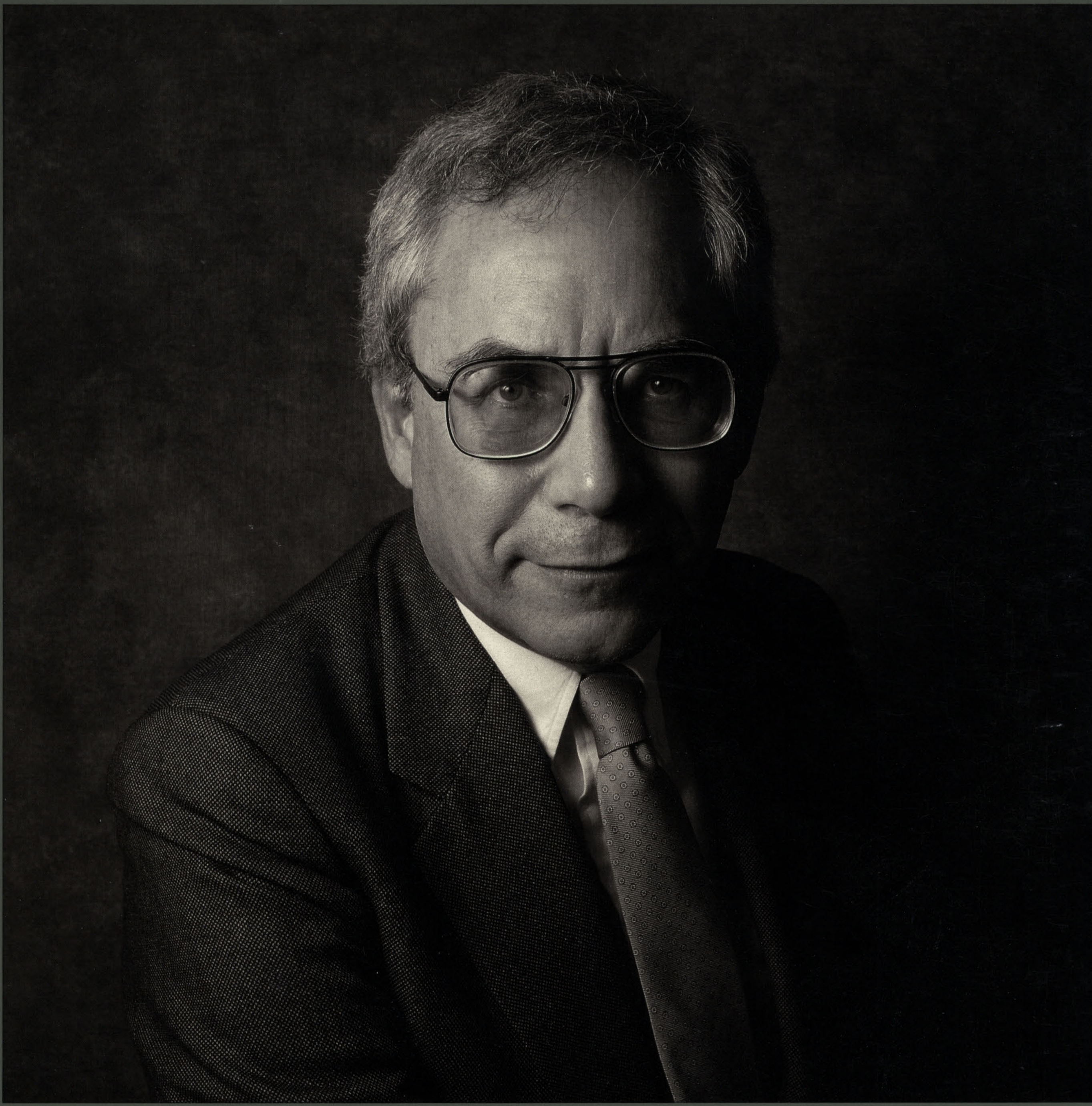
THE WASHINGTON POST COMPANY
ANNUAL REPORT 1985



"We try to factor the economic equation so that immediate actions and investments serve longer-term designs...."

Joel Chaseman, President, Post-Newsweek Stations

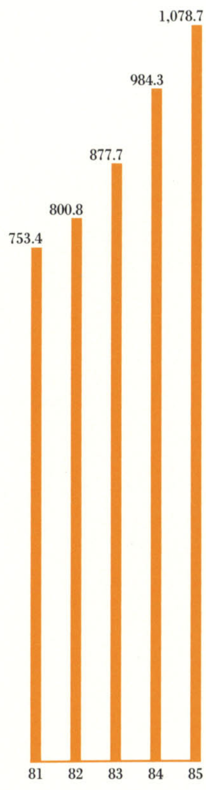
Contents

FINANCIAL HIGHLIGHTS

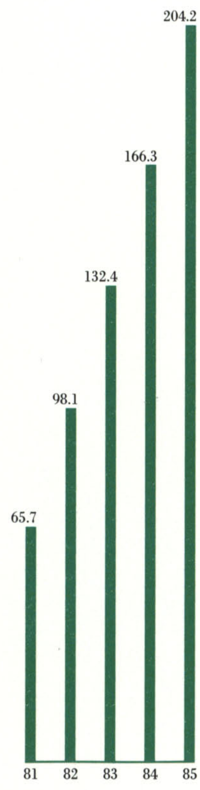
(In thousands, except per share amounts)	1985	1984	% Change
Operating revenues	$1,078,650	$984,303	+10%
Income from operations	$ 204,186	$166,295	+23%
Pro forma net income (excluding certain gains in 1985)	$ 101,993*	$ 85,886	+19%
Pro forma earnings per share (excluding certain gains in 1985)	$ 7.73*	$ 6.11	+27%
Dividends per share	$ .96	$ .80	+20%
Shareholders' equity per share	$ 27.26	$ 27.17	—
Average number of shares outstanding	13,194	14,050	— 6%

* Excluding gains in 1985 totaling $12.3 million ($0.93 per share) from the sales of some cellular and SportsChannel interests.

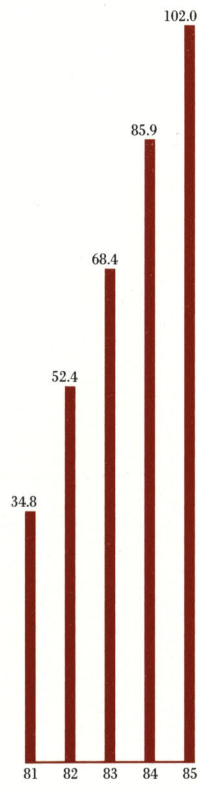
Operating Revenues
($ in millions)



Operating Income
($ in millions)

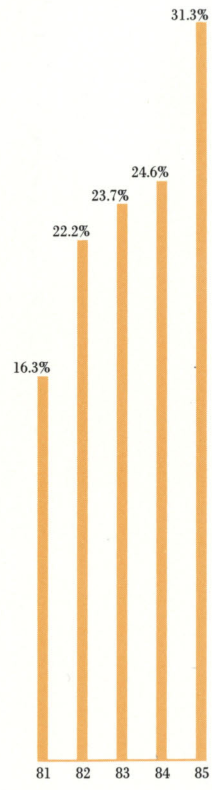


Pro Forma Net Income*
($ in millions)



Pro Forma Earnings Per Share*

Return on Average Shareholders' Equity



* Excluding certain gains in 1985 and certain losses in 1981.

TO OUR SHAREHOLDERS

Nineteen-eighty-five was a good year. The quality of our publications and programming continued to improve. For the fourth consecutive year, we again achieved our primary financial objective: sustained earnings growth that ranks with the industry leaders.

At the same time, the company made several major investments for the future, including the acquisition of 53 cable television systems, the largest acquisition in our history, and the repurchase of 1.2 million shares of our Class B common stock.

All of these factors, we believe, increased the value of our shareholders' investment in the company for both the near and long term.

STRONG GROWTH IN 1985

Excellent results from all divisions contributed to growth in 1985. The company's pro forma net income (excluding certain gains) rose 19 percent, to $102 million from $86 million in 1984. The comparable pro forma earnings per share advanced 27 percent, to $7.73 from $6.11. Since 1981 earnings per share have more than tripled.

Operating revenue totaled $1.1 billion in 1985, a 10 percent gain over revenue of $984 million in 1984.

Total return on average shareholders' equity reached 31.3 percent, up from 24.6 percent last year.

Careful attention to costs helped us achieve significant gains in operating margins in 1985.

The annual dividend rate was raised from 96 cents to $1.12 per share on January 10, 1986. This marks the tenth consecutive year of dividend increases.

NEWSPAPER DIVISION MAINTAINS MOMENTUM

Newspaper Division operating income rose 21 percent in 1985, to $115 million from $95 million the previous year. Revenue totaled $556 million, a gain of 8 percent over $517 million in 1984.

The Washington Post maintained its momentum. Progress was made in all areas of the paper: news, production, sales, marketing—and financial performance.

Both daily and Sunday circulation set new records. Daily primary-market household penetration is now 54 percent; Sunday penetration is 73 percent, the highest of any major market newspaper.

Advertising volume rose 4 percent, to 5.5 million inches from 5.2 million inches in 1984. Unit growth, combined with price increases, produced a gain of 9 percent in advertising revenue, which reached $426.7 million.

The Herald, the company's daily and Sunday newspaper in Everett, Washington, recorded its first operating profit since 1980 despite the continued slowdown in that region's economy. Advertising inches rose 15 percent to 2.0 million.

The Washington Post Writers Group recorded its tenth straight year of rising profits. The Writers Group now syndicates 25 different features, including Pulitzer Prize-winning columnists David S. Broder, George F. Will and Ellen Goodman and the popular comic strip Bloom County.

Newsweek Profits Rise

More professional management and timely attention to costs enabled Newsweek to achieve excellent profit growth in 1985. Operating income jumped 32 percent, to \$29 million from \$22 million in 1984. Operating margins were 10 percent, before corporate charges, compared with 8 percent in 1984 and 6 percent four years ago.

For the 18th consecutive year, Newsweek was the leader in advertising pages among news magazines. However, domestic advertising pages decreased to 2,687 from 3,010 in 1984, reflecting two fewer Newsweek issues in 1985 and a more difficult climate for magazine advertising. The decline in ad pages was the main reason Newsweek's total revenue decreased 2 percent in 1985, to \$326 million from \$332 million in 1984.

Newsweek is working hard to reverse this decline. A key initiative was the introduction of a new rate structure that guarantees Newsweek's total audience of readers to advertisers for one year, with ad rates based on readership rather than circulation. The new approach, an industry first, reflects the fact that advertisers purchase audience rather than circulation when making media decisions. However, Newsweek will continue to provide an audited circulation rate base.

Newsweek's readership has grown and its circulation has continued to increase. In January 1986, the rate base for the domestic edition rose to 3,050,000 from 3,000,000.

To meet the evolving needs of readers, Newsweek introduced a major redesign of the magazine in November. While retaining Newsweek's traditional approach to the news, the new format is designed to be more flexible, attractive and cohesive. It organizes the magazine's departments into six sections: National Affairs, International, Business, Lifestyle, Arts and Society—each of which opens with a major story every issue. Technological improvements permit later deadlines.

Newsweek International also had a good year in a difficult environment. Although operating revenue declined slightly, advertising pages were up and circulation increased. The total International circulation rate base in 1985 was 655,000 compared to 578,000 in 1984 and 544,000 five years ago.

Two new ventures offer interesting potential. Beginning this spring, Newsweek International will publish Travel & Leisure Asia with American Express. Newsweek will be responsible for production and distribution, circulation and all advertising sales. American Express will produce the editorial content. Projected circulation is 110,000. Newsweek has an option to participate further, should American Express extend this venture to additional foreign markets.

In January 1986 Newsweek Nihon Ban, the first English-language news magazine to be published in Japanese, was launched. The publication is being produced by Newsweek and TBS-Britannica, Inc., which will be responsible for publishing operations and advertising sales. First-year circulation is projected at 120,000.

Approximately 85 percent of the Japanese edition will be translated from Newsweek's domestic and international editions; the remaining material will be created especially for the Japanese-language edition under Newsweek's supervision.

Post-Newsweek Outperforms Industry

Post-Newsweek Stations reported strong gains in 1985, outperforming the broadcasting industry as a whole. Operating income rose 14 percent, to $58 million from $51 million last year. Division revenue increased 14 percent, to $155 million from $136 million in 1984. Television stations' revenue was up 14 percent. The stations' average operating margins, before corporate charges, reached 41 percent.

WDIV, our NBC affiliate in Detroit, had an especially good year, thanks to strong management and NBC's leadership in prime-time ratings. WFSB and WJXT, our CBS affiliates in Hartford and Jacksonville, again dominated their markets in ratings and share and achieved excellent financial growth.

WPLG, our ABC affiliate in Miami, did not have as good a year as the rest of our stations. ABC, of course, continues to lag in prime-time ratings. Moreover, Miami's economic growth has slowed and competition in the market has increased.

Nonetheless, WPLG continues to rank number one during most time periods, and the station is aggressively marketing its high-demographic audience.

We were disappointed that "America," a new daily series produced by Post-Newsweek Stations and Paramount, was unable to attract a sizeable audience quickly enough to survive. Its cancellation, together with other program development costs, resulted in a charge of $3.3 million to the division's operating income.

Newsprint Affiliates Register Growth

Upgrading of paper-making machines again caused considerable downtime at Bowater Mersey Paper Company. Following completion of this program in June, record levels of production were reached in the second half of 1985, and volume for the year increased by 14 percent. Bear Island Paper Company also continued to improve its productivity.

While production is at record levels, our newsprint manufacturing affiliates will face a difficult and uncertain market in 1986. In part due to increased imports, newsprint is in oversupply in North America.

Investments for the Future

Like other companies with substantial cash flow, The Washington Post Company faces an ongoing challenge to use this money wisely for maximum returns in the future. In 1985 we continued our strategy of the past several years.

First, we again made substantial investments in our traditional businesses to strengthen their earnings potential and extend the franchises they represent.

Newsweek, for example, began to test market Newsweek on Health, a quarterly compilation of recent Newsweek articles on health, fitness and nutrition. The Washington Post introduced the weekly tabloid Health, the first of its kind to appear in a major newspaper, and is preparing a complete redesign of its Sunday magazine to be launched in September.

The investments we have made since 1982 in such product enhancements and line extensions are beginning to pay off. For example, Newsweek on Campus, a four-year-old publication for college students, boosted its ad pages and revenue by more than 100 percent. The Washington Post's National Weekly Edition also is making progress. Circulation rose 7 percent during 1985. Total advertising inches rose 60 percent.

Second, we continued our practice of repurchasing our stock. In April 1985 we repurchased 1,197,116 shares of the company's Class B common stock at a cost of $134.6 million. Since 1982, we have invested nearly $150 million to repurchase 1,396,116 shares.

Finally, we continued to make substantial investments in new businesses that we believe have significant growth potential. These investments have totaled over $500 million in the past three years. Key among them was our $350 million acquisition of 53 cable television systems from Capital Cities Communications, Inc., completed in January 1986.

Although this acquisition will produce earnings dilution of about $1.45 per share in 1986, we believe it is an exceptional long-term investment for several reasons:

□ We bought existing systems, not new builds. This provided stable, first-rate management and reduced our capital requirements. However, we do plan to invest approximately $30 million over the next two to three years to complete the upgrading of the older systems.

□ The majority of our nearly 360,000 subscribers live in smaller communities and do not have available to them significant numbers of over-the-air signals, thereby enhancing the demand for cable services.

□ Cable is a relatively attractive buy, priced at about 10 times cash flow, while good television stations are selling for 15 times cash flow or even higher.

□ Finally, deregulation has changed the economics of cable in that it will permit more realistic pricing of basic cable service, the prime commodity our systems have to sell.

In addition to the cable acquisition, we purchased, as an invesment, 20 percent of the common stock of Cowles Media Company for $71 million. Cowles Media owns the Minneapolis Star and Tribune and some smaller properties.

Moreover, our acquisitions of previous years continued to make progress. Stanley H. Kaplan Educational Centers, whose purchase was completed on December 31, 1984, had a good year. Enrollment exceeded 90,000 students. Several new programs, including videotape courses for SAT preparation, are being readied for introduction in 1986.

Our cellular telephone operations are fulfilling the optimistic expectations we held upon entering this new field. The Washington/Baltimore system, in which we have a 20 percent interest, had approximately 15,000 subscribers by year-end 1985. The Detroit system, in which we have an 18 percent interest, began service during 1985. The Miami cellular system, in which we have a 60 percent interest, began construction during 1985 and should begin operations in 1986.

As previously reported, the company sold some of its cellular interests, primarily in the Pacific Northwest, during 1985.

The four SportsChannel regional cable sports networks in which we have interests also performed well in 1985. Two of the networks, SportsChannel New York and Prism in Philadelphia, already have an operating profit and we expect improved results from the other two SportsChannel networks in 1986.

As we also reported last year, in January 1985 we and our partner, Charles Dolan's Rainbow Program Enterprises, sold a portion of our SportsChannel interests to CBS Inc. This transaction, together with the sales of the cellular interests, produced a gain of 93 cents per share, or $12.3 million, that was included in our total 1985 earnings.

Legi-Slate, the electronic database publisher we acquired in 1983, has not yet met its ambitious goals. Still, the long-term outlook continues to be good. The dollar value of its subscriber base increased 35 percent during the year and substantial progress toward its profit objectives was made.

Changes in Officers and Directors

A number of divisional management changes occurred in the past year. They are described in the "Company in Brief" section, which follows.

At The Washington Post Company, Howard E. Wall, vice president and chief accounting officer, became president of Post-Newsweek Cable.

Ross F. Hamachek was elected vice president-planning and development. He had been director of planning and development.

Beverly R. Keil was elected vice president-human resources. She had been director of human resources.

We were pleased to welcome three new members to the Board of Directors in September. They are Barbara Scott Preiskel, an attorney; William J. Ruane, chairman of Ruane, Cunniff & Company, Inc., investment managers; and George W. Wilson, publisher of the Concord (N.H.) Monitor.

Warren E. Buffett, who had been a director since September 1974, resigned from the Board in January 1986 when he became a director and major shareholder of Capital Cities/ABC, Inc. For the past 11 years, his counsel to The Washington Post Company has been wise, his friendship unwavering and his contributions to our success immeasurable. We are grateful for the service of this uniquely gifted individual.

Outlook

We believe the strength of our existing franchises and the potential of our new businesses offer exceptional opportunities for growth. In 1986 we face the challenge of overcoming the earnings dilution from our cable acquisition. Still, we are optimistic that the company will continue its record of sustained earnings growth. Our dedicated and talented people, to whom the company's history of success is due, are committed to this goal.

Sincerely,

Katharine Graham
Chairman of the Board

Richard D. Simmons
President

March 14, 1986

THE WASHINGTON POST COMPANY IN BRIEF

NEWSPAPER DIVISION

The Washington Post—a morning daily and Sunday newspaper published in Washington, D.C. For the 12 months ending September 30, 1985, The Post's unaudited average circulation was 753,577 daily and 1,057,895 Sunday. The Post maintains 18 foreign, 5 national and 8 metropolitan news bureaus. It is printed at sites in Northwest and Southeast Washington and nearby Springfield, Virginia.

John B. Kuhns, who had been deputy managing editor for administration in the newsroom, became vice president-personnel. Theodore C. Lutz, who had been vice president-personnel, became vice president-business manager. Frank Manzon was promoted to vice president-circulation from director of circulation. Peggy Scott Schiff, who had been assistant controller for revenue, was promoted to controller. Alan G. Spoon, formerly vice president-controller, became vice president-marketing and finance.

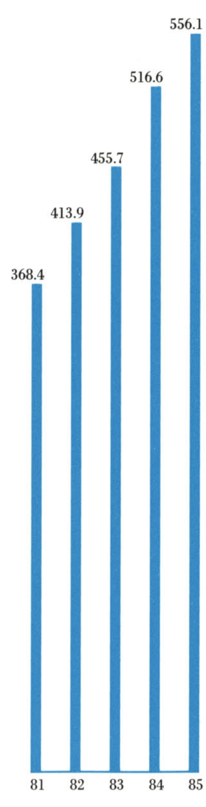
The Washington Post National Weekly Edition—a tabloid publication of selected Post articles and features edited for a national audience. For the six months ending June 30, 1985, the National Weekly Edition had an unaudited national circulation of 50,872.

The Herald—a daily newspaper, published weekday afternoons and Saturday and Sunday mornings in Everett, Washington, 30 miles north of Seattle. The Herald's unaudited average circulation for the 12-month period ending September 30, 1985, was 54,601 daily and 55,914 Sunday.

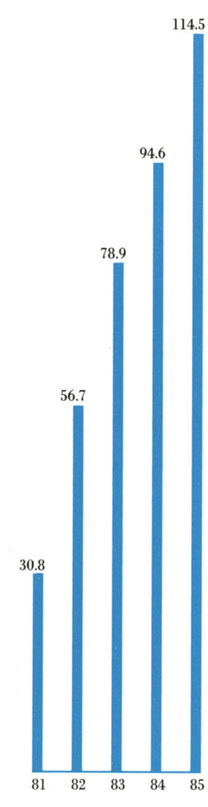
The Washington Post Writers Group—a syndicator of 25 columns and features to newspapers throughout the United States. Pulitzer Prize-winning columnists David Broder, Ellen Goodman and George Will are part of the Writers Group, as is the best-selling comic strip Bloom County.

Robinson Terminal Warehouse Corporation—a newsprint handling and storage facility with operations in Alexandria and Springfield, Virginia.

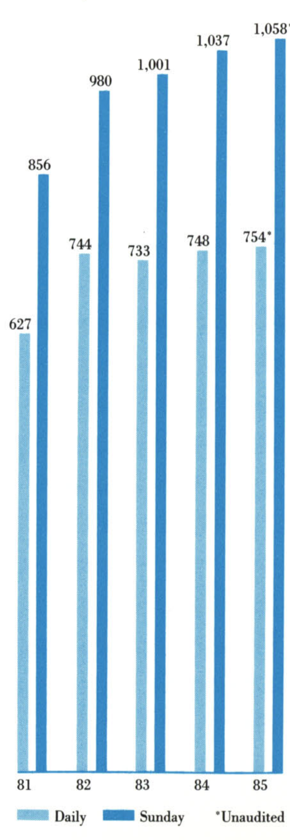
Operating Revenues
($ in millions)



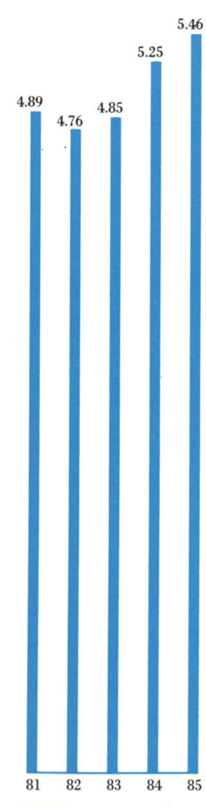
Operating Income
($ in millions)



Washington Post Circulation (in thousands)



Washington Post Advertising Inches*
(in millions)



*Publishers measurements

NEWSWEEK

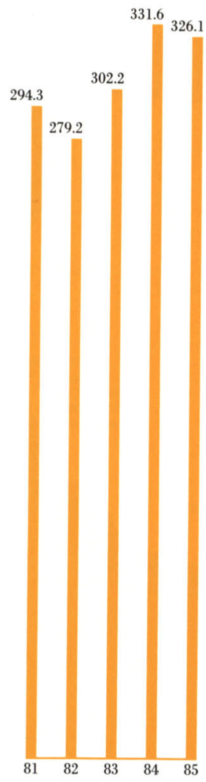
Newsweek—a weekly news magazine published in New York City. Newsweek has a 1986 rate base of 3,050,000. It ranks first among the nation's leading newsweeklies in terms of advertising pages and second in circulation. Newsweek publishes 58 geographic and demographic editions. It maintains 12 U.S. and 17 foreign news bureaus and has 17 regional and overseas advertising sales offices. The magazine is printed at 4 U.S. sites and in Ontario, Canada.

Gerard Smith was named publisher of Newsweek. He had joined the magazine in January 1984 as associate publisher and senior vice president. Stephen Smith joined Newsweek as executive editor. He had been acting assistant managing editor at Time magazine.

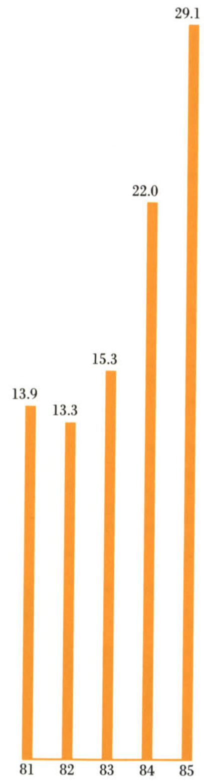
Newsweek International—an English-language news magazine published in New York City and circulated throughout the world. For 1986, Newsweek International has rate bases of 310,000 for its Atlantic edition, 315,000 for its Pacific edition (including 125,000 for the Bulletin with Newsweek, Australia's largest newsweekly) and 52,000 for its Latin America edition. Newsweek International maintains sales offices in 3 U.S. and 9 foreign cities. It is printed in Zurich, Tokyo, Hong Kong and Hollywood, Florida.

Newsweek Japan (Newsweek Nihon Ban)—the first Japanese-language newsweekly, with an estimated circulation of 120,000. It is produced with TBS-Britannica, which translates and publishes the magazine.

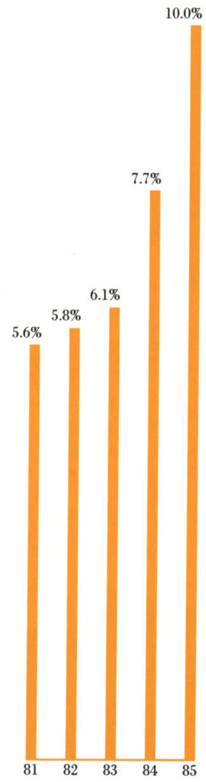
Operating Revenues
($ in millions)



Operating Income
($ in millions)

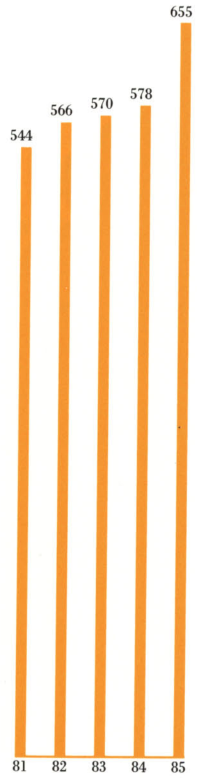


Operating Margins*



* Before corporate charges

Newsweek International Circulation Rate Base
(in thousands)



POST-NEWSWEEK STATIONS

Post-Newsweek Stations—the owner and operator of four network-affiliated VHF television stations, the PNS Washington News Bureau and the PNS documentary unit.

Catherine R. Nierle became vice president-business affairs of Post-Newsweek Stations in November 1985. She had been vice president-administration at WFSB-Hartford.

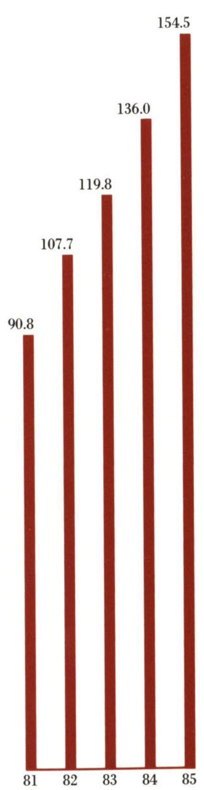
WDIV-4—an NBC affiliate in Detroit, Michigan, the 7th largest U.S. broadcasting market, with 1,661,700 television households.

WPLG-10—an ABC affiliate in Miami, Florida, the 14th largest U.S. broadcasting market, with 1,173,100 television households.

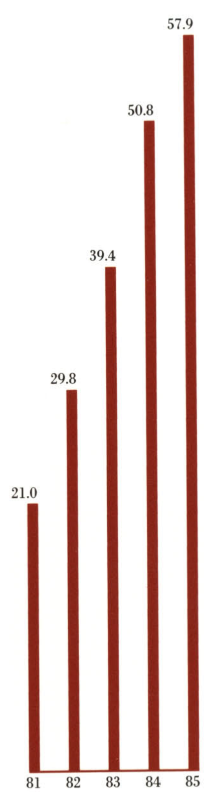
WFSB-3—a CBS affiliate in Hartford, Connecticut, the 24th largest U.S. broadcasting market, with 810,700 television households.

WJXT-4— a CBS affiliate in Jacksonville, Florida, the 61st largest U.S. broadcasting market, with 406,100 television households.

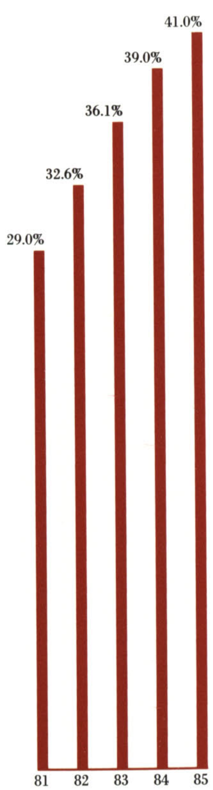
Operating Revenues
($ in millions)



Operating Income
($ in millions)



Television Stations Operating Margins*



*Before any corporate charges

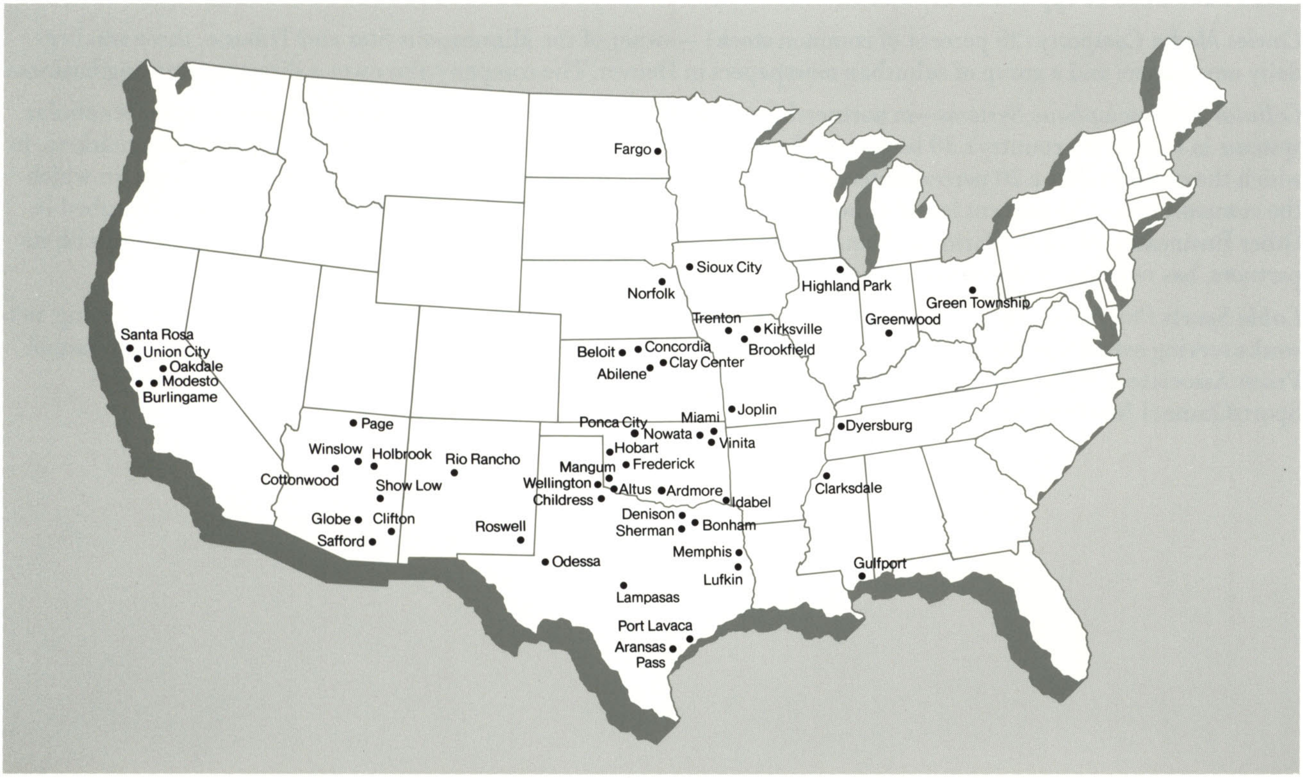
POST-NEWSWEEK CABLE

Post-Newsweek Cable—a new division of The Washington Post Company. In January 1986, the company completed acquisition of 53 cable television systems from Capital Cities Communications, Inc. The systems currently serve approximately 360,000 subscribers in 15 midwestern, western and southern states.

Post-Newsweek Cable Market Coverage

Arizona	
Clifton	1,520
Cottonwood	1,535
Globe	4,402
Holbrook	1,501
Page	1,677
Safford	4,818
Show Low	5,782
Winslow	2,490
California	
Burlingame	5,013
Modesto	39,198
Oakdale	2,552
Santa Rosa	36,938
Union City	6,410
Illinois	
Highland Park	7,899
Indiana	
Greenwood	5,840
Iowa	
Sioux City	17,028
Kansas	
Abilene	2,545
Beloit	1,726
Clay Center	1,963
Concordia	2,556
Mississippi	
Clarksdale	6,728
Gulfport	12,812
Missouri	
Brookfield	2,156
Joplin	9,470
Kirksville	5,218
Trenton	2,757
Nebraska	
Norfolk	7,424
New Mexico	
Rio Rancho	3,018
Roswell	10,952
North Dakota	
Fargo	13,572
Ohio	
Green Township	9,794
Oklahoma	
Altus	8,171
Ardmore	8,163
Frederick	1,811
Hobart	1,828
Idabel	2,249
Mangum	1,561
Miami	4,125
Nowata	731
Ponca City	11,424
Vinita	1,643
Tennessee	
Dyersburg	5,444
Texas	
Aransas Pass	3,172
Bonham	2,740
Childress	2,061
Denison	8,812
Lampasas	2,233
Lufkin	14,413
Memphis	1,017
Odessa	24,004
Port Lavaca	4,149
Sherman	11,242
Wellington	1,128
	359,415

Principal communities served and number of basic subscribers as of January 31, 1986.



OTHER BUSINESSES

Stanley H. Kaplan Educational Centers—acquired at the end of 1984, the Kaplan Centers prepare students for a broad range of academic, professional and licensing examinations, including SAT's, LSAT's and medical boards, as well as general skill-building programs such as speed-reading. The 1985 enrollment exceeded 90,000 students in more than 120 centers throughout the United States and in Canada and Puerto Rico.

Miami Cellular Radiotelephone Operations—Construction has begun on the cellular system in Miami, where the company owns a 60 percent interest; operation is targeted for the middle of 1986.

Legi-Slate—a database publisher that provides on-line computerized information on Federal legislative and regulatory activity.

AFFILIATES

Los Angeles Times-Washington Post News Service, Inc. (50 percent of common stock)—a supplier of articles and features to 585 newspapers, broadcast stations and magazines worldwide.

Bowater Mersey Paper Company Limited (49 percent of common stock)—a newsprint manufacturer in Liverpool, Nova Scotia, supplying approximately one-third of The Post's newsprint requirement.

Bear Island Paper Company (one-third limited partnership interest)—a newsprint manufacturer in Doswell, Virginia, supplying approximately one-fifth of The Post's newsprint requirement.

Bear Island Timberland Company (one-third limited partnership interest)—an investor in timberland.

International Herald Tribune, S.A. (33⅓ percent of common stock)—a daily newspaper published in Paris, France. Printed in Paris, Zurich, London, Marseille, the Hague, Singapore, Hong Kong and Miami, the International Herald Tribune circulates more than 164,000 copies in 164 countries.

National Journal, Inc. (20 percent of common stock) —the publisher of a weekly magazine devoted to national affairs, with a circulation of approximately 5,200.

Cowles Media Company (20 percent of common stock) —owner of the Minneapolis Star and Tribune, three smaller daily newspapers and a group of suburban newspapers in Denver. The company also owns a directory printing business.

Cellular Radiotelephone Systems—in partnerships with others, the company has received licenses to operate cellular systems in four of the country's 30 largest markets. The partnership serving the Washington and Baltimore markets, in which the company has a 20 percent interest, began operations in December 1983. The Detroit partnership, in which the company has an 18 percent interest, became operational in July 1985. Miami cellular operations are described in Other Businesses. In three Florida markets, Orlando, Jacksonville and West Palm Beach, the company, along with its partners, has received authorization to begin construction.

Cable Sports Programming—the company has partnership interests in four regional pay cable sports programming networks serving over 1.1 million subscribers: SportsChannel Associates (New York) (one-third interest), SportsChannel Prism Associates (Philadelphia) (one-third interest), SportsChannel Chicago Associates (one-third interest) and SportsChannel New England (one-sixth interest).

In the pages that follow, four senior managers examine some key issues affecting our businesses today and tomorrow.

CREATING VALUE FROM OUR FREE CASH FLOW

By Ross F. Hamachek
Vice President-Planning and Development, The Washington Post Company

The last four years have been a period of very strong financial performance at The Washington Post Company. Revenues climbed steadily, operating margins more than doubled and the company's earnings per share more than tripled from 1981 to 1985 (see insert). As a result, The Washington Post Company ranked first among Fortune 500 media companies in rate of income growth over the four-year period and second in return on beginning equity achieved in 1985.

Financial Performance of
The Washington Post Company, 1981-85
($ in millions, except per share amounts)

	1981	1985	% Change
Revenues	$753.4	$1,078.7	43.2%
Operating Income	$ 65.7	$ 204.2	210.8%
Operating Margin	8.7%	18.9%	117.2%
Pro Forma Net Income*	$ 34.8	$ 102.0	193.1%
Pro Forma Earnings Per Share*	$ 2.47	$ 7.73	213.0%

*excluding one-time gains and losses

Looking forward, it is obvious that some of the factors aiding these results—such as the closing of the Washington Star in August 1981 and the lower operating margins from which we started then in all our major businesses—will not be providing tailwinds to the same degree. We are committed nonetheless to achieving a rate of earnings growth and returns on equity that continue to compare favorably with those of other companies in our industry during the latter half of the 1980's.

Our success in doing so will depend in substantial part on how well we use what the investment community has increasingly recognized as the key attraction of well-run media companies today—the substantial amounts of free cash flow generated as a result of their relative pricing flexibility and limited capital reinvestment needs. The Washington Post Company is no exception to this rule. We estimate that our businesses will generate on average over the next few years roughly $100 million of free cash flow after taxes, dividends and reinvestment needs. The following is a brief summary of how we have approached, and intend to approach, the utilization of our free cash flow to create added value for our stockholders—both in resource allocation decisions at the corporate level and in the entrepreneurial development of our respective business franchises.

Our approach to corporate-level resource allocation decisions starts with the proposition that media companies, far more than companies in many other industries, are made up of essentially unlinked businesses (they are "portfolio" companies, not "field" companies, in strategic planning jargon). Because competitive barriers often are created largely in a given medium and at the local level, it does not much help the economic performance of one's newspaper operations to be in television (or vice versa), and it is only marginally more important whether one has two or ten businesses of a given type.

"The key to corporate-level resource allocation is patiently opportunistic decision-making predicated on a better

sense of value than one's competitors and a keen awareness of one's own operating strengths and weaknesses."

The implications are several. Media companies have a wide range of corporate resource allocation options. They can compete with one another for new investments on an almost uniquely even footing (even small companies can use the free-standing nature of media businesses to buy giant companies and dispose of pieces they don't want) and the key criteria for successful resource allocation are pretty clear:

□ an ability to recognize which businesses are "franchises" and which are not;

□ a sense of value and the discipline necessary not to lose sight of it in bidding for media properties; and

□ the ability to realize the value that one buys—alone or in partnership with others—through top-notch operating skills.

The key to corporate-level resource allocation, in other words, is patiently opportunistic decision-making predicated on a better sense of value than one's competitors and a keen awareness of one's own operating strengths and weaknesses.

Given the rapidly improving free cash flow of its existing businesses and the essentially debt-free position from which it started, The Washington Post Company has been quite active the past few years seeking new investment opportunities offering us both a good return on investment (a 15 percent or better after-tax return) and a meaningful contribution to our earnings growth (a minimum of $10 million in operating income within five years of acquisition). Many properties in our three traditional lines of business—newspapers, television stations and magazines—became available during this period, but those with franchise characteristics warranting our attention were sold at prices we were not prepared to pay. Consequently, the $650 million we have invested since 1981 has been directed instead to several other investments that appeared more likely to meet our return and earnings growth requirements:

□ our cable sports programming and cellular telephone partnerships, two "startup" businesses with franchise potential that we were able to enter at ground-floor prices;

□ Stanley H. Kaplan Educational Centers, a well-established test preparation business whose media-like financial characteristics were made more attractive by their availability at roughly half the cash flow multiples traditional media businesses command;

□ the repurchase of our own stock—and a 20 percent equity investment in Cowles Media Company—at substantial discounts from private market value; and

□ the acquisition of 53 cable systems from Capital Cities Communications, Inc., giving us a new core business and a sizeable stake in the cable industry.

The verdict will remain out for quite some time, of course, on the ultimate wisdom of these investments, but the values that attracted us appear intact. Each investment is worth more today—in some cases much more—than at the time of purchase and each is expected to make a meaningful contribution to our earnings growth in the next few years.

Because we have entered several new businesses in quick succession and have incurred over $400 million of debt in doing so, the pace of acquisitions may well slow in 1986 and 1987. We remain in excellent financial shape, however, with substantial additional borrowing power available, which we would not hesitate to utilize if the "right" opportunity should present itself, e.g.:

□ if a major newspaper franchise became available at a realistic price;

□ if we could repurchase some of our own stock at an unusually large discount from its private market value; or

□ if we have the opportunity—perhaps through a combination of acquisitions, trades and divestitures—to strengthen our cable division through the development of larger and more efficient "clusters" of systems in attractive geographic markets.

We also intend to put increased emphasis in the next few years on the entrepreneurial development of our existing business franchises, both traditional and recently acquired. What we will be looking for are new product and service opportunities that are not only potentially good business ventures (an obvious threshold requisite for any projects we might wish to undertake) but also:

□ ventures that we are uniquely qualified to undertake by reason of their substantial cost- and skill-related synergies with existing businesses (i.e., ventures where the prospect for competitive advantage is real and easily defined); and

□ ventures that we are able to undertake without significant adverse impact on the effective management of our businesses.

Such ventures, of course, are not a new activity for our company. The Washington Post newspaper has introduced in recent years a National Weekly Edition and several special sections—including Health and Washington Business—targeted at specific advertisers and appearing with the newspaper once each week.

Newsweek has not been idle either. Newsweek on Campus has established a growing niche in the college market here at home and Newsweek International in the last year alone has introduced a Japanese-language edition of Newsweek and has announced plans, in association with American Express Publishing Corporation, to begin publication and distribution this spring of an Asian edition of Travel & Leisure magazine.

Post-Newsweek television stations have participated, too, by creating a satellite-based regional news network in the state of Florida and by using their sports production expertise to produce a wide range of events for cable systems in the Detroit area.

For two main reasons, however, we believe it important to build on this base with increased franchise-development activities. First, our traditional businesses will become increasingly dependent on new products and services for a portion of their future growth as ongoing margin improvement efforts reach fruition. Second, we see similar opportunities in our new businesses—e.g., the development of new advertising revenue sources for our cable systems, the development of new courses and distribution channels at Kaplan Educational Centers—that must be pursued if the full growth potential envisaged when we acquired them is actually to be realized in the years ahead.

These franchise development activities, like our ongoing acquisition efforts, will require the periodic commitments of our free cash flow. If we choose carefully, however, the value created for our shareholders should be substantial.

"The Post has done well the last few years. Compared to 1975, circulation is up more than 200,000 daily and over

310,000 Sunday. Advertising revenue is up in proportion. The breadth and quality of our news reports are much better than they were."

SMALL VICTORIES

By Donald E. Graham
Publisher, The Washington Post

Small victories: □ Barbara Carton of The Post's Fairfax bureau wrote a story saying something everyone in the Washington area had been dimly aware of. A suburban labor shortage was causing employers to bring workers from as far away as West Virginia, while in inner-city Washington thousands of people were unemployed. Once Barbara wrote the story, a mayoral task force got working. The city adopted van-pooling to suburban employment sites and some people got jobs as a result.

□ The Post's circulation department under Frank Manzon rang up its 32nd Sunday circulation increase in a row on the September Audit Bureau of Circulations statement. The daily paper gained circulation for the 28th year in the last 32.

□ Editorial page editor Meg Greenfield and editorial writer Bob Asher asked for months why area police were allowing drivers to run red lights flagrantly. Finally, a crackdown began and accidents fell somewhat.

□ Peggy Schiff, assistant controller, had to choose a new credit manager. She went way out on a limb and picked Larry Keating, who had never worked in credit but who was a top classified-advertising supervisor. Credit set records for on-time collection month after month. Peggy is now The Post's controller.

□ Leon Dash of our investigative staff spent one year living in an apartment at 4th and Mississippi Avenue, Southeast, interviewing girls who became pregnant in their early teens. Leon went back and talked to the girls and their families and friends again and again. The result was the best, most careful explanation of teen-age pregnancy ever printed in a newspaper.

□ A research report from the city's school system showed that elementary students in classes using the Post-supported "Success in Reading" program outperformed students in a control group in reading and writing test scores. The Post's communications department under Vincent Reed also gives the annual Agnes E. Meyer Award to an outstanding teacher (selected by the school system) in 15 public school systems in the area. A similar award is in the works for area principals.

□ A special "Celebrating Washington" issue of The Washington Post Magazine had a goal of 35 pages of advertising. But when the advertising staff under Nick Cannistraro hit 132 pages, we had to stop selling ads for lack of capacity.

□ One of the great Post disasters of all time was our 1979 remake of the TV book, in which we dropped the familiar all-day grid in favor of rolling logs and a grid that went sideways. People inside the building all loved it. Readers hated it and circulation fell off. This year when we enlarged the TV book to include cable listings, we did it very carefully. Editor Mike Hill and his team did a terrific job. Circulation keeps going up.

□ Berke Breathed's comic strip, "Bloom County," brought yet another 135 subscribers to The Washington Post Writers Group under Bill Dickinson and ace salesman Al Leeds. Leeds spotted Breathed a few years ago and thought he had some potential.

□ Production under Tom Might was a hotbed for innovation and for developing people. Our flexographic press experiment brought the first full-sized flexo press on-line at any metropolitan newspaper. It is a press that, among other things, prints with ink that doesn't come off on your hands. We changed platemaking systems, installed ink de-misting equipment and put in a new composing room type-setting system called "Cats and Dogs."

□ Ben Bradlee, Dave Broder and Tom Shales won Washington Journalism Review's reader poll as "The Best in the Business." The Style section won the J.C. Penney-University of Missouri Award as best feature section in the country; Paul Hendrickson won the Penney-Missouri Award for best feature story. National staffers Helen Dewar and David Hoffman won major awards for outstanding beat reporting, and a Los Angeles Times series called The Post's Book World the best book review section in the country.

"The Post's readership in Washington and the immediately surrounding counties is the highest of any major metropolitan newspaper in its home territory."

□ People changed departments at incredible speed. A key job in production went to Bob Mickert of data processing. Bob's job went to Gary Lucke, our former chief electrician turned production manager. People from circulation filled key jobs in advertising, marketing, production and executive. Overall, our depth of management has improved.

□ Our South African reporting team, correspondent Glenn Frankel and stringer Allister Sparks, provided wise and understanding coverage of one of the hardest news stories in the world while under the pressure of severe restrictions on reporters' activities.

□ Under new publisher Noel Epstein, The Washington Post's National Weekly Edition chugged past 50,000 circulation, while advertising pages increased 60 percent. Tom Lippman replaced Noel as the editor.

□ The Post's readership in Washington and the immediately surrounding counties is the highest of any major metropolitan newspaper in its home territory. We are trying to extend that coverage to the Virginia and Maryland counties somewhat farther from the city. Our circulation in Howard County, Maryland, grew more than 10 percent for the second straight year under Diane Prather's management; in Prince William County, Virginia, circulation grew more than 15 percent with Rick Hodgens in charge.

□ The Post's United Way campaign under Natalie Panetti and Rick Weintraub was up more than 70 percent over the previous year.

□ The Herald in Everett, Washington, produced impressive circulation gains, cruising into 1986 running more than 1.5 percent ahead of last year's figures. The circulation department under Jim Gregory produced impressive results all year long. The Herald beat budget and contributed to newspaper division profits.

□ Lloyd Gerber retired as president of Robinson Terminal Warehouse Corporation, The Post's newsprint-warehouse subsidiary. Robinson may be the company's lowest-profile subsidiary, but it yields to none in the quality of its operations. Lloyd ran what is widely regarded as the best and most efficient newsprint-handling organization in the business. He leaves Robert Taylor, vice president, in charge of Robinson's operations.

□ Marketing director Pierce DeGross helped produce a television commercial for The Post with the theme "We're Everything That's Washington." Lee Greenwood sang the commercial's theme song. And when Greenwood performed the song in a summer concert in Columbia, Maryland, the audience spontaneously sang along.

The Post has done well the last few years. Compared to 1975, circulation is up more than 200,000 daily and over 310,000 Sunday. Advertising revenue is up in proportion. The breadth and quality of our news reports are much better than they were.

Progress, when it comes, seems to arrive an inch at a time.

BROADCASTING'S CHANGING HORIZONS

By Joel Chaseman
President, Post-Newsweek Stations

These years in broadcasting will be remembered for being substantively different both from what went before and from what followed.

□ No longer are cable, video cassettes and the new independents on the horizon. They are competitive business entities here and now, viable facts of our daily lives. They are also, however, just learning how to compete with each other and with established broadcasters.

□ Satellite transmission now is no novelty to most of us, but the three major old-line networks have just begun to bring their massive resources and careful thinking to what has been largely a free-lance, experimental game played among independent entrepreneurial types.

□ Program production, syndication and distribution have been proclaimed as "the new horizon" for investors; significant changes in that marketplace are certain.

□ Networks, major film studios, station groups and syndicators follow one another into "play." Shock wave follows wave in line management as alignments change.

The power of this country's unique broadcasting system resides in local stations. The network depends on its affiliates; there is no other way for its programs to reach the people. The dependency is mutual. The great and continuing strength of affiliated stations is the unique *combination* of assets that national programming and promotion can bring to determined local leadership. Local stations by definition reside in a given market and are competitive within that restricted geographic region.

Post-Newsweek operates four local stations in four very different markets—Detroit, Hartford, Jacksonville and Miami. Each of our stations is affiliated with one of the major networks and competes with independent, non-affiliated stations also licensed to its geographic area. Within the past five years that competition has grown more intense and more fragmented as cable penetration has increased and new independent broadcasters have been granted licenses.

The new competition has taken all possible forms across the board—for advertising dollars, audience attention, available syndicated programs, good people and marketplace promotion. Some traditional stations have found themselves overwhelmed by the new forces. The four Post-Newsweek stations are thriving on the new opportunities, thanks largely to the alertness and entrepreneurial spirit of local management and to the support given the local teams by Washington Post Company management and shareholders.

Investment decisions of the late 1970's and early 1980's enabled Post-Newsweek's news teams, marketers and engineering staffs to lead in 1985. Strategic plans begun in 1982 and 1983 will, we believe, continue our growth through the 1980's, but we'll have to run hard and stay lucky just to keep up, even with good planning, great people and enlightened, stable ownership.

The ability in this super-heated marketplace to plan carefully and react quickly, *to anticipate*, is critical to success. These enterprises are dependent on superior individuals who can function as contributing members of a team, able to

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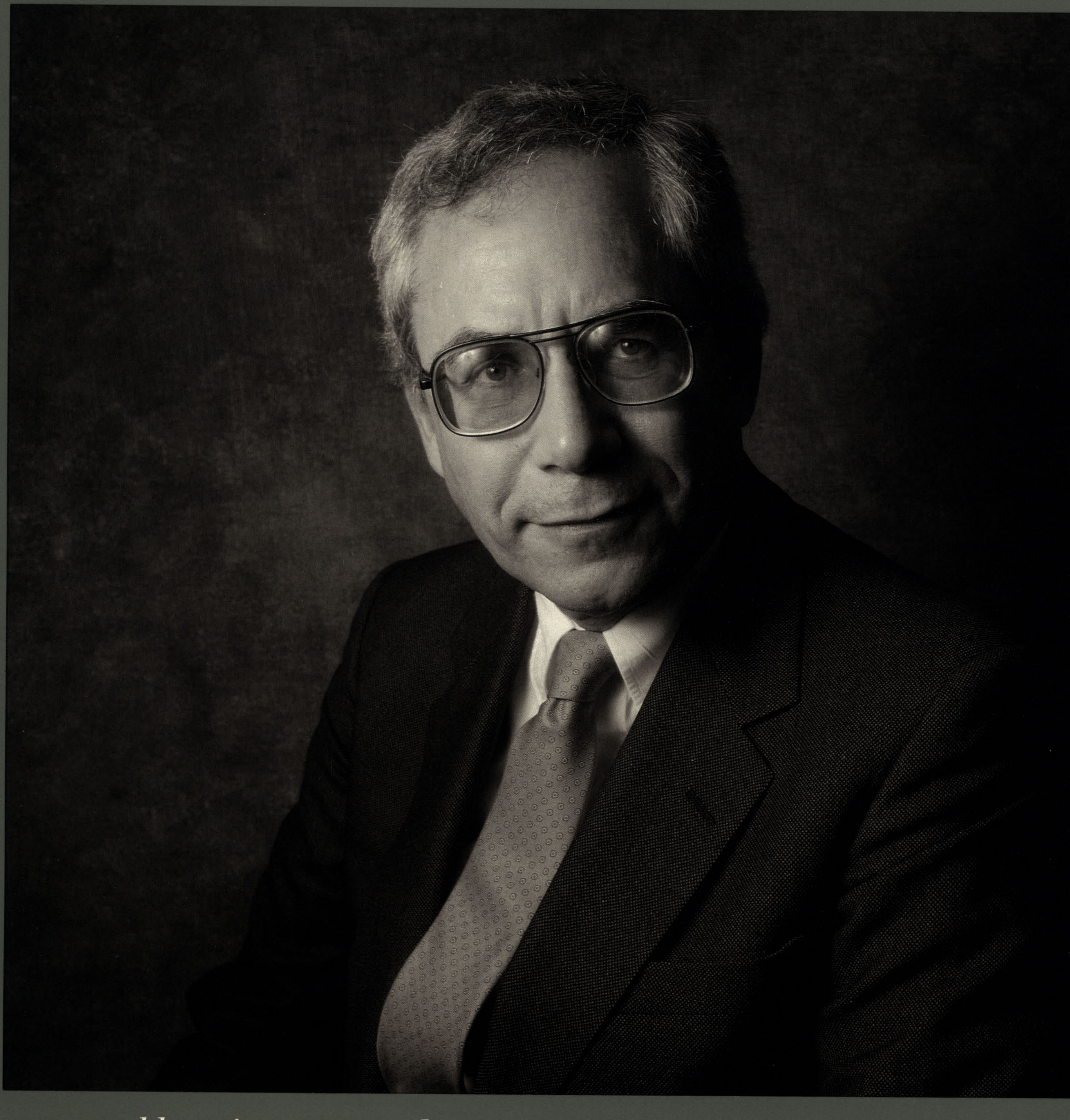

able to innovate and conserve—to arrive at the appropriate *solution to a given problem."*

innovate and conserve—to arrive at the *appropriate* solution to a given problem. We've spent a fair amount of time with the folks who work at Post-Newsweek stations discussing and implementing supplemental training and education for managers, supervisors, technicians and marketers.

At the same time, even the best people require the right tools to do their jobs the way they'd like. A major Post-Newsweek priority has been to factor the economic equation so that necessary short-term actions and investments serve long-term designs—to improve our margins and shares of market while enhancing the quality of what we do to keep faith with our various publics. Accordingly, the people of Jacksonville are now served by a state-of-the-art transmitting plant located at a brand new tower; WPLG-Miami operates from a new technical facility unequalled in its region; both our Detroit and Hartford stations can transmit in stereo and have recently installed extraordinary electronic graphic processors which, when operated by schooled and talented artists, bring worldclass quality to local production.

Our planning process for 1986 and the years to follow includes much discussion of the "make or buy" issue as it affects daytime programming and the time periods surrounding our early news broadcasts. Our stations already make at least as much of their own programming as most network affiliates in equivalent markets, most of it local and regional news. The Post-Newsweek station is most often the reference point for news in its area, the ratings leader and the channel most watched when the same event, such as a Presidential news conference, is carried on all three affiliates. At some of our stations we are now studying whether to begin producing more *non-news* programs at home rather than buy them from syndicators.

"Our priorities for 1986 are clear—to maintain momentum and leadership in news, engineering, operations and marketing; to create new alternatives in programming; and to accomplish all of this while keeping faith with our people at the stations and with all our publics."

The impetus comes from the newly competitive marketplace mentioned earlier. Many independent stations now compete for the same syndicated programs as affiliates, raising prices even as the audience fragments. "Wouldn't it be great," the thinking goes, "if we could produce a good local program with local people?" The answer obviously is "yes, *if*"—*if* it will attract a consistent representative audience, *if* costs are manageable and within reasonable bounds, *if* the people responsible for the effort can be reasonably expected to stay in this market at least long enough for us to realize our goals.

The "make or buy" decision also applies in a way to industry partnerships and joint ventures designed to produce syndicated programs. Since affiliated stations in all markets are experiencing many of the same competitive pressures that affect the Post-Newsweek stations, group ownerships are collaborating to produce programs which, together, they will market to stations in markets not competitive with their own. Either way, local or consortium, the Post-Newsweek stations have given priority to influencing the cost, range and quality of programming by creating new alternatives. 1986 may well be a pivotal year for this effort.

Another major priority for the foreseeable future is the study of our industry—the economics of our business as they apply to everyday considerations of pricing and inventory control. In television, we can't add a page when the demand for advertising increases. And if we've already sold our supply of ad positions on a non-preemptible basis, we can't go back to the client and raise the rates when demand exceeds supply. As a result, pricing, inventory control and timing all become crucial.

Computers have helped enormously. Talented operations staffs at each location mean even more. But the key to the process is sales management, working very closely with people in the field, the national reps and the operations departments. Are we witnessing the redistribution of advertising revenue within our markets among independents, cable and affiliates? Will this most compelling advertising medium continue to grow within the larger field? Can we continue to demonstrate our remarkable pulling power to new advertisers, as this year health care services supplanted computer companies as one of the fastest-growing ad categories? Will the 15-second commercial become basic currency or simply a 20 percent component in a more flexible mix? On a cosmic level (for us at least), will advertising itself continue to be a premium on the gross national product and, if so, how linked will our medium be to future national deficits and balances of trade?

Post-Newsweek's line marketing people don't often have the opportunity to sit down and reflect quietly on the answers to these and similar questions. They must deal daily with availabilities and make-goods, specific clients and precise schedules, the mix of open spots and future orders as it exists at that moment. A major priority for us this year will be to enhance education even while we continue the sharing of knowledge and training in specific skills that already characterize our marketing operations. Our use of special services and other marketing resources will continue to grow, as will our computerized research capabilities.

As charts and figures displayed elsewhere in this report demonstrate, Post-Newsweek Stations is making the most of our industry's transition between eras. Our priorities for 1986 are clear—to maintain momentum and leadership in news, engineering, operations and marketing; to create new alternatives in programming; and to accomplish all of this while keeping faith with our people at the stations and with all our publics. We expect a very good year.

"To stay out in front, Newsweek is meeting the challenge of a radically different environment that

confronts the news magazine of the late 1980's."

THE CHALLENGE OF CHANGE

By Gerard Smith
Publisher, Newsweek

By most every measure of performance—profitability, readership, circulation and editorial quality—1985 was one of the best years in Newsweek's history. To stay out in front, Newsweek is meeting the challenge of a radically different environment that confronts the news magazine of the late 1980's.

Lifestyles have changed. The great social and political issues that fueled Newsweek's success in the late 1960's have been replaced by the far more subtle and complex issues of the 1980's.

Readers are bombarded with a blizzard of information from print and electronic media—from 24-hour headline news on radio and television, to shows devoted exclusively to the news of entertainment, to a proliferation of special interest publications.

Today's newsstand bears little resemblance to the newsstand of even a decade ago. The total number of consumer magazines has increased 55 percent since then. The shift from general interest to special interest magazines is clearly evident.

In the middle 1970's, for example, science was covered regularly in Scientific American and the newsweeklies. Today, the weekly Science Times (of the New York Times) and the monthlies Discover, Science Digest, Science '86 and Omni all cover the subject in detail and with good quality.

The advertising environment for newsweeklies also has changed. Traditionally, the major advertisers in the news magazine market have been domestic automobiles, liquor and cigarettes. Together, these advertisers in some years have accounted for over 50 percent of the advertising revenue of newsweeklies. But the businesses they represent have had erratic results. And while new categories of business have come into existence, the opportunities they present for news magazines are not fully known.

Moreover, the inflationary pressures that worked to the benefit of magazine pricing practices in the 1970's now have abated, making it difficult, if not impossible, for news magazines to pass cost increases along to advertisers.

All of these factors have resulted in declining reader and advertiser imperative to use a newsweekly. Over the past five years, the total audience for newsweeklies has declined. The newsweeklies' share of advertising pages placed in magazines also has declined. Newsweek's decline in advertising pages in 1985 is reflective of problems besetting news magazines generally.

It has been clear to us for some time that our continued success depends on more closely meeting reader and advertiser needs. Innovative solutions are called for and Newsweek's history is one of innovation.

Newsweek broke journalistic ground in the 1960's with special reports that dealt with the great social and political issues that claimed the nation's attention—from the early civil rights marches through Vietnam and Watergate. With aggressive continuing coverage, punctuated by advocacy issues that took a stand on the critical choices facing America, Newsweek moved significantly away from the original news magazine style of Henry Luce.

Readers and advertisers responded positively. During the late 1960's, circulation grew 24 percent. Readership among college-educated adults 25-44 years old—a key target audience for advertisers—increased significantly. Advertisers seeking to reach this attractive audience increased their investment in Newsweek. Advertising pages during the five years immediately following this period averaged 425 pages per year more than the preceding five years.

"It has been clear to us for some time that our continued success depends on more closely meeting reader and advertiser needs. Innovative solutions are called for and Newsweek's history is one of innovation."

Because meaningful change in anticipation of or response to readers' and advertisers' needs can produce positive business results, Newsweek changed in two important ways in 1985. These changes will increase substantially our competitiveness among news magazines. First, we intensified our efforts to make Newsweek more responsive to the demands of readers and potential readers. Our aim is to keep Newsweek ahead of the news curve, to make it essential even in the face of increased electronic and print media. As part of this effort, we launched a major reformatting and redesign of the editorial in November after a year-long program of research and development. Second, to better address the needs of advertisers, we introduced an innovative advertising pricing policy that reflects more closely than any other publication the way clients and agencies buy advertising space in magazines.

Newsweek's aim always has been to make sense of the world, to interpret and to inform. Our edge—added value for our readers—will be less summation and more interpretation in all sections of the magazine. As Rick Smith, our editor-in-chief, explains, "we must tell our readers why it happened and what it means."

Newsweek's new editorial format not only enhances our ability to delineate clearly our coverage of each area of the news, but it improves the reader's access to the information in each issue. Newsweek now covers the world in six news sections: National Affairs, International, Business, Lifestyle, Society and the Arts.

The "front of the book" will continue to report thoughtfully on matters relating to national and international events, as well as business affairs, while the "back of the book" responds to the growing diversity of our readers' interests and tastes. Lifestyle reports on how we live. Society covers the law, religion, education, science, medicine and ideas—all the important issues, events and institutions that shape our lives. The Arts reports on the people and institutions behind the creative process and provides reviews of the visual arts, theater, movies, music and books.

We have expanded two of our most popular features: Periscope, which looks over the horizon to events, issues and trends in the making, and Newsmakers, which covers newsmaking personalities. A new feature, Perspectives, presents comments, quotes and political cartoons to give our readers a fresh viewpoint on the week.

The new format is complemented visually by a more arresting design and greater use of color and graphics to communicate quickly and effectively with our readers.

We believe that these changes, which reflect the wider interests of our current readers, also will attract to Newsweek new readers with different personal tastes and interests.

On the business side, we faced up to the more intense competitive environment and changing advertiser needs with an aggressive new program: TAG—Total Audience Guarantee.

With TAG, the result of a six-month study intended to find ways to better serve our advertisers, Newsweek will guarantee its total audience for a full year. Advertisers now will be able to plan with a greater degree of certainty on the number of adults their advertising will reach in Newsweek.

Traditionally, the standard practice in the magazine industry has been to use circulation figures—the number of copies sold by subscription or on the newsstand—as the base for advertising rates. Most advertisers, however, evaluate the magazine's audience—the number of people their ad is likely to reach—and the cost of reaching them. Newsweek's Total Audience Guarantee begins to correct the inconsistency that exists between the way the industry prices a magazine (circulation) and the factor on which the advertiser bases a purchase decision (audience).

Under TAG, our advertising rates are based on Newsweek's total *audience*, as measured by independent national syndicated research. We no longer base our advertising rates on *circulation*, although we will continue to guarantee national advertisers our base circulation of 3,050,000. The result gives advertisers a very high degree of confidence in the predictability and reliability of our magazine.

TAG's most important benefit to the advertiser, however, is its guarantee of total audience. We will use the periodic studies of Simmons Market Research Bureau and Mediamark Research, Inc., to give advertisers an accurate assessment of their audience.

When new audience numbers are released, we'll compare them against the old numbers. If they are higher—and given our recent history and editorial innovations, we have every reason to believe this will be the case—our advertisers will receive a bonus of more readers for no additional cost.

If our audience declines, we'll compensate for the shortfall. All advertisers now can plan with full confidence on the total number of adults they will reach with an advertisement in Newsweek.

These initiatives reflect Newsweek's history of innovation. They spring from a conviction that while change can be risky, not changing in a highly competitive environment can be riskier still.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

In 1985 revenues from newspaper, magazine and television advertising accounted for approximately 74 percent of the company's operating revenues, with approximately 20 percent derived from newspaper and magazine circulation. These proportions each declined by two percentage points from 1984 and 1983, reflecting the inclusion in 1985 of the results of operations of Stanley H. Kaplan Educational Centers, which was purchased at the close of business on December 31, 1984, and the start-up of operations of Miami cellular radiotelephone. Thus, other revenues accounted for approximately 6 percent of the company's operating revenues in 1985, while they accounted for only approximately 2 percent in 1984 and 1983.

Net income in 1984 increased 26 percent over 1983, reflecting improved operations. In 1985 net income increased by 33 percent, which, in addition to improved operating income and earnings from affiliates, included a nonrecurring after-tax gain of $12.3 million from the sales of portions of the company's cable sports programming and cellular radiotelephone interests. In 1984 earnings per share increased by $1.29 or 27 percent over 1983. Earnings per share in 1985, on fewer shares outstanding, increased by $2.55 or 42 percent, of which $.93 related to the nonrecurring gain.

Total operating revenues increased approximately 12 percent in 1984 and 10 percent in 1985. Advertising revenues increased in 1984 by 14 percent as a result of higher rates in each of the company's divisions and an increase in the volume of advertising. Total advertising inches at The Washington Post increased 8 percent in 1984, while advertising pages in Newsweek's domestic edition increased 2 percent. Advertising revenue in 1985 increased by 6 percent due to increased rates in each of the company's divisions and increased volume at The Washington Post where total advertising inches increased 4 percent. Advertising pages in Newsweek's domestic edition decreased 11 percent with two fewer issues in 1985. Circulation revenues increased 7 percent in 1984 primarily due to higher rates, while 1985 circulation revenues increased by approximately 1 percent. In 1985 other revenues increased due to the inclusion of results of operations of Stanley H. Kaplan Educational Centers and Miami cellular radiotelephone.

In 1984 the increase of 10 percent in total operating costs and expenses was attributed to higher costs of wages and related benefits and higher newsprint and magazine paper costs which rose due to increased volume and prices. Total operating costs for 1985 increased by approximately 7 percent due to higher costs of wages and newsprint and the inclusion of Stanley H. Kaplan Educational Centers and Miami cellular radiotelephone, the latter two representing four of the seven percentage points of increase.

Income from operations increased 26 percent and 23 percent, respectively, in 1984 and 1985. In 1985, the operating margin at the newspaper division was 21 percent, compared to 18 percent in 1984 and 17 percent in 1983, as revenues rose at a faster rate than expenses. Newsweek's operating margin increased from 5 percent in 1983 to 7 percent in 1984 and to 9 percent in 1985 despite a slight decrease in revenue in 1985. The broadcast division's operating margin increased from 33 percent in 1983 to 37 percent in 1984 as revenues, mostly from advertising, increased. In 1985 the broadcast division's operating margin reached 38 percent. The operating margin for the company's other businesses was approximately 9 percent in 1985.

In 1984 the company's share of earnings and losses of its affiliated companies declined from earnings of $.4 million in 1983 to a loss of $5.7 million, while in 1985 the company's share of affiliates' earnings increased to $4.0 million. The decline in 1984 was due largely to the losses incurred by the company's cable television sports programming affiliates that were acquired during the second half of 1983. The company's share of these losses was $2.3 million in 1983 and $9.9 million in 1984. In January 1985 a portion of the company's interests in these affiliates was sold and the company's share of the losses declined to $3.8 million in 1985. The company's share of earnings of its newsprint mill affiliates increased in 1984 by $3.1 million and in 1985 by $.7 million. The increase in 1984 was primarily attributable to a cutback in 1983 production due to major renovations at one mill. In 1984 and 1985 the company recognized losses of $1.5 million and $1.2 million, respectively, as its share of operations of the cellular radiotelephone affiliates primarily in Washington/Baltimore and Detroit, which began operations in 1984. For 1985 the company's equity in earnings of affiliates also includes earnings from its 20 percent ownership of Cowles Media Company common stock which the company acquired during 1985.

Interest income increased in 1984 by $2.6 million while interest expense decreased by $900,000 as the company reduced its debt and increased its cash position. In 1985 the company repurchased 1,197,116 shares of its Class B common stock and invested in Cowles Media Company common stock at a combined cost of approximately $205 million. These transactions were financed through the use of internally generated funds and the private placement of short-term notes. In addition, on January 3, 1986, the company completed its cash purchase of 53 cable television systems from Capital Cities Communications, Inc., for $350 million. In anticipation of this transaction the company increased its borrowings and temporary investments late in 1985. As a result of these factors, in 1985 interest expense increased by $7.9 million and interest income decreased by $3.3 million.

Pre-tax gains of $19.3 million on sales of portions of the company's SportsChannel and cellular radiotelephone interests are reflected in other income. Excluding these one-time gains, other expense for all three years consists principally of losses on the sale or abandonment of operating property.

Because the gains on the sales mentioned above were taxable at capital gain rates, the effective tax rate for 1985 did not change significantly from 1984 which was down from 1983. However, the rate is expected to increase in 1986 to approximately 52 percent due principally to nondeductible expenses related to the purchases of new businesses.

In 1984 the company repurchased 199,000 shares of its Class B common stock with no significant effect on the calculation of earnings per share. However, the average number of common shares outstanding decreased by 6 percent in 1985 reflecting the repurchase in April 1985 of 1,197,116 shares of Class B common stock. After allowing for estimated opportunity costs, the effect of the repurchase was to increase the company's earnings per share by approximately 3 percent in 1985.

Financial Condition: Capital Resources and Liquidity

During the period 1983 through 1985 the company expended approximately $420 million on various capital programs, principally investments in new businesses, purchases of additional plant and equipment and repurchases of Class B common stock. These transactions were financed through the use of internally generated funds and the private placement of short-term notes. In connection with the acquisition of the cable systems on January 3, 1986, the company borrowed $350 million late in 1985 and early 1986. At January 3, 1986, total debt was approximately $430 million and cash balances were small in amount.

During 1986 and 1987 the company estimates that it will expend approximately $80 million for plant and equipment, which it expects to fund with cash flow from operations.

In management's opinion the changes in financial position described did not impair the company's liquidity or its ability to secure additional financing.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share amounts)	Fiscal Year Ended December 29, 1985	December 30, 1984	January 1, 1984
OPERATING REVENUES			
Advertising	$ 798,167	$ 749,673	$ 659,896
Circulation	217,281	215,294	201,706
Other	63,202	19,336	16,112
	1,078,650	984,303	877,714
OPERATING COSTS AND EXPENSES			
Operating	625,778	594,552	542,555
Selling, general and administrative	221,109	199,465	180,451
Depreciation and amortization of property, plant and equipment	24,770	21,740	20,080
Amortization of goodwill and other intangibles	2,807	2,251	2,213
	874,464	818,008	745,299
INCOME FROM OPERATIONS	204,186	166,295	132,415
Equity in earnings (losses) of affiliates	4,020	(5,731)	399
Interest income	5,331	8,667	6,101
Interest expense	(9,685)	(1,792)	(2,725)
Other income (expense), net	17,582	(1,296)	(1,571)
INCOME BEFORE INCOME TAXES	221,434	166,143	134,619
PROVISION FOR INCOME TAXES	107,173	80,257	66,225
NET INCOME	$ 114,261	$ 85,886	$ 68,394
EARNINGS PER SHARE	$8.66	$6.11	$4.82

The information on pages 38 through 48 is an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	*December 29, 1985*	*December 30, 1984*
ASSETS		
CURRENT ASSETS		
Cash and temporary cash investments	$202,852	$ 73,713
Accounts receivable, less estimated returns, doubtful accounts and allowances of $22,873 and $17,210	113,941	108,415
Inventories at lower of cost or market	19,185	14,544
Prepaid film rights	9,956	9,731
Other current assets	13,240	12,156
	359,174	218,559
INVESTMENTS IN AFFILIATES	154,189	80,936
PROPERTY, PLANT AND EQUIPMENT		
Buildings	100,694	92,490
Machinery, equipment and fixtures	197,729	172,577
Leasehold improvements	24,679	18,877
	323,102	283,944
Less accumulated depreciation and amortization	(143,236)	(120,922)
	179,866	163,022
Land	18,106	14,938
Construction in progress	21,338	13,112
	219,310	191,072
GOODWILL AND OTHER INTANGIBLES, less accumulated amortization of $15,607 and $12,800	96,394	76,838
DEFERRED CHARGES AND OTHER ASSETS	56,012	78,395
	$885,079	$645,800

The information on pages 38 through 48 is an integral part of the financial statements.

(In thousands, except share amounts)	December 29, 1985	December 30, 1984
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$107,202	$ 97,676
Federal and state income taxes	(2,914)	13,617
Current portion of long-term debt and notes payable	52,432	2,250
	156,720	113,543
Other Liabilities	55,770	55,063
Long-Term Debt and Notes Payable	222,392	6,250
Deferred Subscription Revenue	69,109	64,465
Deferred Income Taxes	31,540	26,352
	535,531	265,673
Shareholders' Equity		
Preferred stock, $1 par value, authorized 1,000,000 shares	—	—
Common stock		
Class A common stock, $1 par value, authorized 7,000,000 shares; 2,198,702 and 2,748,382 shares issued and outstanding	2,199	2,748
Class B common stock, $1 par value, authorized 40,000,000 shares; 17,801,298 and 17,251,618 shares issued; 10,623,071 and 11,240,505 shares outstanding	17,801	17,252
Capital in excess of par value	8,156	5,212
Retained earnings	549,909	448,529
Cumulative foreign currency translation adjustment	(5,092)	(4,349)
Cost of 7,178,227 and 6,011,113 shares of Class B common stock held in Treasury	(223,425)	(89,265)
	349,548	380,127
	$885,079	$645,800

The information on pages 38 through 48 is an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(In thousands, except share amounts)	Fiscal Year Ended December 29, 1985	December 30, 1984	January 1, 1984
SOURCES OF WORKING CAPITAL			
Net income	$114,261	$ 85,886	$ 68,394
Charges (credits) to income not requiring working capital			
Depreciation and amortization of property, plant and equipment	24,770	21,740	20,080
Amortization of television film rights	12,941	8,454	11,410
Net (gain) from sales of partnership interests	(12,268)	—	—
Income tax timing differences	4,669	(3,311)	1,217
Equity in (earnings) losses of affiliates	(4,020)	5,731	(399)
Amortization of goodwill and other intangibles	2,807	2,251	2,213
Other	11,513	9,143	8,388
Total provided by operations	154,673	129,894	111,303
Increase (decrease) in long-term debt	216,142	(2,250)	(2,250)
(Decrease) increase in contracted television film rights payable	(3,691)	8,385	484
Net proceeds from sales of partnership interests	27,927	—	—
Dividends received from affiliates	957	200	332
Increase (decrease) in deferred subscription revenue	4,644	(1,523)	1,110
Other	16,799	18,388	12,686
Total sources	417,451	153,094	123,665
USES OF WORKING CAPITAL			
Investment in new businesses	88,807	37,232	48,063
Purchases of property, plant and equipment	43,593	33,593	21,576
Repurchases of common stock	134,642	12,935	—
Purchases of television film rights	14,209	21,947	13,234
Dividends on common stock	12,881	11,228	9,352
Other	25,881	12,989	11,936
Total uses	320,013	129,924	104,161
NET INCREASE IN WORKING CAPITAL	$ 97,438	$ 23,170	$ 19,504
CHANGES IN COMPOSITION OF WORKING CAPITAL			
Cash and temporary cash investments	$129,139	$ 4,946	$ 28,485
Accounts receivable	5,526	15,671	1,994
Inventories	4,641	2,850	(10,357)
Prepaid film rights	225	398	613
Other current assets	1,084	4,078	(777)
Increase in current assets	140,615	27,943	19,958
Accounts payable and accrued liabilities	(9,526)	(10,947)	255
Federal and state income taxes	16,531	3,174	2,291
Current portion of long-term debt and notes payable	(50,182)	3,000	(3,000)
(Increase) in current liabilities	(43,177)	(4,773)	(454)
Net increase in working capital	$ 97,438	$ 23,170	$ 19,504

The information on pages 38 through 48 is an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands, except share amounts)	*Class A Common Stock*	*Class B Common Stock*	*Capital in Excess of Par Value*	*Retained Earnings*	*Cumulative Foreign Currency Translation Adjustment*	*Treasury Stock*
BALANCE JANUARY 3, 1983	$2,748	$17,252	$3,119	$314,829	$(2,029)	$(77,076)
Net income for the year				68,394		
Dividends—$.66 per share				(9,352)		
Issuance of 39,282 shares of Class B common stock, net of restricted stock award forfeitures			1,212			516
Change in foreign currency translation adjustment					(829)	
Other			106			
BALANCE JANUARY 1, 1984	2,748	17,252	4,437	373,871	(2,858)	(76,560)
Net income for the year				85,886		
Dividends—$.80 per share				(11,228)		
Repurchase of 199,000 shares of Class B common stock						(12,935)
Issuance of 16,388 shares of Class B common stock, net of restricted stock award forfeitures			(226)			230
Change in foreign currency translation adjustment					(1,491)	
Other			1,001			
BALANCE DECEMBER 30, 1984	2,748	17,252	5,212	448,529	(4,349)	(89,265)
Net income for the year				114,261		
Dividends—$.96 per share				(12,881)		
Repurchase of 1,197,116 shares of Class B common stock						(134,642)
Issuance of 30,002 shares of Class B common stock, net of restricted stock award forfeitures			1,777			482
Conversion of 549,680 shares of Class A common stock to Class B common stock	(549)	549				
Change in foreign currency translation adjustment					(743)	
Other			1,167			
BALANCE DECEMBER 29, 1985	$2,199	$17,801	$8,156	$549,909	$(5,092)	$(223,425)

The information on pages 38 through 48 is an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Summary of Significant Accounting Policies

Fiscal Year. The company reports on a 52-53 week fiscal year ending on the Sunday nearest December 31. The fiscal years 1983 through 1985 each included 52 weeks.

Principles of Consolidation. The accompanying financial statements include the accounts of the company and its subsidiaries; significant intercompany transactions have been eliminated.

Inventories. Inventories are valued at the lower of cost or market. Cost of newsprint is determined by the first-in, first-out method and cost of magazine paper is determined by the specific cost method.

Investments in Affiliates. The company uses the equity method of accounting for its investments in and earnings of affiliates.

Property, Plant and Equipment. Property, plant and equipment is recorded at cost, which since 1980, in accordance with Statement of Financial Accounting Standards No. 34, includes interest capitalized in connection with major long-term construction projects. Replacements and major improvements are capitalized; maintenance and repairs are charged to expense as incurred. Upon sale or retirement of property, plant and equipment, the costs and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the determination of net income.

Depreciation is calculated using the straight-line method over the estimated useful lives of the property, plant and equipment: 3 to 11 years for machinery and equipment, 20 to 50 years for buildings and 5 to 20 years for land improvements. The costs of leasehold improvements are amortized over the lesser of the useful lives or the terms of the respective leases.

Goodwill and Other Intangibles. Goodwill and other intangibles represents the unamortized excess of the cost of acquiring subsidiary and affiliated companies over the fair values of such companies' net tangible assets at the dates of acquisition. Goodwill and other intangibles acquired prior to October 30, 1970, the effective date of Accounting Principles Board Opinion No. 17, are not being amortized because in the opinion of the company there has been no diminution of the value of such assets. Goodwill and other intangibles acquired subsequently are being amortized by use of the straight-line method over various periods up to 40 years in accordance with Opinion No. 17.

Deferred Film Rights. The broadcast subsidiaries are parties to agreements which entitle them to show motion pictures and syndicated programs on television. The unamortized cost of these rights and the liability for future payments under these agreements are reflected in the Consolidated Balance Sheets. The unamortized cost is charged to expense using accelerated amortization rates for motion pictures and accelerated or straight-line rates for syndicated programs.

Deferred Subscription Revenue and Magazine Subscription Procurement Costs. Deferred subscription revenue, which primarily represents amounts received from subscribers in advance of magazine and newspaper deliveries, is reflected in operating revenues over the subscription term. Subscription procurement costs are charged to expense as incurred.

Income Taxes. Deferred income taxes result from timing differences in the recognition of certain revenue and expense items, principally depreciation, for tax and financial reporting purposes, in the recognition of income tax to be withheld at the source of distribution of earnings of foreign affiliates, and in the recognition of investment tax credits which for financial reporting purposes are applied as a reduction of income taxes over the depreciable lives of the related assets.

Foreign Currency Translation. Gains and losses on foreign currency transactions and translation of accounts of the company's foreign operations are recognized currently in the Consolidated Statements of Income. Gains and losses on translation of the company's equity interests in its foreign affiliates are not included in the Consolidated Statements of Income but are reported separately and accumulated in the "Cumulative Foreign Currency Translation Adjustment" in the Consolidated Balance Sheets.

B. Investments in Affiliates

The company's investments in affiliates included the following (in thousands):

	1985	*1984*
Cowles Media Company	$ 72,464	$ —
Newsprint mills	55,567	42,530
Sports programming operations	20,501	34,186
Other	5,657	4,220
	$154,189	$80,936

In 1985 the company acquired a 20 percent interest in the stock of Cowles Media Company which owns and operates The Minneapolis Star and Tribune and several other smaller newspapers.

The company's interest in newsprint mills includes a 49 percent interest in the common stock of Bowater Mersey Paper Company Limited, which owns and operates a newsprint mill in Nova Scotia, a one-third limited partnership interest in Bear Island Paper Company, which owns and operates a newsprint mill near Richmond, Virginia and, in 1985, a one-third limited partnership interest in Bear Island Timberland Company, which owns timberlands and supplies Bear Island Paper Company with a portion of its wood requirements. Operating costs and expenses of the company include cost of newsprint supplied by Bowater Mersey Paper Company and Bear Island Paper Company of $62,900,000 in 1985, $60,200,000 in 1984 and $52,900,000 in 1983. The company's equity in earnings of the newsprint mills was $5,792,000, $5,101,000 and $2,004,000 in 1985, 1984 and 1983, respectively.

Summarized financial data for the newsprint mills operations are as follows (in thousands):

	Newsprint Mills		
	1985	*1984*	*1983*
FINANCIAL POSITION			
Working Capital	$ 12,270	$ 9,734	$ 6,893
Property, plant and equipment	208,943	178,020	175,955
Total assets	251,395	215,623	218,290
Long-term debt	51,817	57,968	63,664
Net equity	148,872	111,571	102,865

	Newsprint Mills		
	1985	*1984*	*1983*
RESULTS OF OPERATIONS			
Operating revenues	$179,393	$162,405	$145,871
Operating income	29,342	25,081	11,865
Net income	14,330	11,368	5,374

During 1983 the company acquired interests in several businesses which distribute programming, principally sports events, to pay cable and subscription television subscribers. At the end of 1984 the company's interests included a 50 percent partnership interest in SportsChannel Associates, which operates in the metropolitan New York City area, a 90 percent partnership interest in SportsChannel Prism Associates, which operates in the metropolitan Philadelphia area, an 85 percent partnership interest in SportsChannel Chicago Associates, which operates in the metropolitan Chicago area, and a 25 percent limited partnership interest in SportsChannel New England, which operates in the New England and upstate New York areas. In January 1985 the company sold a part of its interest in each of the sports programming businesses reducing its respective interests in SportsChannel Associates, SportsChannel Prism Associates and SportsChannel Chicago Associates to approximately 33⅓ percent and its interest in SportsChannel New England to 16⅔ percent.

The company's other investments include a one-third common stock interest in a French corporation based in Paris which publishes the International Herald Tribune, a 50 percent common stock interest in the Los Angeles Times-Washington Post News Service, Inc., and a 20 percent common stock interest acquired in 1983 in the National Journal, Inc., publisher of a weekly magazine specializing in national affairs. The company's investments also include various interests in several partnerships which are constructing and operating cellular radiotelephone systems and include an 18 percent partnership interest in Detroit Cellular Telephone Company, a 20 percent partnership interest in Washington/Baltimore Cellular Telephone Company and, in 1985, small interests in cellular partnerships in three Florida locations. At the end of 1984 the company's investments also included a 16⅔ percent partnership interest in Interstate Mobilephone Company, located in the Pacific Northwest, which was sold in 1985.

The following table summarizes the status and results of the company's investments (in thousands):

	1985	*1984*
Beginning investment	$ 80,936	$83,025
Equity in earnings (losses)	4,020	(5,731)
Dividends received	(957)	(200)
Additional investments	87,126	5,925
Sale of investments	(15,740)	–
Other	(1,196)	(2,083)
Ending investment	$154,189	$80,936

At December 29, 1985, the unamortized excess of the company's investments over its equity in the underlying net assets of its affiliates at date of acquisition was $59,500,000, which is being amortized over periods of up to 40 years. Amortization included in equity in earnings of affiliates for the years ended December 29, 1985, December 30, 1984, and January 1, 1984, was $2,200,000, $1,800,000 and $900,000, respectively.

C. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at December 29, 1985 and December 30, 1984 consist of the following (in thousands):

	1985	*1984*
Accounts payable and accrued expenses	$ 69,537	$56,898
Accrued payroll and related benefits	20,497	22,007
Film contracts payable	12,070	8,789
Contributions due employee benefit trust funds	391	4,174
Due to affiliates (newsprint)	4,707	5,808
	$107,202	$97,676

D. Income Taxes

The provision for income taxes consists of the following components (in thousands):

	Current	Deferred
1985		
U.S. Federal	$ 84,881	$ 3,880
Foreign	767	382
State and local	16,856	407
	$102,504	$ 4,669
1984		
U.S. Federal	$71,170	$(2,870)
Foreign	990	311
State and local	11,408	(752)
	$83,568	$(3,311)
1983		
U.S. Federal	$53,886	$ 1,122
Foreign	716	348
State and local	10,406	(253)
	$65,008	$ 1,217

Deferred taxes are attributable to the following (in thousands):

	1985	1984	1983
Tax depreciation in excess of depreciation for financial reporting purposes	$4,471	$ 3,095	$ 4,590
Deferral of investment tax credits for financial reporting purposes	51	(554)	(1,103)
Other	147	(5,852)	(2,270)
	$4,669	$(3,311)	$ 1,217

The provision for income taxes exceeds the amount of taxes determined by applying the U.S. Federal statutory rate of 46 percent to income before income taxes as a result of the following (in thousands):

	1985	1984	1983
U.S. Federal income taxes at 46 percent of income before income taxes	$101,860	$76,426	$61,925
State and local taxes net of Federal income tax benefit	9,322	5,755	5,483
Amortization of goodwill not deductible for tax purposes	1,016	852	683
Foreign income taxes netted in equity in earnings of affiliates	(2,612)	(1,199)	(892)
Other	(2,413)	(1,577)	(974)
Provision for income taxes	$107,173	$80,257	$66,225

E. Debt

Long-term debt of the company as of December 29, 1985 and December 30, 1984, is summarized as follows (in thousands):

	1985	1984
6.95 percent unsecured promissory notes due 1986-1987	$ 6,250	$ 8,500
Unsecured promissory note due in one year	30,000	—
10.68 percent unsecured promissory notes due 1991-1994	100,000	—
10.875 percent unsecured Eurodollar notes due 1995	15,000	—
Unsecured short-term notes supported by credit agreements with banks	122,382	—
Other	1,192	—
Less amounts included in current liabilities	(52,432)	(2,250)
	$222,392	$ 6,250

The company has two credit agreements, each with a group of banks. One agreement permits borrowings of up to $250,000,000 until December 31, 1987, and lesser amounts thereafter until the commitment expires on January 1, 1992. The other agreement permits borrowings of up to $100,000,000 until December 31, 1988, and lesser amounts thereafter until January 1, 1993, when the commitment expires. Interest rates on borrowings under these credit agreements are no greater than the floating prime rate. During the commitment period, a fee is payable on the unused portion of the permitted borrowings. At December 29, 1985 there were no outstanding borrowings under these agreements.

The agreements relating to the promissory notes and the credit agreements include restrictive provisions which principally pertain to limits on indebtedness, the payment of dividends and the redemption or purchase of the company's capital stock. At the end of 1985 retained earnings unrestricted by these provisions were $123,000,000.

During 1985 the company issued unsecured short-term notes supported by bank credit agreements. The average daily borrowings were $68,200,000 at a weighted average cost of 8.5 percent. The maximum borrowings outstanding at the end of any period during 1985 were $123,500,000. There were no such borrowings during 1983 and 1984.

At December 29, 1985, the company's outstanding short-term notes were classified as currently payable to the extent that the company anticipates retiring the debt during 1986 and as long-term to the extent that the company expects to refinance these obligations for at least one year through the use of similar instruments or long-term financing.

In connection with the cable acquisition on January 3, 1986 (see Note I), shortly after the close of its fiscal year 1985 the company incurred additional indebtedness represented by two unsecured promissory notes due in one year in the aggregate amount of $100 million. The average interest rate on the indebtedness represented by these two notes and a $30 million note outstanding at the end of fiscal year 1985 was 8.5 percent. In addition, early in fiscal year 1986 the company issued additional short-term notes totaling $55 million.

The Eurodollar offering provided for an additional $85 million to be borrowed by the company on April 30, 1986, at the same interest rate and with the same maturity as previously noted. In February 1986 the company reacquired $14.8 million of the already issued notes and reduced the $85 million commitment to $1.2 million.

Annual maturities of long-term debt based on existing loan repayment schedules are $4,000,000 in 1987, $25,000,000 in each of the years 1991-1994 and $15,000,000 in 1995.

F. Capital Stock, Stock Options and Stock Awards

Capital Stock. Each share of Class A common stock and Class B common stock participates equally in dividends. The Class B stock has limited voting rights and as a class has the right to elect 30 percent of the board of directors; the Class A stock has unlimited voting rights including the right to elect a majority of the board of directors.

Stock Options. In 1971 the company adopted a Stock Option Plan and reserved 1,400,000 shares of Class B common stock for options to be granted under the plan. The purchase price of the shares covered by an option must be equal to their fair market value on the granting date. At December 29, 1985, there were 194,200 shares reserved for issuance under the Stock Option Plan. Of this number 30,000 shares were subject to options outstanding and 164,200 shares were available for future grants. Changes in the options outstanding for the years ended December 29, 1985, and December 30, 1984, were as follows:

	1985		*1984*	
	Number of Shares	*Average Option Price*	*Number of Shares*	*Average Option Price*
Beginning of year	30,500	$ 25.10	52,500	$17.37
Granted	1,500	121.50	—	—
Exercised	(2,000)	20.25	(22,000)	6.65
Cancelled	—	—	—	—
End of year	30,000	30.25	30,500	25.10

Of the shares covered by options outstanding at the end of 1985, 28,500 are now exercisable and 375 will become exercisable in each of the years 1986 through 1989.

Stock Awards. In 1982 the company adopted a Long-Term Incentive Compensation Plan which, among other provisions, authorizes the awarding of stock to key employees. Stock awards made under the Incentive Compensation Plan are subject to the general restriction that stock awarded to a participant will be forfeited and revert to company ownership if the participant's employment terminates before the end of a specified period of service to the company. 275,000 shares of Class B common stock were reserved for stock awards to be made under the Incentive Compensation Plan. Activity related to stock awards for the years ended December 29, 1985, and December 30, 1984, was as follows:

	1985		*1984*	
	Number of Shares	*Average Award Price*	*Number of Shares*	*Average Award Price*
Beginning of year	76,870	$41.12	82,482	$40.06
Awarded	29,500	79.16	3,524	71.54
Vested	(44,861)	31.73	—	—
Forfeited	(1,498)	77.40	(9,136)	43.26
End of Year	60,011	66.12	76,870	41.12

For the shares outstanding at December 29, 1985, the aforementioned restriction will lapse in January 1986 for 413 shares, in January 1987 for 31,241 shares and in January 1989 for 27,996 shares; 361 shares outstanding at December 29, 1985, were forfeited in January 1986.

Average Number of Shares Outstanding. Earnings per share are based on the weighted average number of shares of common stock outstanding during each year, adjusted for the dilutive effect of shares issuable under outstanding stock options. The average number of shares considered outstanding was 13,194,000 for 1985, 14,050,000 for 1984, and 14,195,000 for 1983.

G. Retirement Plans

The company and its subsidiaries have various pension and incentive savings plans and in addition contribute to several multi-employer plans on behalf of certain union-represented employee groups. Substantially all of the company's employees including some located in foreign countries are covered by these plans. Total expense for these plans was $8,500,000 for 1985, $13,900,000 for 1984 and $12,300,000 for 1983. A change during 1985 in the actuarial assumptions used in computing pension expense had the effect of reducing pension expense by approximately $5,000,000.

The costs for the company's defined benefit pension plans are actuarially determined and include amortization of prior service costs over various periods, generally not exceeding 20 years. The company's policy is to fund the costs accrued for its defined benefit plans. In 1985, 1984 and 1983, however, the company funded amounts less than the costs accrued for certain plans. The accumulated plan benefits, assuming an 8 percent rate of return, and plan net assets for the company's domestic defined benefit plans as of January 1, 1985 and 1984, the most recent valuation dates, were as follows (in thousands):

	1985	*1984*
Actuarial present value of accumulated plan benefits		
Vested	$ 41,310	$ 34,591
Nonvested	7,332	7,373
	$ 48,642	$ 41,964
Net assets available for benefits	$155,268	$128,681

The costs of unfunded pension plans are charged to expense when accrued. The company's liability for such plans, which is included in "Other Liabilities" in the Consolidated Balance Sheets, was $16,100,000 at December 29, 1985 and $14,400,000 at December 30, 1984.

In addition to providing pension benefits, the company and its subsidiaries have certain health care and life insurance plans that include retired employees who have reached retirement age while employed by the company. Retiree participation in these plans as a percentage of total participation approximated 8 percent for the life insurance plan in both 1985 and 1984, and 9 percent and 11 percent for 1985 and 1984, respectively, for the medical plan. The cost of these plans, which is charged to expense as premiums are paid or trust contributions are made, was approximately $13,000,000 for 1985 and $11,700,000 for 1984.

H. Leases

Total rental expense included in operating costs and expenses was approximately $14,300,000 for 1985, $11,900,000 for 1984, and $11,600,000 for 1983. As of December 29, 1985, minimum future rentals under non-cancelable leases, principally all for real estate, were as follows (in thousands):

1986	$ 9,845
1987	8,684
1988	7,968
1989	6,993
1990	5,487
Thereafter	19,460
	$58,437

Included in the rentals above is $3,800,000 per year related to a real estate lease which expires in 1994, but may be renewed for an additional fifteen-year period at the option of the company at an amount to be negotiated.

I. Acquisitions and Dispositions

In January 1985 the company sold a portion of its interest in each of the cable sports programming businesses, reducing its respective interests in SportsChannel Associates, SportsChannel Prism Associates, and SportsChannel Chicago Associates to about 33⅓ percent and its interest in SportsChannel New England to 16⅔ percent. During 1985 the company also sold its interests in Interstate Mobilephone Company located in the Pacific Northwest and in four Connecticut cellular companies. The effect of these transactions before giving effect to taxes of $7,036,000 was a gain of $19,304,000 which amount is included in "Other Income (Expense), Net" in the Consolidated Statement of Income for 1985. These gains increased earnings per share by $.93.

On December 31, 1984, the company acquired the assets of Stanley H. Kaplan Educational Centers which operates educational centers throughout the United States. The transaction, which was not significant to the company's financial position, was financed with existing working capital.

On January 3, 1986, the company completed its acquisition of 53 cable television systems and certain related properties by purchasing virtually all of the outstanding stock of eight subsidiaries of Capital Cities Communications, Inc., for an aggregate cash purchase price of approximately $350 million, which was financed through borrowings. The acquired systems will function as a division of the company and will operate as Post-Newsweek Cable. The systems currently have approximately 360,000 subscribers in 15 midwestern, western and southern states. The transaction will be accounted for as a purchase and the results of operations of the systems will be included with those of the company for periods subsequent to the date of acquisition.

The following statements present the company's pro forma condensed consolidated balance sheet at December 29, 1985, as if the acquisition had occurred on that date and the pro forma condensed consolidated income statement for the year then ended as if the acquisition and the required borrowings had occurred at the beginning of the year. Amounts reflect a preliminary allocation of the purchase price to the acquired net tangible assets, with the excess being amortized over periods of 12 to 40 years. The revenues and results of operations presented in the pro forma income statement do not necessarily reflect the results of operations that might have been attained had the acquisition actually occurred at the beginning of the year.

Pro Forma Consolidated Balance Sheet
December 29, 1985

	Company	*Cable*	*Adjustments*	*Combined*
Current Assets	$359,174	$8,527	$(190,083)	$177,618
Property, Plant and Equipment	219,310	122,643	857	342,810
Other Assets	306,595	79,109	156,811	542,515
Total Assets	885,079	210,279	(32,415)	$1,062,943
Less:				
Current Liabilities	156,720	15,119		171,839
Long-Term Debt	222,392	4,125	155,000	381,517
Other Liabilities	156,419	3,620		160,039
Total Liabilities	535,531	22,864	155,000	713,395
Shareholders' Equity	$349,548	$187,415	$(187,415)	$349,548

Pro Forma Income Statement
For the Year Ended
December 29, 1985

	Company	*Cable*	*Adjustments*	*Combined*
Operating Revenues	$1,078,650	$78,032		$1,156,682
Net Income	114,261	2,600	$(21,868)	94,993
Earnings per Share	$8.66			$7.20

J. Commitments and Contingencies

The company is a member of several partnerships which are licensed to operate cellular radiotelephone systems in the Baltimore/Washington, Detroit and Miami areas; the company's interests in these partnerships range from 18 to 60 percent. In addition the company has small partnership interests in three other systems in Florida. The company's financial commitment with respect to these licenses will be satisfied with available funds.

In connection with its investments in new businesses, the company has guaranteed the repayment of certain borrowings and, in addition, may be required to pay additional amounts if the businesses achieve specified levels of performance. These amounts are not significant to the company's financial position at December 29, 1985.

The company is a party to various civil lawsuits, including libel actions, arising in the ordinary course of business. In the opinion of management, the company carries adequate liability insurance against such libel actions, and the company is not presently a party to any other material litigation.

K. Business Segments

The company has operated principally in three areas of the communications industry: newspaper publishing, magazine publishing and television broadcasting.

Newspaper operations primarily involve the publication of newspapers in Washington, D.C., and Everett, Washington, and a newsprint warehousing facility. Magazine publishing operations consist of the publication of a weekly news magazine, Newsweek, which has one domestic and three international editions. Revenues from both newspaper and magazine publishing operations are derived from advertising and, to a lesser extent, from circulation.

Broadcast operations are conducted primarily through four VHF television stations. All stations are network affiliated with revenues derived primarily from sales of advertising time. Broadcast operations in 1983 also included video production.

"Other Businesses" include the operations of a database publishing company, educational centers engaged in preparing students for admissions tests and licensing examinations, and a cellular radiotelephone system in Miami, Florida. The last two were either acquired or became operational in 1985.

Income from operations is the excess of operating revenues over operating expenses including corporate expenses which are allocated to operations of the segments. In computing income from operations by segment, the effects of equity in earnings of affiliates, interest income, interest expense, other income and expense items and income taxes are not included. Development costs in 1983 and 1984 relate to the company's applications for licenses to operate cellular radiotelephone systems, and in 1985 relate primarily to a new magazine effort.

Identifiable assets by segment are those assets used in the company's operations in each business segment. Investments in affiliates are discussed in Note B. Corporate assets are principally cash and temporary investments.

	Newspaper Publishing	Magazine Publishing	Broadcast	Other Businesses	Consolidated
1985					
Operating revenues	$556,070	$326,053	$154,513	$42,014	$1,078,650
Income from operations	$114,477	$ 29,064	$ 57,945	$ 3,668	$ 205,154
Development costs					(968)
Total income from operations					204,186
Equity in earnings of affiliates					4,020
Interest expense					(9,685)
Other income, net					22,913
Income before income taxes					$ 221,434
Identifiable assets	$228,958	$ 91,866	$146,181	$50,662	$ 517,667
Investments in affiliates					154,189
Corporate assets					213,223
Total assets					$ 885,079
Depreciation and amortization of property, plant and equipment	$ 12,717	$ 4,686	$ 5,714	$ 1,653	$ 24,770
Amortization of goodwill and other intangibles	$ 534		$ 664	$ 1,609	$ 2,807
Capital expenditures	$ 16,188	$ 9,731	$ 9,205	$ 8,469	$ 43,593

	Newspaper Publishing	Magazine Publishing	Broadcast	Consolidated
1984				
Operating revenues	$516,648	$331,614	$136,041	$ 984,303
Income from operations	$ 94,604	$ 22,048	$ 50,813	$ 167,465
Development costs				(1,170)
Total income from operations				166,295
Equity in earnings of affiliates				(5,731)
Interest expense				(1,792)
Other income, net				7,371
Income before income taxes				$ 166,143
Identifiable assets	$225,064	$ 80,737	$140,205	$ 446,006
Investments in affiliates				80,936
Corporate assets				118,858
Total assets				$ 645,800
Depreciation and amortization of property, plant and equipment	$ 12,323	$ 4,250	$ 5,167	$ 21,740
Amortization of goodwill and other intangibles	$ 1,587		$ 664	$ 2,251
Capital expenditures	$ 11,785	$ 13,448	$ 8,360	$ 33,593

	Newspaper Publishing	Magazine Publishing	Broadcast	Consolidated
1983				
Operating revenues	$455,666	$302,241	$119,807	$ 877,714
Income from operations	$ 78,872	$ 15,327	$ 39,446	$ 133,645
Development costs				(1,230)
Total income from operations				132,415
Equity in earnings of affiliates				399
Interest expense				(2,725)
Other income, net				4,530
Income before income taxes				$ 134,619
Identifiable assets	$218,958	$ 63,563	$123,489	$ 406,010
Investments in affiliates				83,025
Corporate assets				81,641
Total assets				$ 570,676
Depreciation and amortization of property, plant and equipment	$ 11,912	$ 2,921	$ 5,247	$ 20,080
Amortization of goodwill and other intangibles	$ 1,549		$ 664	$ 2,213
Capital expenditures	$ 4,695	$ 11,243	$ 5,638	$ 21,576

L. Summary of Quarterly Operating Results (Unaudited)

Quarterly results of operations for the years ended December 29, 1985 and December 30, 1984 are as follows (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1985				
Operating revenues	$243,590	$284,302	$259,377	$291,381
Income from operations	25,774	67,813	45,540	65,059
Net income	24,927	34,817	21,983	32,534
Earnings per share	$1.78	$2.66	$1.71	$2.53
Average number of shares outstanding	14,034	13,070	12,837	12,837

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1984				
Operating revenues	$219,539	$256,109	$225,046	$283,609
Income from operations	21,093	52,658	28,254	64,290
Net income	9,051	27,154	15,061	34,620
Earnings per share	$.64	$1.94	$1.08	$2.47
Average number of shares outstanding	14,181	14,008	14,006	14,004

During the last three quarters of 1985 the company acquired stock of Cowles Media Company and, in December, attained 20 percent of the outstanding voting stock. Therefore, the equity method of accounting was adopted during the fourth quarter of 1985 and in accordance with Accounting Principles Board Opinion No. 18, second and third quarter results for 1985 have been restated from previously reported results to reflect the retrospective adoption of the equity method of accounting. Amounts restated were not significant to the quarterly results of operations.

The sum of the earnings per share for the four quarters differs from the annual earnings per share as a result of computing the quarterly and annual amounts on the weighted number of shares outstanding in the respective periods in accordance with Accounting Principles Board Opinion No. 15.

M. Information on Inflation and Changing Prices (Unaudited)

In accordance with the requirements of Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices," the company has prepared supplementary information which provides calculations illustrating the effects of inflation and changing prices on certain phases of the company's operations. The information presented is necessarily based on numerous assumptions and estimates which required subjective judgments, and therefore should not be viewed as precise data. The differences between these data and historical data do not represent increases or decreases in the company's book value.

The information in the tables that follow attempts to estimate what the cost of the company's existing inventories and property, plant and equipment, and related costs and expenses would be at end-of-year prices. Indexation using specific industry indices and specific pricing using current prices and appraisals were used in estimating these amounts. These amounts do not consider technological improvements and efficiencies which normally are associated with the replacement of productive capacity.

Consolidated Statement of Income Adjusted for Changing Prices for the Year Ended December 29, 1985
(In thousands, except per share amounts)

	As Reported In Financial Statements (Historical Cost)	*Adjusted for Changes in Specific Prices (Current Cost)*
Operating revenues	$1,078,650	$1,078,650
Cost and expenses		
Operating	625,778	627,302
Selling, general and administrative	221,109	221,109
Depreciation and amortization of property, plant and equipment	24,770	27,530
Amortization of goodwill and other intangibles	2,807	2,807
	874,464	878,748
Income from operations	204,186	199,902
Other income, net	17,248	17,248
Income before taxes	221,434	217,150
Provision for income taxes	107,173	107,173
Net income	$ 114,261	$ 109,977
Earnings per share	$ 8.66	$ 8.34
Increase in specific prices of inventories and property, plant and equipment		$ 14,168
Less effect of increase in general price level		11,538
Excess of increase in specific prices over increase in general price level		$ 2,630

The cost of newsprint and magazine paper included in operating costs and expenses was calculated using the same methods used in the historical financial statements. Depreciation and amortization of property, plant and equipment were calculated generally using the same methods and rates of depreciation used in the financial statements. In accordance with the requirements of Statement No. 33, income taxes were not adjusted for the effects of the resulting changes in operating costs and expenses and depreciation and amortization of property, plant and equipment. Operating revenues, all other operating costs and expenses and other income, net, were assumed to reflect the average price levels for the year as allowed under Statement No. 33, and accordingly have not been adjusted.

The increase in specific prices of inventories and property, plant and equipment over the increase in general price level is determined by calculating the change in the balance of inventories and property, plant and equipment, stated at current cost, between years and removing that aspect of the change which is related to general inflation as measured by the Consumer Price Index for all Urban Consumers. In 1985 the increase in specific prices of inventories and property, plant and equipment in excess of the increase in general price level is the result of increases in the current cost of production-related equipment which exceeded the 3.6 percent increase in general price level.

Five-Year Comparison of Selected Financial Data Adjusted for Changing Prices

(In thousands, except per share amounts)

	1985	*1984*	*1983*	*1982*	*1981*
Net income					
As reported	$114,261	$ 85,886	$68,394	$52,413	$32,710
In current cost 1985 dollars	109,977	85,355	68,972	54,605	30,688
Earnings per share					
As reported	$ 8.66	$ 6.11	$ 4.82	$ 3.70	$ 2.32
In current cost 1985 dollars	8.34	6.08	4.86	3.85	2.19
Gain (loss) from change in purchasing power of net monetary position	$ 237	$ (1,848)	$ (991)	$ 628	$ 3,028
Excess of increase in specific prices of inventories and property, plant and equipment over increase in general price level	$ 2,630	$(22,381)	$(5,128)	$ 6,871	$(3,122)
Cash dividends per share					
As reported	$ .96	$ .80	$ .66	$ .56	$ .50
In constant 1985 dollars	.96	.83	.71	.62	.59
Market price per common share at year end					
Historical amount	$ 118.75	$ 80.25	$ 73.25	$ 55.25	$ 31.38
In constant 1985 dollars	116.86	81.93	77.76	60.88	35.92
Average consumer price index	322.2	311.1	298.4	289.1	272.4

The gain or loss from change in purchasing power of the net monetary position was determined by calculating the difference between the company's net monetary positions at the beginning and end of the year, both amounts stated in average 1985 dollars. The calculations attempt to represent the effect of holding net monetary assets which lose purchasing power or net monetary liabilities which gain purchasing power during an inflationary period.

The current cost amounts of net monetary items, inventories and property, plant and equipment net of accumulated depreciation, stated in average 1985 dollars, and other net items, and corresponding historical cost amounts were as follows (in thousands):

	December 29, 1985[*]		*December 30, 1984*	
	Historical Cost	*Current Cost*	*Historical Cost*	*Current Cost*
Net monetary items	$(84,511)	$(83,169)	$ 52,839	$ 53,944
Inventories	19,185	18,300	14,544	17,230
Property, plant and equipment, net	219,310	308,264	191,072	290,978
Other net items	195,564	195,564	121,672	121,672
Net assets	$349,548	$438,959	$380,127	$483,824

[*] At December 29, 1985 the current cost of inventories was $18,595,000 and the current cost of property, plant and equipment net of accumulated depreciation was $313,239,000.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
The Washington Post Company

In our opinion, based upon our examinations and the reports of other independent accountants referred to below, the consolidated financial statements appearing on pages 33 through 37 present fairly the financial position of The Washington Post Company and its subsidiaries at December 29, 1985 and December 30, 1984 and the results of their operations and the changes in their financial position for each of the three fiscal years in the period ended December 29, 1985, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the company's newsprint manufacturing affiliates which are summarized in Note B. These statements were examined by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these affiliates, is based solely upon the reports of the other independent accountants.

Price Waterhouse

Washington, D.C.
February 4, 1986

TEN-YEAR SUMMARY OF SELECTED FINANCIAL DATA

See Notes to Consolidated Financial Statements for the summary of significant accounting policies and additional information relative to the years 1983-1985. Share and per share data have been restated to give effect to two-for-one stock splits on December 29, 1978 and December 15, 1976.

(In thousands, except per share amounts)	1985	1984	1983
RESULTS OF OPERATIONS			
Operating revenues	$1,078,650	$984,303	$877,714
Income from operations	$ 204,186	$166,295	$132,415
Income before cumulative effect of change in method of accounting	$ 114,261	$ 85,886	$ 68,394
Cumulative effect on years prior to 1979 of change in method of accounting for magazine subscription procurement costs	—	—	—
Net income	$ 114,261	$ 85,886	$ 68,394
PER SHARE AMOUNTS			
Earnings per share			
Income before cumulative effect of change in method of accounting	$ 8.66	$ 6.11	$ 4.82
Cumulative effect on years prior to 1979 of change in method of accounting for magazine subscription procurement costs	—	—	—
Net income	$ 8.66	$ 6.11	$ 4.82
Cash dividends	$ .96	$ .80	$ .66
Shareholders' equity	$27.26	$27.17	$22.50
AVERAGE NUMBER OF SHARES OUTSTANDING	13,194	14,050	14,195
FINANCIAL POSITION			
Current assets	$ 359,174	$218,559	$190,616
Working capital	202,454	105,016	81,846
Property, plant and equipment	219,310	191,072	181,333
Total assets	885,079	645,800	570,676
Long-term debt	222,392	6,250	8,500
Shareholders' equity	349,548	380,127	318,890
PRO FORMA AMOUNTS (See Notes)			
Net income	$ 101,993	$ 85,886	$ 68,394
Earnings per share	$ 7.73	$ 6.11	$ 4.82

Notes:

In 1979 the company changed its method of accounting for magazine subscription procurement costs. Pro forma amounts shown for the years 1976-1978 show what net income and earnings per share would have been if the current method for magazine subscription procurement costs had been in effect during those years. Additionally, pro forma amounts shown for 1976, 1978, 1981 and 1985 show what net income would have been without nonrecurring gains and losses from the sales of businesses as described below.

In 1978 and 1976 the company realized nonrecurring gains, mostly from the sales of two radio stations. The effect of these gains was to increase net income and earnings per share by $4,300,000 and $.27 for 1978 and by $1,800,000 and $.10 for 1976. In 1981 the company realized nonrecurring losses from the sale of its newspaper subsidiary in Trenton, New Jersey, its national television sales subsidiary and the company's magazine, Inside Sports. The effect of these losses was to decrease net income and earnings per share by $2,100,000 and $.15. In 1985 the company realized nonrecurring gains from the sales of portions of the company's SportsChannel and cellular telephone interests. The effect of these gains was to increase net income and earnings per share by $12,300,000 and $.93.

1982	1981	1980	1979	1978	1977	1976
$800,824	$753,447	$659,535	$593,262	$520,398	$436,102	$375,729
$ 98,106	$ 65,714	$ 65,513	$ 80,421	$ 89,190	$ 71,074	$ 49,045
$ 52,413	$ 32,710	$ 34,335	$ 42,999	$ 49,720	$ 35,469	$ 24,490
—	—	—	13,531	—	—	—
$ 52,413	$ 32,710	$ 34,335	$ 29,468	$ 49,720	$ 35,469	$ 24,490
$ 3.70	$ 2.32	$ 2.44	$ 2.75	$ 3.06	$ 2.09	$ 1.36
—	—	—	.86	—	—	—
$ 3.70	$ 2.32	$ 2.44	$ 1.89	$ 3.06	$ 2.09	$ 1.36
$ .56	$ .50	$ .44	$ .36	$ .30	$ .18	$ .125
$18.32	$15.17	$13.40	$11.56	$11.15	$ 8.59	$ 7.02
14,153	14,077	14,068	15,609	16,232	16,952	18,038
$170,658	$135,002	$126,070	$112,168	$119,468	$114,489	$100,919
62,342	34,030	41,615	36,615	53,813	58,114	44,828
181,982	171,301	152,109	93,734	67,674	63,476	58,753
501,223	458,197	429,103	357,949	328,517	278,574	259,000
10,750	23,000	43,586	17,550	19,930	22,300	29,550
258,843	213,393	187,270	164,782	177,414	140,377	123,392
$ 52,413	$ 34,817	$ 34,335	$ 42,999	$ 44,675	$ 33,394	$ 20,713
$ 3.70	$ 2.47	$ 2.44	$ 2.75	$ 2.75	$ 1.97	$ 1.15

CORPORATE DIRECTORY

Board of Directors

Katharine Graham (3)
Chairman of the Board
Chief Executive Officer

Richard D. Simmons (3)
President
Chief Operating Officer

Warren E. Buffett* (3)
Chairman, Berkshire Hathaway Inc.
(textiles, insurance)

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Publisher, The Washington Post

Nicholas deB. Katzenbach (2)
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(information-handling systems)

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(management consultants)

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Attorney

William J. Ruane (3)
Chairman of the Board, Ruane, Cunniff & Co., Inc.
(investment managers)

George W. Wilson (2)
Publisher, Concord Monitor

Committees of the Board of Directors:
(1) Audit Committee
(2) Compensation Committee
(3) Finance Committee

* Resigned January 3, 1986

Other Company Officers

Joel Chaseman
Vice President
President, Post-Newsweek Stations

Martin Cohen
Vice President—Finance and Treasurer

Mark M. Edmiston
Vice President
President, Newsweek

Alan R. Finberg
Vice President, General Counsel and Secretary

Ross F. Hamachek
Vice President—Planning and Development

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Gordon C. King, Jr.
Vice President

Guyon Knight
Vice President—Corporate Communications

Edward N. Van Gombos
Vice President—Information Systems

Howard E. Wall
Vice President
President, Post-Newsweek Cable

Stock Trading
The Washington Post Company Class B common shares are traded on the American Stock Exchange with the symbol WPOB.

Stock Transfer Agents and Registrars
Morgan Guaranty Trust Company of New York
Stock Transfer Department
30 West Broadway
New York, New York 10015

The Riggs National Bank of Washington, D.C.
Corporate Trust Division
Post Office Box 2651
Washington, D.C. 20013

Shareholder Inquiries
Communications concerning transfer requirements, lost certificates, dividends and changes of address should be directed to either transfer agent.

Form 10-K
The company's Form 10-K annual report to the Securities and Exchange Commission will be provided to shareholders upon written request to the Treasurer, The Washington Post Company, 1150 15th Street, N.W., Washington, D.C. 20071.

Annual Meeting
The annual meeting of stockholders will be held on Friday, May 9, 1986, at 9:00 a.m., at The Washington Post Company, 1150 15th Street, N.W., Washington, D.C. 20071.

Common Stock Prices and Dividends
The Class A common stock of the company is not traded publicly. The Class B common stock is listed on the American Stock Exchange, where the high and low sales prices during the last two years were as follows:

	1985		*1984*	
Quarter	*High*	*Low*	*High*	*Low*
January-March	$112	$ 77¾	$75¼	$60¾
April-June	130	110	78¼	66¼
July-September	124¼	112	84½	73¾
October-December	125½	101½	85	76

Both classes of common stock participate equally as to dividends. Quarterly dividends were paid at the rate of 24 cents per share in 1985 and 20 cents per share in 1984. At February 24, 1986, there were 16 Class A and 1,930 Class B shareholders of record.

Design: Invisions, Ltd.
Photography: William Coupon
Printing: Stephenson inc

The Washington Post Company
1150 15th Street, N.W.
Washington, D.C. 20071