.91                 |                                 | \$0.01             | \$(0.07)         | \$0.77           |                             |  |
| 2006E   | 1.70                        | 0.54                          | 1.32                                   | 0.76       | 0.41                           | 0.38                         | 1.59            | 0.49                | 0.95                   |                                 | 0.08               | 0.05             | 1.02             |                             |  |
| <b>P/E</b>  |                             |                               |  |            |                                |                              |                 |                     |                        |                                 |                    |                  |                  |                             |  |
| 2005E   | 17.3 X                      | 25.9 X                        | 29.5 X                                 | 19.8 X     | 40.6 X                         | NM                           | 18.6 X          | 24.2 X              | 17.9 X                 | 24.2 X                          | NM                 | NM               | 39.4 X           | 39.4 X                      |  |
| 2006E   | 15.5 X                      | 24.8 X                        | 24.5 X                                 | 18.8 X     | 31.6 X                         | NM                           | 19.1 X          | 21.6 X              | 17.2 X                 | 21.6 X                          | NM                 | NM               | 29.9 X           | 29.9 X                      |  |
| <b>DIVIDEND YIELD</b>   |                             |                               |  |            |                                |                              |                 |                     |                        |                                 |                    |                  |                  |                             |  |
| Dividends per share   | \$0.58                      | \$0.72                        | \$0.75                                 | ---        | ---                            | ---                          | ---             | ---                 | \$0.40                 |                                 | ---                | ---              | ---              |                             |  |
| Dividend Yield  | 2.2%                        | 5.4%                          | 2.3%                                   | 0.0%       | 0.0%                           | 0.0%                         | 0.0%            | 0.0%                | 2.5%                   | 1.4%                            | 0.0%               | 0.0%             | 0.0%             |                             |  |
| <b>LEVERAGE</b>   |                             |                               |  |            |                                |                              |                 |                     |                        |                                 |                    |                  |                  |                             |  |
| <b>Net Debt/ EBITDA</b>   |                             |                               |  |            |                                |                              |                 |                     |                        |                                 |                    |                  |                  |                             |  |
| 2005E   | 2.1 X                       | 3.8 X                         | 3.6 X                                  | 2.6 X      | 5.4 X                          | NM                           | 2.9 X           | 5.8 X               | 2.2 X                  | 3.5 X                           | 5.0 X              | 7.4 X            | 2.1 X            | 4.8 X                       |  |
| 2006E   | 1.7 X                       | 3.4 X                         | 3.2 X                                  | 2.2 X      | 5.5 X                          | 5.6 X                        | 2.8 X           | 5.1 X               | 2.2 X                  | 3.5 X                           | 4.4 X              | 5.9 X            | 1.7 X            | 4.0 X                       |  |
| <b>MARGINS</b>  |                             |                               |  |            |                                |                              |                 |                     |                        |                                 |                    |                  |                  |                             |  |
| <b>EBITDA Margin</b>  |                             |                               |  |            |                                |                              |                 |                     |                        |                                 |                    |                  |                  |                             |  |
| 2005E   | 21.7%                       | 40.5%                         | 31.1%                                  | 36.3%      | 31.0%                          | 25.7%                        | 38.0%           | 42.8%               | 31.8%                  | 33.2%                           | 32.0%              | 31.9%            | 34.0%            | 32.6%                       |  |
| 2006E   | 21.7%                       | 39.8%                         | 31.9%                                  | 36.0%      | 30.0%                          | 25.2%                        | 37.4%           | 44.7%               | 31.2%                  | 33.1%                           | 32.9%              | 32.3%            | 35.0%            | 33.4%                       |  |

Notes:

(1) Citadel diluted share count excludes out-of-money convertible debt.

(2) Historical results are pro forma acquisitions and recent spinoff of LYV (Clear Channel Entertainment).

(3) Cumulus comparables do not factor in the impact of Susquehanna transaction.

(4) Emmis EBITDA, FCF, and EPS pro forma sale of television station segment, station proceeds reflected above in "Other"; Assumes station sale occurs in 1Q07, Emmis 2005 is FY06 and 2006 is FY07.

(5) Adjusted for FAS 123 options expense impact.

EBITDA net of non-cash compensation; Adjusted share price equals the current share price less the NPV per share of deferred tax shield; Net debt includes Preferred securities; FCF before dividends and acquisitions.

Source: Lehman Brothers estimates, corporate reports, and First Call.

Source: Company reports and Lehman Brothers estimates

Figure 14: Cross Media Comparative Valuation

| Industry                  | EV/EBITDA<br>2006E | P/FCF<br>2006E | P/E<br>2006E | Dividend<br>Yield | 3-Yr EBITDA Growth<br>('05E-'08E) | Tickers of companies in sector composite       |
|---------------------------|--------------------|----------------|--------------|-------------------|-----------------------------------|--|
| Internet (Large Cap)      | 20.5x              | 35.4x          | 38.8x        | 0.0%              | 18-22%                            | YHOO, GOOG, IACI, EXPE, EBAY, AMZN             |
| Spanish Media             | 13.2x              | 24.7x          | 29.9x        | 0.0%              | 8-10%                             | UVN, EVC, SBSA                                 |
| Outdoor                   | 12.5x              | 16.0x          | NM           | 0.0%              | 8-10%                             | LAMR, CCO                                      |
| General Market Radio      | 11.2x              | 16.3x          | 21.6x        | 1.4%              | 2-4%                              | CBS, CCU, CDL, CXR, CMLS, EMMS, ETM, ROIA, WON |
| S&P 500                   | 9.7x               | 17.9x          | 14.9x        | 2.0%              | 4-6%                              |  |
| Publishing (Newspapers)   | 9.4x               | 16.7x          | 17.7x        | 1.6%              | 0%-(2%)                           | GCI, KRI, NYT, SSP, TRB, WPO, JRN, JRC, MNI    |
| TV Broadcasting           | 8.8x               | 11.0x          | 16.1x        | 2.1%              | 1-3%                              | HTV, NXST, SBGI                                |
| Movie Theaters            | 8.8x               | 9.7x           | 17.9x        | 6.0%              | 3-5%                              | RGC  |
| Entertainment (Large Cap) | 8.0x               | 15.6x          | 18.0x        | 1.2%              | 6-8%                              | NWSA, VIAB, DIS, L, WMG                        |
| Yellow Pages              | 7.9x               | 6.5x           | 14.0x        | 0.7%              | 1-3%                              | RHD  |
| Cable TV                  | 7.3x               | 20.8x          | 22.2x        | 0.0%              | 12-14%                            | CMCSK, CVC, LBTYA                              |

Note: Cable TV P/E does not include CVC and LBTYA and Cable TV P/FCF does not include LBTYA.

FCF multiples reflect fully-taxed free cash flow for the following sectors: Spanish media, general market radio, and large-cap entertainment.

Source: Lehman Brothers Estimates (Newspapers -- Craig Huber; Large-cap Entertainment/Cable -- Vijay Jayant; Internet -- Doug Anmuth) and Factset/ Street consensus for Outdoor, TV Broadcasting, Movie Theaters, and Yellow Pages)

Source: FactSet and Lehman Brothers estimates

### Sum-of-the-Parts Analysis

Our sum-of-the-parts valuation suggests an estimated 2006 fair value of \$32 per share, a significant premium to the current trading price. Our sum-of-the-parts valuation is based on an 8.8x blended multiple for television assets, a 9.5x multiple for Radio, a 11.0x multiple for Outdoor, and a 6.0x multiple for Parks & Publishing.

Figure 15: CBS Sum-of-the-Parts Analysis (US\$ in millions)

| (\$US Millions)                                 | CBS's Equity Value |                    | Equity Value per Share |                 |               |
|---|--------------------|--------------------|------------------------|-----------------|---------------|
|   | 2006E              | 2007E              | 2006E                  | 2007E           |               |
| <b>Television</b>                               |                    |                    |                        |                 |               |
| <b>Broadcast Networks</b>                       |                    |                    |                        |                 |               |
| EBITDA  | \$466.2            | \$511.9            |                        |                 |               |
| EBITDA Multiple                                 | 9.5x               | 9.0x               |                        |                 |               |
| <b>Broadcast Networks Enterprise Value</b>      | <b>\$4,428.9</b>   | <b>\$4,607.2</b>   | <b>\$5.75</b>          | <b>\$5.98</b>   |               |
| <b>Television Stations</b>                      |                    |                    |                        |                 |               |
| EBITDA  | \$782.1            | \$813.4            |                        |                 |               |
| EBITDA Multiple                                 | 9.0x               | 8.5x               |                        |                 |               |
| <b>Television Stations Enterprise Value</b>     | <b>\$7,039.1</b>   | <b>\$6,914.0</b>   | <b>\$9.14</b>          | <b>\$8.98</b>   |               |
| <b>Television Studios (Paramount &amp; UPN)</b> |                    |                    |                        |                 |               |
| EBITDA  | \$363.4            | \$390.0            |                        |                 |               |
| EBITDA Multiple                                 | 8.5x               | 8.0x               |                        |                 |               |
| <b>Television Studios Enterprise Value</b>      | <b>\$3,088.6</b>   | <b>\$3,120.3</b>   | <b>\$4.01</b>          | <b>\$4.05</b>   |               |
| <b>Showtime Networks</b>                        |                    |                    |                        |                 |               |
| EBITDA  | \$332.7            | \$350.7            |                        |                 |               |
| EBITDA Multiple                                 | 7.5x               | 7.0x               |                        |                 |               |
| <b>Showtime Networks Enterprise Value</b>       | <b>\$2,495.4</b>   | <b>\$2,454.7</b>   | <b>\$3.24</b>          | <b>\$3.19</b>   |               |
| <b>Radio</b>                                    |                    |                    |                        |                 |               |
| EBITDA  | \$920.5            | \$932.9            |                        |                 |               |
| EBITDA Multiple                                 | 9.5x               | 9.0x               |                        |                 |               |
| <b>Total Radio Segment Value</b>                | <b>\$8,744.3</b>   | <b>\$8,396.2</b>   | <b>\$11.36</b>         | <b>\$10.90</b>  |               |
| <b>Outdoor</b>                                  |                    |                    |                        |                 |               |
| EBITDA  | \$505.8            | \$536.2            |                        |                 |               |
| EBITDA Multiple                                 | 11.0x              | 10.5x              |                        |                 |               |
| <b>Total Outdoor Segment Value</b>              | <b>\$5,563.4</b>   | <b>\$5,630.0</b>   | <b>\$7.23</b>          | <b>\$7.31</b>   |               |
| <b>Parks &amp; Publishing</b>                   |                    |                    |                        |                 |               |
| EBITDA  | \$181.6            | \$172.9            |                        |                 |               |
| EBITDA Multiple                                 | 6.0x               | 5.5x               |                        |                 |               |
| <b>Parks &amp; Publishing Enterprise Value</b>  | <b>\$1,089.6</b>   | <b>\$951.0</b>     | <b>\$1.42</b>          | <b>\$1.24</b>   |               |
| <b>CBS Corporate Expenses</b>                   |                    |                    |                        |                 |               |
| CBS Corporate Expenses/Eliminations             | \$(262.2)          | \$(232.2)          |                        |                 |               |
| Multiple  | 9.1x               | 8.6x               |                        |                 |               |
| <b>CBS Expenses/Eliminations Value</b>          | <b>\$(2,395.3)</b> | <b>\$(2,008.6)</b> | <b>\$(3.11)</b>        | <b>\$(2.61)</b> |               |
| <b>Consolidated EBITDA</b>                      | <b>\$3,290.0</b>   | <b>\$3,475.8</b>   | <b>\$0.12</b>          |                 |               |
| Blended CBS Multiple                            | 9.1x               | 8.6x               |                        |                 |               |
| <b>Consolidated Segment Enterprise Value</b>    | <b>\$30,053.9</b>  | <b>\$30,064.9</b>  | <b>\$39.03</b>         | <b>\$39.05</b>  |               |
| Less: Net Debt                                  | (5,624.0)          | (5,145.4)          | (7.30)                 | (6.68)          |               |
| Less: Minority Interest                         | ---                | ---                | ---                    | ---             |               |
| <b>Consolidated Segment Equity Value</b>        | <b>\$24,430.0</b>  | <b>\$24,919.5</b>  | <b>\$31.73</b>         | <b>\$32.36</b>  |               |
| <b>Total Other</b>                              |                    |                    | <b>\$(6.81)</b>        | <b>\$(6.17)</b> |               |
| % of Total                                      |                    |                    | (21.1)%                | (18.8)%         |               |
| <b>Investments</b>                              |                    |                    |                        |                 |               |
| <b>Ownership</b>                                |                    |                    |                        |                 |               |
| <b>Public Assets</b>                            |                    |                    |                        |                 |               |
| Westwood One                                    | 17.0%              | 315.6              | 331.4                  | 0.41            | 0.43          |
| Spanish Broacasting Systems                     | 10.0%              | 58.7               | 61.6                   | 0.08            | 0.08          |
| <b>International Cable Joint Ventures</b>       |                    |                    |                        |                 |               |
| Showtime Extreme - Spain                        | 50.0%              | \$2.7              | \$2.9                  | \$0.00          | \$0.00        |
| Showtime Turkey - ZBST                          | 50.0%              | 2.2                | 2.3                    | 0.00            | 0.00          |
| <b>Total Investments</b>                        |                    | <b>\$379.2</b>     | <b>\$398.2</b>         | <b>\$0.49</b>   | <b>\$0.52</b> |
| Total Diluted Shares Outstanding                |                    | 770.0              | 770.0                  |                 |               |
| <b>Total Equity Value</b>                       | <b>\$24,809.2</b>  | <b>\$25,317.7</b>  | <b>\$32.22</b>         | <b>\$32.88</b>  |               |

Source: Lehman Brothers estimates

### Discounted Cash Flow Analysis

Our 10-year discounted cash flow analysis arrives at a valuation of \$32 per share. We use a WACC of 9.4% to value CBS (Figure 16). Our price target of \$32 implies 9.1x estimated 2006 EV/EBITDA multiple, and 18.9 P/FCF multiple.

Figure 16: CBS Discounted Cash Flow Analysis, 2006E-16E (US\$ in millions)

| (\$US Millions)                           | 2006E             | 2007E             | 2008E             | 2009E                    | 2010E           | 2011E           | 2012E           | 2013E           | 2014E           | 2015E           | 2016E           | CAGR<br>(05-08) | CAGR<br>(06-16) |
|---|-------------------|-------------------|-------------------|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>EBITDA</b>                             | \$3,290.0         | \$3,475.8         | \$3,632.8         | \$3,791.4                | \$3,981.6       | \$4,132.6       | \$4,289.9       | \$4,453.8       | \$4,624.8       | \$4,803.3       | \$4,989.6       | 4.9%            | 4.3%            |
| Y/Y % Change                              | 4.6%              | 5.6%              | 4.5%              | 4.4%                     | 5.0%            | 3.8%            | 3.8%            | 3.8%            | 3.8%            | 3.9%            | 3.9%            |                 |                 |
| <b>Free Cash Flow</b>                     | \$1,376.0         | \$1,478.6         | \$1,529.5         | \$1,623.2                | \$1,740.4       | \$1,836.3       | \$1,936.8       | \$2,042.0       | \$2,152.4       | \$2,268.1       | \$2,389.5       | 4.7%            | 5.7%            |
| Y/Y % Change                              | 3.2%              | 7.4%              | 3.4%              | 6.1%                     | 7.2%            | 5.5%            | 5.5%            | 5.4%            | 5.4%            | 5.4%            | 5.4%            |                 |                 |
| <b>FCF per share</b>                      | \$1.79            | \$1.92            | \$1.99            | \$2.11                   | \$2.26          | \$2.38          | \$2.52          | \$2.65          | \$2.80          | \$2.95          | \$3.10          | 6.4%            | 5.7%            |
| Diluted shares outstanding                | 770.0             | 770.0             | 770.0             | 770.0                    | 770.0           | 770.0           | 770.0           | 770.0           | 770.0           | 770.0           | 770.0           |                 |                 |
| Cash Interest Expense                     | 482.6             | 413.9             | 406.6             | 392.3                    | 369.9           | 345.3           | 319.2           | 291.6           | 262.4           | 231.6           | 199.1           |                 |                 |
| <b>Unlevered Free Cash Flow</b>           | <b>1,858.7</b>    | <b>1,892.5</b>    | <b>1,936.0</b>    | <b>2,015.5</b>           | <b>2,110.3</b>  | <b>2,181.6</b>  | <b>2,256.0</b>  | <b>2,333.6</b>  | <b>2,414.8</b>  | <b>2,499.8</b>  | <b>2,588.6</b>  |                 |                 |
| 2006E PV of Unlevered FCF                 | \$1,858.7         | \$1,729.3         | \$1,616.5         | \$1,537.8                | \$1,471.3       | \$1,389.8       | \$1,313.2       | \$1,241.3       | \$1,173.7       | \$1,110.2       | \$1,050.5       |                 |                 |
| 2007E PV of Unlevered FCF                 | ---               | \$1,892.5         | \$1,769.1         | \$1,682.9                | \$1,610.1       | \$1,520.9       | \$1,437.2       | \$1,358.4       | \$1,284.6       | \$1,215.0       | \$1,149.7       |                 |                 |
| <b>PV of Terminal Value</b>               | <b>14,201.4</b>   | <b>15,564.1</b>   | <b>17,057.4</b>   | <b>18,694.1</b>          | <b>20,487.8</b> | <b>22,453.6</b> | <b>24,608.0</b> | <b>26,969.1</b> | <b>29,556.8</b> | <b>32,392.8</b> | <b>35,500.9</b> |                 |                 |
| Sum of the PV of Interim Unlevered FCF    | \$15,492.2        | \$14,920.2        |                   |                          |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| PV of Terminal Value                      | 14,201.4          | 15,564.1          |                   |                          |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| <b>Gross Asset Value</b>                  | <b>\$29,693.6</b> | <b>\$30,484.3</b> |                   |                          |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| <b>Investments</b>                        | <b>Ownership</b>  |                   |                   |                          |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| <b>Public Asset Valuation</b>             |                   |                   |                   |                          |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Westwood One (NYSE: WON)                  | 17.0%             | \$315.6           | \$331.4           |                          |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Spanish Broadcast System (NASDAQ: SBSA)   | 10.0%             | 58.7              | 61.6              |                          |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| <b>International Cable Joint Ventures</b> |                   |                   |                   |                          |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Showtime Extreme - Spain                  | 50.0%             | 2.7               | 2.9               |                          |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Showtime Turkey - ZBST                    | 50.0%             | 2.2               | 2.3               |                          |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| <b>Total Investments</b>                  |                   | <b>\$379.2</b>    | <b>\$398.2</b>    |                          |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Add: Cash & Equivalents                   |                   | \$1,376.0         | \$1,854.6         | just combine as net debt |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Add: PV of Deferred Tax Benefits          |                   | 52.0              | 63.3              |                          |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Less: Minority Interest                   |                   | (1.4)             | (1.4)             |                          |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Less: Total Debt                          |                   | (7,000.0)         | (7,000.0)         | just combine as net debt |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| <b>Net Asset Value (NAV)</b>              |                   | <b>\$24,499.5</b> | <b>\$28,798.9</b> |                          |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Diluted Shares                            |                   | 770.0             | 770.0             |                          |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| <b>Fair Value per Share</b>               |                   | <b>\$31.82</b>    | <b>\$33.51</b>    |                          |                 |                 |                 |                 |                 |                 |                 |                 |                 |

|                                   |       |
|-----------------------------------|-------|
| Cost of Equity:                   | 12.5% |
| Cost of Debt (After-tax):         | 3.8%  |
| Target Debt/Total Capitalization: | 35.0% |
| Weighted Average Cost of Capital: | 9.4%  |
| Long-term FCF Growth Rate         | 2.0%  |
| Implied Terminal FCF Multiple     | 13.7x |
| Implied Terminal EBITDA Multiple  | 6.0x  |

Source: Company reports and Lehman Brothers estimates

## Financials

Figure 17: CBS Annual Income Statement 2004A–07E (US\$ in millions)

| (\$US Millions)                                    | 2004A               | 2005E             | 2006E             | 2007E             |
|--|---------------------|-------------------|-------------------|-------------------|
| <b>CBS Revenue</b>                                 |                     |                   |                   |                   |
| Television   | \$9,451.6           | \$9,329.3         | \$9,784.2         | \$10,359.6        |
| Radio  | 2,096.1             | 2,111.3           | 2,111.2           | 2,153.4           |
| Outdoor  | 1,880.2             | 1,960.0           | 2,067.8           | 2,160.8           |
| Parks & Publishing                                 | 1,160.7             | 1,176.5           | 1,217.4           | 1,239.3           |
| Less: Intercompany Eliminations                    | (41.3)              | (43.9)            | (43.9)            | (43.9)            |
| <b>Total CBS Revenue</b>                           | <b>\$14,547.3</b>   | <b>\$14,533.3</b> | <b>\$15,136.7</b> | <b>\$15,869.1</b> |
| % Growth   | 7.3%                | (0.1)%            | 4.2%              | 4.8%              |
| <b>CBS EBITDA</b>                                  |                     |                   |                   |                   |
| Television   | \$1,981.2           | \$1,813.0         | \$1,944.4         | \$2,066.0         |
| Radio  | 948.2               | 928.5             | 920.5             | 932.9             |
| Outdoor  | 453.9               | 468.7             | 505.8             | 536.2             |
| Parks & Publishing                                 | 180.2               | 173.5             | 181.6             | 172.9             |
| <b>Segment EBITDA</b>                              | <b>3,563.5</b>      | <b>3,383.8</b>    | <b>3,552.2</b>    | <b>3,708.1</b>    |
| Less: Corporate/ Intersegment/ Other               | (212.3)             | (235.2)           | (262.2)           | (232.2)           |
| <b>Total CBS EBITDA</b>                            | <b>\$3,351.2</b>    | <b>\$3,148.6</b>  | <b>\$3,290.0</b>  | <b>\$3,475.8</b>  |
| % Growth   | 11.2%               | (6.0)%            | 4.5%              | 5.6%              |
| % Margin   | 23.0%               | 21.7%             | 21.7%             | 21.9%             |
| <b>Depreciation and Amortization</b>               | <b>\$508.6</b>      | <b>\$482.2</b>    | <b>\$500.0</b>    | <b>\$500.0</b>    |
| <b>CBS Operating Income</b>                        |                     |                   |                   |                   |
| Television   | \$1,807.5           | \$1,640.0         | \$1,762.1         | \$1,879.4         |
| Radio  | 918.3               | 898.6             | 888.9             | 900.6             |
| Outdoor  | 230.8               | 258.9             | 284.9             | 310.0             |
| Parks & Publishing                                 | 111.2               | 106.8             | 111.3             | 101.0             |
| Less: Intercompany Eliminations                    | (225.2)             | (237.9)           | (257.3)           | (215.1)           |
| <b>Total CBS Operating Income</b>                  | <b>\$2,842.6</b>    | <b>\$2,666.4</b>  | <b>\$2,790.0</b>  | <b>\$2,975.8</b>  |
| % Growth   | 13.2%               | (6.2)%            | 4.6%              | 6.7%              |
| % Margin   | 19.5%               | 18.3%             | 18.4%             | 18.8%             |
| <b>Operating Income</b>                            | <b>\$2,842.6</b>    | <b>\$2,666.4</b>  | <b>\$2,790.0</b>  | <b>\$2,975.8</b>  |
| % Growth   | 13.2%               | (6.2)%            | 4.6%              | 6.7%              |
| % Margin   | 19.5%               | 18.3%             | 18.4%             | 18.8%             |
| less: Non-Cash Impairment                          | (17,997.1)          | ---               | ---               | ---               |
| <b>Net Operating Income</b>                        | <b>\$(15,154.5)</b> | <b>\$2,666.4</b>  | <b>\$2,790.0</b>  | <b>\$2,975.8</b>  |
| Interest Expense                                   | \$(530.3)           | \$(535.0)         | \$(496.3)         | \$(437.5)         |
| Interest Income                                    | ---                 | ---               | 13.7              | 23.6              |
| <b>Net Interest Expense</b>                        | <b>\$(530.3)</b>    | <b>\$(535.0)</b>  | <b>\$(482.6)</b>  | <b>\$(413.9)</b>  |
| Other items, net                                   | 25.1                | 30.0              | (20.0)            | (20.0)            |
| <b>Earnings before Tax</b>                         | <b>\$(15,659.7)</b> | <b>\$2,161.4</b>  | <b>\$2,287.4</b>  | <b>\$2,541.9</b>  |
| Provision for Income Taxes                         | \$(665.5)           | \$(887.2)         | \$(937.8)         | \$(1,042.2)       |
| Equity in Loss of Affiliated Cos, net of tax       | 19.2                | 18.3              | 19.0              | 20.6              |
| Minority Interest                                  | (0.6)               | (0.4)             | (1.6)             | (1.7)             |
| <b>Net Earnings (Loss)</b>                         | <b>\$(16,306.6)</b> | <b>\$1,292.1</b>  | <b>\$1,367.0</b>  | <b>\$1,518.6</b>  |
| Gain on asset dispositions & other                 | 17,885.6            | ---               | ---               | ---               |
| <b>Net Earnings from Continuing Operations</b>     | <b>\$1,579.0</b>    | <b>\$1,292.1</b>  | <b>\$1,367.0</b>  | <b>\$1,518.6</b>  |
| Fully Diluted Shares Outstanding                   | 857.2               | 808.0             | 770.0             | 770.0             |
| Reported EPS                                       | \$(19.02)           | \$1.60            | \$1.78            | \$1.97            |
| <b>Recurring EPS - Fully Diluted</b>               | <b>\$1.84</b>       | <b>\$1.60</b>     | <b>\$1.78</b>     | <b>\$1.97</b>     |
| <b>Recurring EPS - Fully Diluted, Adj. FAS 123</b> | <b>\$1.77</b>       | <b>\$1.52</b>     | <b>\$1.70</b>     | <b>\$1.89</b>     |

Source: Company reports and Lehman Brothers estimates

Figure 18: CBS Annual Drivers 2004A–07E (US\$ in millions)

| (\$US Millions)                       | 2004A             | 2005E             | 2006E             | 2007E             |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
| <b>CBS Revenue</b>                    |                   |                   |                   |                   |
| Television                            | \$9,451.6         | \$9,329.3         | \$9,784.2         | \$10,359.6        |
| % Growth                              | 5.5%              | (1.3)%            | 4.9%              | 5.9%              |
| Radio                                 | \$2,096.1         | \$2,111.3         | \$2,111.2         | \$2,153.4         |
| % Growth                              | (0.1)%            | 0.7%              | (0.0)%            | 2.0%              |
| Outdoor                               | \$1,880.2         | \$1,960.0         | \$2,067.8         | \$2,160.8         |
| % Growth                              | 7.5%              | 4.2%              | 5.5%              | 4.5%              |
| Parks & Publishing                    | \$1,160.7         | \$1,176.5         | \$1,217.4         | \$1,239.3         |
| % Growth                              | 8.4%              | 1.4%              | 3.5%              | 1.8%              |
| Less: Intercompany Eliminations       | (41.3)            | (43.9)            | (43.9)            | (43.9)            |
| <b>Total CBS Revenue</b>              | <b>\$14,547.3</b> | <b>\$14,533.3</b> | <b>\$15,136.7</b> | <b>\$15,869.1</b> |
| % Growth                              | 7.3%              | (0.1)%            | 4.2%              | 4.8%              |
| <b>Total Revenue</b>                  | <b>\$14,547.3</b> | <b>\$14,533.3</b> | <b>\$15,136.7</b> | <b>\$15,869.1</b> |
| % Growth                              | 7.3%              | (0.1)%            | 4.2%              | 4.8%              |
| <b>CBS EBITDA</b>                     |                   |                   |                   |                   |
| Television                            | \$1,981.2         | \$1,813.0         | \$1,944.4         | \$2,066.0         |
| % Growth                              | 41.5%             | -8.5%             | 7.2%              | 6.3%              |
| % Margin                              | 21.0%             | 19.4%             | 19.9%             | 19.9%             |
| Radio                                 | \$948.2           | \$928.5           | \$920.5           | \$932.9           |
| % Growth                              | -5.4%             | -2.1%             | -0.9%             | 1.4%              |
| % Margin                              | 45.2%             | 44.0%             | 43.6%             | 43.3%             |
| Outdoor                               | \$453.9           | \$468.7           | \$505.8           | \$536.2           |
| % Growth                              | 7.1%              | 3.3%              | 7.9%              | 6.0%              |
| % Margin                              | 24.1%             | 23.9%             | 24.5%             | 24.8%             |
| Parks & Publishing                    | \$180.2           | \$173.5           | \$181.6           | \$172.9           |
| % Growth                              | 4.2%              | -3.7%             | 4.6%              | (4.8)%            |
| % Margin                              | 15.5%             | 14.8%             | 14.9%             | 14.0%             |
| <b>Total CBS Segment EBITDA</b>       | <b>\$3,563.5</b>  | <b>\$3,383.8</b>  | <b>\$3,552.2</b>  | <b>\$3,708.1</b>  |
| % Growth                              | 18.8%             | -5.0%             | 5.0%              | 4.4%              |
| Less: Corporate / Intercompany/ other | \$(212.3)         | \$(235.2)         | \$(262.2)         | (232.2)           |
| <b>Total CBS EBITDA</b>               | <b>\$3,351.2</b>  | <b>\$3,148.6</b>  | <b>\$3,290.0</b>  | <b>\$3,475.8</b>  |
| % Growth                              | 11.2%             | -6.0%             | 4.5%              | 5.6%              |
| % Margin                              | 23.0%             | 21.7%             | 21.7%             | 21.9%             |
| <b>CBS Operating Income</b>           |                   |                   |                   |                   |
| Television                            | \$1,807.5         | \$1,640.0         | \$1,762.1         | \$1,879.4         |
| % Growth                              | 44.7%             | -9.3%             | 7.5%              | 6.7%              |
| % Margin                              | 19.1%             | 17.6%             | 18.0%             | 18.1%             |
| Radio                                 | \$918.3           | \$898.6           | \$888.9           | \$900.6           |
| % Growth                              | -5.8%             | -2.1%             | -1.1%             | 1.3%              |
| % Margin                              | 43.8%             | 42.6%             | 42.1%             | 41.8%             |
| Outdoor                               | \$230.8           | \$258.9           | \$284.9           | \$310.0           |
| % Growth                              | 11.0%             | 12.2%             | 10.0%             | 8.8%              |
| % Margin                              | 12.3%             | 13.2%             | 13.8%             | 14.3%             |
| Parks & Publishing                    | \$111.2           | \$106.8           | \$111.3           | \$101.0           |
| % Growth                              | -1.5%             | -3.9%             | 4.2%              | (9.3)%            |
| % Margin                              | 9.6%              | 9.1%              | 9.1%              | 8.1%              |
| Less: Corporate                       | \$(225.2)         | \$(237.9)         | \$(257.3)         | \$(215.1)         |
| <b>Total CBS Operating Income</b>     | <b>\$2,842.6</b>  | <b>\$2,666.4</b>  | <b>\$2,790.0</b>  | <b>\$2,975.8</b>  |
| % Growth                              | 13.2%             | -6.2%             | 4.6%              | 6.7%              |
| % Margin                              | 19.5%             | 18.3%             | 18.4%             | 18.8%             |

Source: Company reports and Lehman Brothers estimates

Important Disclosures:

**CBS Corp. (CBS)**

**\$ 26.36 (05-Jan-2006)**

**1-Overweight / 3-Negative**

Rating and Price Target Chart:

**CHART NOT FOUND**

Currency=\$

| Date      | Closing Price | Rating | Price Target |
|-----------|---------------|--------|--------------|
| 05-Aug-05 | 68.00         |        | 80.00        |
| 20-Sep-04 | 68.08         |        | 82.00        |

| Date      | Closing Price | Rating         | Price Target |
|-----------|---------------|----------------|--------------|
| 20-Sep-04 | 68.08         | 2-Equal weight |              |
| 17-Sep-04 | 68.92         | Dropped        |              |

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE BACK PAGE.

Lehman Brothers Inc and/or an affiliate trade regularly in the shares of CBS Corp..

**Valuation Methodology:** Our price target of \$32 implies 9.1x estimated 2006 EV (\$29.8 billion)/EBITDA (\$3.3 billion) multiple and an adjusted FCF yield of 5.3% (FCF of \$1.3 billion).

**Risks Which May Impede the Achievement of the Price Target:** Major risks include: 1) a slowdown in national advertising, 2) a larger revenue and/or ratings decline as a result of the Howard Stern departure from CBS radio, and 3) headline news surrounding the split from Viacom.

**Important Disclosures Continued:**

**Sector Coverage Universe**

Below is the list of companies that constitute the sector coverage universe against which the primary stock, CBS Corp., is rated:

|                                    |                                  |
|------------------------------------|----------------------------------|
| CBS Corp. (CBS)                    | Citadel Broadcasting (CDL)       |
| Clear Channel Communications (CCU) | Cox Radio (CXR)                  |
| Cumulus Media (CMLS)               | Emmis Communications (EMMS)      |
| Entercom Communications (ETM)      | Entravision Communications (EVC) |
| Radio One (ROIAK)                  | Spanish Broadcasting Sys (SBSA)  |
| Univision Communications (UVN)     | Westwood One (WON)               |

FOR CURRENT IMPORTANT DISCLOSURES REGARDING COMPANIES THAT ARE  
THE SUBJECT OF THIS RESEARCH REPORT, PLEASE SEND A WRITTEN REQUEST TO:

LEHMAN BROTHERS CONTROL ROOM  
745 SEVENTH AVENUE, 19TH FLOOR  
NEW YORK, NY 10019  
OR

REFER TO THE FIRM'S DISCLOSURE WEBSITE AT [www.lehman.com/disclosures](http://www.lehman.com/disclosures)

New York  
745 Seventh Avenue  
New York, NY 10019 USA  
1.212.526.7000

London  
25 Bank Street  
London E14 5LE UK  
44.20.7102.1000

Tokyo  
Roppongi Hills Mori Tower, 31<sup>st</sup> Floor  
6-10-1 Roppongi, Minato-ku  
Tokyo 106-6131 Japan  
813.6440.3000

Hong Kong  
Two International Finance Centre  
8 Finance Street Central Hong Kong  
852.2252.6000

### Important Disclosures Continued:

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities

### Guide to the Lehman Brothers Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector ("the sector coverage universe"). To see a list of companies that comprise a particular sector coverage universe, please go to [www.lehman.com/disclosures](http://www.lehman.com/disclosures).

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Ratings:

**1-Overweight** - the stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**2-Equal weight** - the stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**3-Underweight** - the stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**RS-Rating Suspended** - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Sector View:

**1-Positive** - sector coverage universe fundamentals/valuations are improving.

**2-Neutral** - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**3-Negative** - sector coverage universe fundamentals/valuations are deteriorating.

This material has been prepared and/or issued by Lehman Brothers Inc., member SIPC, and/or one of its affiliates ("Lehman Brothers") and has been approved by Lehman Brothers International (Europe), authorized and regulated by the Financial Services Authority, in connection with its distribution in the European Economic Area. This material is distributed in Japan by Lehman Brothers Japan Inc., and in Hong Kong by Lehman Brothers Asia Limited. This material is distributed in Australia by Lehman Brothers Australia Pty Limited, and in Singapore by Lehman Brothers Inc., Singapore Branch ("LBIS"). Where this material is distributed by LBIS, please note that it is intended for general circulation only and the recommendations contained herein does not take into account the specific investment objectives, financial situation or particular needs of any particular person. An investor should consult his Lehman Brothers' representative regarding the suitability of the product and take into account his specific investment objectives, financial situation or particular needs before he makes a commitment to purchase the investment product. This material is distributed in Korea by Lehman Brothers International (Europe) Seoul Branch. This document is for information purposes only and it should not be regarded as an offer to sell or as a solicitation of an offer to buy the securities or other instruments mentioned in it. No part of this document may be reproduced in any manner without the written permission of Lehman Brothers. With the exception of disclosures relating to Lehman Brothers, this research report is based on current public information that Lehman Brothers considers reliable, but we make no representation that it is accurate or complete, and it should not be relied on as such. In the case of any disclosure to the effect that Lehman Brothers Inc. or its affiliates beneficially own 1% or more of any class of common equity securities of the subject company, the computation of beneficial ownership of securities is based upon the methodology used to compute ownership under Section 13(d) of the United States' Securities Exchange Act of 1934. In the case of any disclosure to the effect that Lehman Brothers Inc. and/or its affiliates hold a short position of at least 1% of the outstanding share capital of a particular company, such disclosure relates solely to the ordinary share capital of the company. Accordingly, while such calculation represents Lehman Brothers' holdings net of any long position in the ordinary share capital of the company, such calculation excludes any rights or obligations that Lehman Brothers may otherwise have, or which may accrue in the future, with respect to such ordinary share capital. Similarly such calculation does not include any shares held or owned by Lehman Brothers where such shares are held under a wider agreement or arrangement (be it with a client or a counterparty) concerning the shares of such company (e.g. prime broking and/or stock lending activity). Any such disclosure represents the position of Lehman Brothers as of the last business day of the calendar month preceding the date of this report. This material is provided with the understanding that Lehman Brothers is not acting in a fiduciary capacity. Opinions expressed herein reflect the opinion of Lehman Brothers and are subject to change without notice. The products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. If an investor has any doubts about product suitability, he should consult his Lehman Brothers representative. The value of and the income produced by products may fluctuate, so that an investor may get back less than he invested. Value and income may be adversely affected by exchange rates, interest rates, or other factors. Past performance is not necessarily indicative of future results. If a product is income producing, part of the capital invested may be used to pay that income. © 2006 Lehman Brothers. All rights reserved. Additional information is available on request. Please contact a Lehman Brothers entity in your home jurisdiction.

Lehman Brothers policy for managing conflicts of interest in connection with investment research is available at [www.lehman.com/researchconflictspolicy](http://www.lehman.com/researchconflictspolicy). Ratings, earnings per share forecasts and price targets contained in the Firm's equity research reports covering U.S. companies are available at [www.lehman.com/disclosures](http://www.lehman.com/disclosures).

Complete disclosure information on companies covered by Lehman Brothers Equity Research is available at [www.lehman.com/disclosures](http://www.lehman.com/disclosures).