THE WASHINGTON POST COMPANY ANNUAL REPORT 1988

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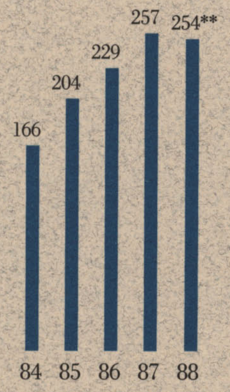
CONTENTS

FINANCIAL HIGHLIGHTS

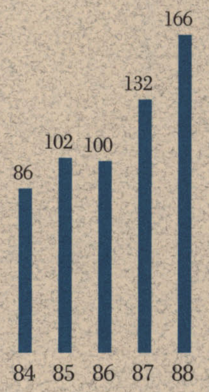
(In thousands, except per share amounts)	1988	1987	% Change
Operating revenues	$1,367,613	$1,315,422	+4%
Income from operations	$ 233,290	$ 257,073	−9%
Pro forma net income (excluding certain gains in 1988 and 1987 and one-time charges in 1988)	$ 166,059*	$ 132,434*	+25%
Pro forma earnings per share (excluding certain gains in 1988 and 1987 and one-time charges in 1988)	$ 12.90*	$ 10.30*	+25%
Dividends per share	$ 1.56	$ 1.28	+22%
Shareholders' equity per share	$ 67.50	$ 47.80	+41%
Average number of shares outstanding	12,873	12,861	—

*Excluding gains in 1988 and 1987 of $115.7 million ($8.99 per share) and $54.3 million ($4.22 per share), respectively, from the sales of remaining SportsChannel interests and cellular interests; and Newsweek restructuring costs in 1988 of $12.6 million ($.98 per share).

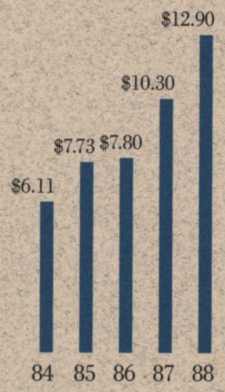
Operating Revenues
($ in millions)



Pro Forma Operating Income
($ in millions)
**Excluding the Newsweek restructuring charges



Pro Forma Net Income*
($ in millions)



Pro Forma Earnings Per Share*

Pro Forma Return on Average Shareholders' Equity*

*Excluding certain gains in 1988, 1987 and 1985 and one-time charges in 1988

1988 was a year of solid performance and significant investment for the future.

Pro forma net income—reflecting a substantial improvement in net interest income and a lower effective tax rate—rose 25 percent to $166 million ($12.90 per share), from $132 million ($10.30 per share) in 1987. These figures do not include nonrecurring gains of $54 million in 1987 and $116 million in 1988 from the sales of cellular telephone and SportsChannel interests, which were discussed in last year's annual report. Also excluded from 1988 pro forma results are Newsweek restructuring charges of $13 million.

Revenue for 1988 totaled $1.4 billion, a 4 percent increase over $1.3 billion in 1987.

Total return on average shareholders' equity (excluding nonrecurring items) was 25.1 percent, compared with 26.6 percent the previous year.

The annual dividend rate was raised on January 12, 1989, to $1.84 per share, from $1.56 per share.

■ Newspaper division operating income declined 3 percent to $141 million, from $145 million in 1987. Newsprint costs, which rose by $16 million, or 13 percent, over the previous year, were a major factor in the decrease. The Post also absorbed one-time payments in connection with settling its mailroom contract and completing 29 composing room buyouts, both of which represent important investments for future growth.

The mailroom contract gives The Post manning authority as well as the ability to introduce new technology. This year's buyouts reduce the composing room staff to 252 compared with 473 ten years ago, a 47 percent decline.

In a soft market for newspaper advertising nationwide, The Post performed well. Advertising inches increased 2 percent, with one less week in 1988 than in 1987. Post advertising revenue was up 6 percent to $535 million. Except for national advertising, all categories registered gains.

Circulation also continued to grow. For the latest 12-month reporting period, daily circulation rose 1.5 percent to 789,665 from 778,044—the third year in a row our increase surpassed 10,000. Sunday circulation climbed 1.6 percent to 1.1 million. In the most recent reporting period, half the top ten newspapers reported circulation declines.

Circulation growth enabled The Post to maintain high market penetration. Average primary-market penetration is now 55 percent daily and 74 percent on Sunday. By comparison, the average penetration rate for other newspapers in the top ten markets is 22 percent daily and 29 percent on Sunday.

The Post continued to strengthen its local coverage, opening two additional suburban news bureaus in 1988. Once again The Post met readers' expectations for exceptional political reporting, especially in an election year. Distinguished reporting from the Soviet Union highlighted The Post's foreign coverage. Post television editor and chief television critic Tom Shales won The Post's 19th Pulitzer Prize.

The Herald, the company's daily and Sunday newspaper in Everett, Washington, enjoyed circulation and advertising growth.

■ Broadcast division operating income declined 8 percent in 1988 to $64 million, from $70 million in 1987. This year's results reflect a pre-tax charge of $7 million to write down syndicated programming that underperformed expectations. Excluding this charge, broadcast results were slightly ahead of 1987—a better performance than achieved by most in the industry.

A soft advertising market, particularly in Detroit, held revenue growth to 5 percent. The splintering of the television marketplace also was a factor. In addition, buyouts and consolidations among some major national advertisers had an adverse impact on revenue.

Fortunately WPLG, our ABC affiliate in Miami, had an outstanding year. Moreover, all of our stations again ranked number one in their markets, sign-on to sign-off, in the November ratings sweeps. This remains a signal accomplishment as three networks are represented in our group. Ratings strength gives us leverage for future growth.

■ Cable division operating income increased 15 percent in 1988 to $20 million, from $18 million the previous year. Cable cash flow was $51 million, up

19 percent from $43 million in 1987 and up 69 percent from $30 million at the end of 1985, shortly before we acquired our cable division.

The number of basic subscribers rose 4 percent to 402,000, from 385,000 in 1987. About 3,000 of the new subscribers were acquired through the purchase of a cable system in Bisbee, Arizona, in July.

Division revenue rose 17 percent to $115 million, from $99 million in 1987. Concerted marketing efforts produced an 8 percent increase in pay cable revenue to $30 million. Pay-per-view continued to grow at an accelerated pace, contributing about $1 million in revenue. Half of Post-Newsweek Cable's subscribers now have access to pay-per-view. Cable advertising revenue rose to $3 million, a 41 percent gain over 1987.

Post-Newsweek was awarded cable franchises by the Chicago suburbs of Glencoe and Winnetka, Illinois. We will spend about $5 million in 1989 to construct systems in newly awarded franchise areas, which will be serviced from our existing cable operation in Highland Park.

■ Newsweek had an excellent year. Operating income before restructuring charges rose 32 percent to $20 million, from $15 million in 1987.

A dramatic improvement in Newsweek International results was a major factor in the gain. Ad pages in the Atlantic, Pacific and Latin America editions rose 25 percent as all three editions enjoyed a strong year. International benefited from general global economic growth and increased advertising as clients prepare for the anticipated 1992 elimination of trade barriers in the European Economic Community. The cost control measures undertaken by Newsweek International in previous years produced good results as well.

The domestic edition of Newsweek also had a successful year. Circulation reached the highest levels in Newsweek's history, climbing 2.3 percent to 3,262,900. Significantly, these gains were achieved without the use of costly electronic premiums, thereby maximizing circulation's profit contribution.

Newsweek's editorial quality lies at the heart of this performance. Newsweek earned three National Magazine Award nominations in 1988, including General Excellence. Election coverage, in particular, gave readers a refreshing view of the long and negative campaign.

Hindered by a weak market for national advertising, domestic advertising pages declined 2 percent. Although cigarette and hard liquor advertising

Katharine Graham
Chairman of the Board

Richard D. Simmons
President

accounted for only 293 ad pages this year, versus 1,000 a decade ago, Newsweek has been able to attract several new categories of advertising that had not previously appeared in newsweeklies.

Newsweek carried out restructuring activities to position itself for today's more rigorous environment. A voluntary early-retirement program was accepted by approximately 70 long-time employees. In addition, several business departments began moving from New York to Newsweek's new facility in Mountain Lakes, New Jersey. Newsweek hopes through these and other steps to be producing annual pre-tax savings of approximately $12 million by 1990.

■ Stanley H. Kaplan Educational Center posted superior growth in both revenue and student enrollments, which now exceed 110,000. Four new permanent centers opened in 1988.

■ Equity in earnings of affiliates rose 8 percent in 1988 to $19 million. Improved results from the company's newsprint affiliates were primarily responsible for the gain.

■ Several changes strengthened our management team. Diana M. Daniels, general counsel, was elected a vice president of the company. Alan Frank was appointed vice president and general manager of WDIV in Detroit. He had been Post-Newsweek Stations's vice president for programming and production. John Garwood rejoined Post-Newsweek Stations as vice president and general manager of WPLG in Miami. Steve Wasserman became vice president and general manager of WJXT in Jacksonville. He had been vice president/news and station manager of WPLG. At Newsweek, Gerard Smith, who was publisher, became vice chairman. Howard Smith was named publisher; he had been executive vice president.

■ Two directors, having reached the mandatory retirement age, will not stand for reelection at the annual meeting in May.

Arjay Miller has been a director ever since The Washington Post Company went public in 1971. His wise counsel, hard work and generous advice have contributed greatly to our success over the years. Our operating managers, too, have learned to depend on him for the kind of guidance that can result only from his blend of keen business intellect and broad experience.

Robert S. McNamara has been a director since 1981. In addition to the thoughtful perspective he brought to public issues, Bob McNamara challenged us to think creatively in business as well. In particular, he saw the opportunities of an expanding global market and how Newsweek International, especially, could capitalize on them.

We will miss both tremendously.

■ As we look ahead, we can't help but be concerned about the serious financial difficulties facing the United States. The budget and trade deficits not only undermine the country's ability to grow and compete, they also challenge our traditional faith in future progress—the core of the American spirit. The ever-growing mountain of business debt resulting from highly leveraged acquisitions looms large and ominous on the horizon as well.

Despite the dangers and uncertainties these developments portend for business, we are optimistic about The Washington Post Company's ability to grow. We are prepared to turn the unpredictable to our advantage. We believe the principles on which the company has long been managed—a commitment to quality, careful control of expenses and investment for the long term—will continue to serve us well. We anticipate a good year in 1989.

Sincerely,

Katharine Graham

Katharine Graham
Chairman of the Board

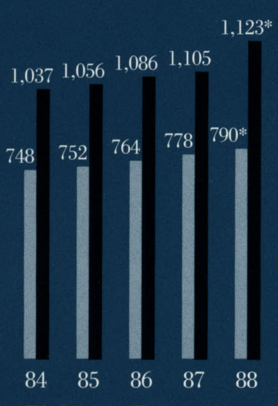
Richard D. Simmons
President

March 1, 1989

Operating Revenues
($ in millions)

Operating Income
($ in millions)

Washington Post Advertising Inches
(in millions)
Publisher's measurements



Washington Post Circulation (in thousands)
■ Daily ■ Sunday
*unaudited

■ ***The Washington Post*** continued to expand its suburban coverage, opening news bureaus in Loudoun County, Virginia, and Anne Arundel County, Maryland. The newspaper enhanced its Sports section with design improvements and more space.

■ ***Among the year's top stories,*** the scope and depth of the drug crisis in Washington were extensively reported by the local news staff. Coverage of the 1988 presidential election campaign included a six-part story on candidate George Bush and a series of essays by David Maraniss on Jesse Jackson. David Remnick's reporting from the Soviet Union captured the drama and tragedy of the Armenian earthquake. The Post's television critic, Tom Shales, won a Pulitzer Prize for his lively and incisive commentary.

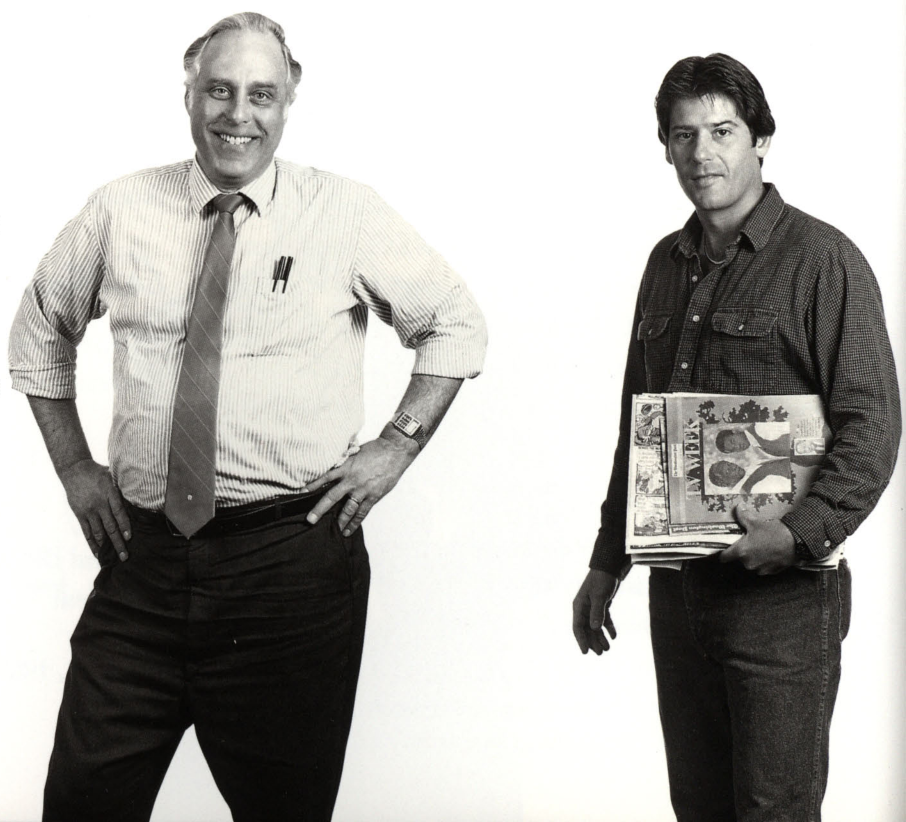
■ ***Circulation*** growth remained strong. For the 12-month period ending September 30, 1988, average daily circulation grew 1.5 percent to 789,665, and Sunday circulation advanced 1.6 percent to 1,122,579. In the past ten years, The Post's 12-month circulation has increased 34 percent daily and 38 percent Sunday.

■ ***Market penetration*** was 55 percent daily and 74 percent Sunday, the highest of any daily newspaper in the top ten U.S. markets.

■ ***Advertising*** grew to 5.9 million inches, from 5.8 million in 1987, an increase of 2 percent. Advertising revenue increased 6 percent to $535 million.

Some People Who Made a Difference in 1988

Robert L. Asher
Editorial Writer
Bob's daily editorials helped defeat a National Rifle Association-backed campaign to overturn Maryland's gun-control law. A 29-year Post veteran, Bob joined The Post as a copy aide. He later became a reporter and editor and now is the lead editorial writer on local issues.

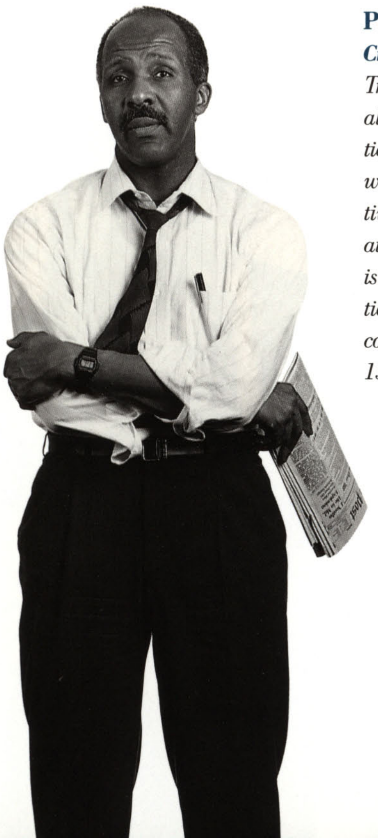


■ ***The Post's continuing success*** is in part a reflection of the strength and dynamism of the Washington metropolitan area. The market has enjoyed sustained population growth, along with robust expansion in employment, during the past decade. Although Washington ranks tenth among the nation's markets in population, it is first in average household income and in proportion of college graduates. Affluence and education have combined to create a level of purchasing power and broad-based demand for upscale products that leads the nation's largest markets. Sales and Marketing Management's 1988 Survey of Buying Power ranks Washington first in automotive sales, general merchandise sales and furniture, home furnishings and appliances sales. Attracted by the area's economic vitality, national retailers Macy's and Nordstrom have recently entered the market.

■ ***Production*** continued to make advances in both technological innovation and productivity. The Post is the first newspaper to have adapted a commercial binding machine, the collator, for inserting use. A mailroom labor contract settlement provided job guarantees in return for work-rule changes. Together, these initiatives have achieved 20 percent gains in productivity. A $22 million capital expenditure has been approved for additional facilities and automation improvements. Two additional collators will be acquired to achieve complete collator assembly of Sunday inserts, and transport between the warehouse and the collators will be mechanized through the use of automatically guided vehicles.

James D. Carroll
Mailroom Foreman, Springfield Plant
Jimmy was among the leaders of a mailroom/production team that brought the newspaper industry's first two preprint collators online, improving productivity in this key area by 20 percent. On average, Post collators handle over a million preprints per shift.

Milton Coleman
Assistant Managing Editor/ Metropolitan News
Milton heads the 150-person metropolitan news staff, the newsroom's largest. He led The Post's coverage of an area-wide drug crisis that fueled the deadliest year in the region's history. The Post's persistent, probing coverage found new ways to bring home to readers the pervasive threat of this growing crisis.



Patricia McCartney
Credit Manager
Trish led a staff that set all-time records in collection percentages in 1988, while retaining a sensitive, customer-conscious attitude. The credit unit is responsible for collections from over 35,000 commercial accounts and 130,000 other accounts.

■ ***Frank Havlicek*** joined The Post as vice president/industrial relations.

■ ***The Washington Post National Weekly Edition*** averaged circulation of 70,000 copies per week in the last six months of 1988, representing 11 percent growth over the previous year.

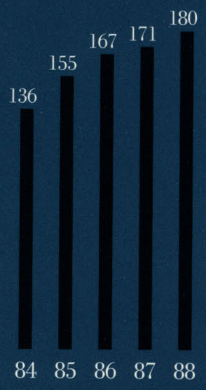
■ ***The Washington Post Writers Group*** had a good year. Television columnist Tom Shales, syndicated since 1981, joined George F. Will, David Broder, Ellen Goodman, Charles Krauthammer and Berke Breathed as Pulitzer Prize winners represented by the Writers Group.

■ ***The Herald,*** the company's daily and Sunday paper in Everett, Washington, enjoyed strong circulation growth. For the 12-month period ending September 30, 1988, daily circulation increased 1.7 percent to 56,217, and Sunday circulation grew 3.7 percent to 61,953. The diversity and breadth that lately have characterized economic growth in Snohomish County bode well, as employment at the Boeing Company's 747/767 manufacturing plant in Everett increased, and the county has become recognized as a preferred site for the development and manufacture of bio-medical products.

Vanita Morgan
Paperhandler Foreman, Northwest Plant
Vanita became the first woman foreman of The Post's paperhandlers department, an achievement she attributes to "learning all you can and being ready when the opportunities come your way." Paperhandlers bring 1,700-pound rolls of newsprint from storage up to the presses during press runs.

Janet Dean
Inserting Manager, The Herald
Under Janet's leadership, The Herald handled a 13 percent increase in inserts in 1988, while providing more zoning opportunities and better service to customers. Janet began working at The Herald in 1978 as a hand-inserter.

Robert Taylor
Vice President, Robinson Terminal Warehouse Corporation
In his 24 years of service, Robert has held just about every operational job at Robinson Terminal, beginning as a truck driver and working his way up to vice president. In 1988, Robert helped lead Robinson Terminal, The Post's newsprint handling and storage facility, to a record year.



Operating Revenues
($ in millions)

Operating Income
($ in millions)

Once again, the four Post-Newsweek stations led the ratings in their markets, sign-on to sign-off, for most of the year.

■ ***WDIV/TV4-Detroit*** completed its fourth straight year as the top-rated television station in Detroit and again was the highest-rated NBC affiliate in the country's top ten markets.

The year was focused on efforts toward increasing the station's position of leadership in the market. The early news block was re-formatted, with new sets and graphics added, resulting in a share gain of 24 percent. News 4 Nightbeat at 11:00 p.m. increased to four ratings points its winning margin. Important ratings gains also were made at 4:00 p.m., as "The Cosby Show," seen in syndication, boosted early fringe shares by 67 percent.

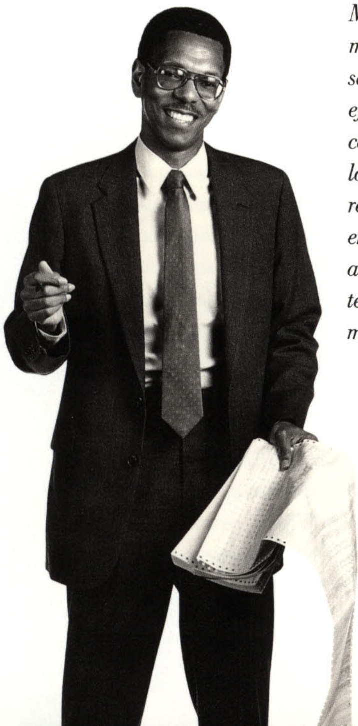
A marketing effort was launched promoting the station's personalities and showcasing WDIV's community involvement. A number of new programming ventures were created, and all were number one in their time periods. These stationwide events, all of which benefited local charities, proved to be successful both with viewers and advertisers.

Chris Rohrs became vice president/marketing and station manager. He had been vice president and general sales manager. Bob Warfield, vice president/news, took on the additional responsibility of director of broadcast operations.

■ ***WPLG/TV10-Miami*** finished its fourth consecutive year as the dominant South Florida television station. The level of competition skyrocketed as three VHF

Some People Who Made a Difference in 1988

Gary Corbitt
Research Director, WJXT, and Research Coordinator, Post-Newsweek Stations
A leader with a national reputation in the television research business, Gary was instrumental in developing and implementing the sophisticated marketing techniques that have achieved superior results for WJXT's sales department. His ability to project future ratings by analyzing past results has helped keep WJXT the dominant station in its market.



Michael T. Dorsey
Vice President/Sales & Marketing, WPLG
Mike and his management team guided the sales and marketing effort of WPLG to a record year in 1988. The local sales staff achieved record billing months several times during the year and the national sales team generated a record month in November.

stations in Miami changed ownership or affiliation. Through the attendant upheaval, WPLG strengthened its overall position in the market.

The WPLG sales team generated substantial new business, and WPLG finished the year ahead of projected revenue goals.

Eyewitness News at eleven o'clock in November marked its tenth anniversary as the market's number one news program. Channel 10 continued to be South Florida's choice for breaking news and big stories like the Democratic and Republican National Conventions, Election '88, the space shuttle Discovery mission, corruption in the Dade County jails, unsafe school buses and the Mafia moving into Broward County. WPLG investigative reports on the abuse and mistreatment of the elderly and children within Florida's Department of Health and Rehabilitative Services and the subsequent cover-up won the prestigious Investigative Reporters and Editors Award.

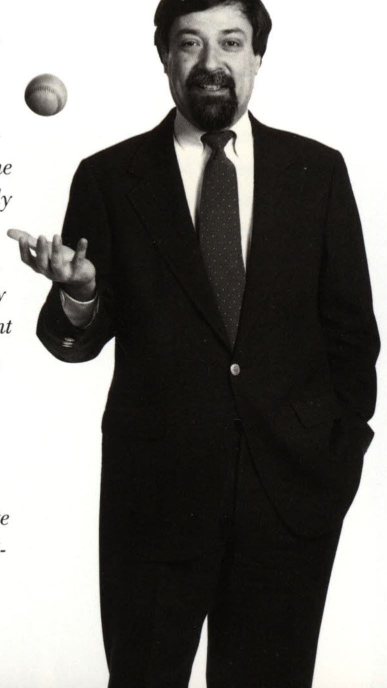
■ ***WFSB/TV3-Hartford*** continued to increase its leadership in the Hartford-New Haven market, strengthening its number one position sign-on to sign-off, in all local news periods and even prime time, despite CBS's third-place performance nationwide. WFSB also became the first station in Southern New England to close caption its local newscasts for the deaf and hearing-impaired.

WFSB's Vote/88 project took full advantage of the presidential election year by registering more than 10,400 new voters at traveling "Votervan" sessions held at fairs and shopping centers throughout Connecticut.

A number of WFSB photographers received national recognition for their videography and editing, and the station again dominated the local Emmy awards in Southern New England.

Mark Effron
News Director, WFSB
Mark has done an exceptional job in shaping the growth of all of WFSB's news programs and, with that effort, a commensurate increase in ratings. In addition to news, Mark has extended his effort and involvement to WFSB's local programming and community service projects.

Henry Maldonado
Program and Promotion Manager, WDIV
Henry took on the additional duties of promotion manager and led the department in creating a new look and theme for WDIV that effectively portray its strengths to viewers and advertisers. In programming, Henry helped develop important new local projects. One, "The First Pitch is for CATCH," uses the ball thrown in the Detroit Tigers' ceremonial first pitch throughout the state to raise money for hospitalized children.



■ ***WJXT/TV4-Jacksonville*** maintained its market share in 1988 as growth in the local economy began to slow and the competition for advertisers' dollars increased. National sales, fueled by election year political advertising, rebounded with the repeal of the Florida sales tax on services, including advertising. WJXT ended the year with an overall gain in revenues.

With strong local news and information programming, WJXT once again outperformed the competition in almost every key daypart. WJXT remains one of only a few stations in the United States with an unbroken average daily audience share of more than 30 percent.

In 1988, WJXT received the J.C. Penney-University of Missouri Television Award for Community Leadership for the one-hour Post-Newsweek documentary "Cut-rate Care: America's Daycare Gamble" and its 1987 community service campaign focusing on the nation's childcare crisis.

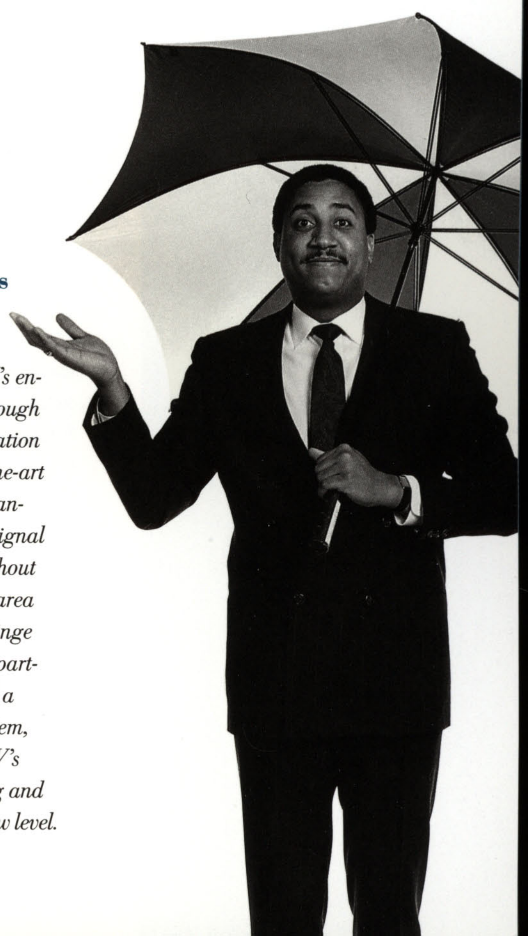
Groundbreaking for WJXT's new state-of-the-art broadcast facility is set for spring of 1989, following completion of a new 500-foot, self-supporting auxiliary tower on site. The building is expected to be ready for occupancy in about two years.

General sales manager Don Carmichael became vice president and general sales manager. Ann Pace was promoted to vice president/programming and director of promotion, from director of programming and promotion.

Ann Pace
Vice President/ Programming and Director of Promotion, WJXT
Doubling as programming and promotion director, Ann helped craft WJXT's dominant program schedule and revised on-air graphics. She has been the force behind some of the most creative and innovative promotion campaigns in the market. Ann is credited with turning reruns of old television series into "cult favorites" just by the way she promoted them.

Crystal Schuh
ENG Supervisor, WPLG
Crystal single-handedly coordinates and controls the multiple live shots and simultaneous satellite feeds that are a part of WPLG's daily newscasts. In addition, she and her staff are responsible for maintaining the electronic news-gathering equipment. Crystal's dedication to getting all of WPLG's news sources in their proper places at the appropriate times within each newscast is a superhuman effort.

Marcus Williams
Chief Engineer, WDIV
Marcus led WDIV's engineering team through the difficult installation of a new, state-of-the-art circular polarized antenna, improving signal penetration throughout WDIV's coverage area and reception in fringe areas. Marcus's department also installed a Doppler radar system, which raises WDIV's weather forecasting and presentation to a new level.



POST-NEWSWEEK CABLE

■ ***Basic subscribers*** grew to 401,698 at year-end 1988, representing 68 percent of homes passed and an increase of 16,533 from year-end 1987. Approximately 3,000 new subscribers were acquired in mid-year through the purchase of the Bisbee, Arizona, system. The remaining increase came from serving more homes within existing systems and extending service to adjacent areas previously unserved.

■ ***Pay units*** (individual premium services) increased 15,952 during the year to 273,480 at year-end 1988. Continued marketing emphasis on pay services contributed to an 8 percent rise in pay revenue in 1988 to $30.1 million. Virtually all Post-Newsweek Cable systems participate in several promotional campaigns each year with pay programmers, including HBO, Showtime and the Disney Channel.

■ ***Pay-per-view revenue,*** while still relatively small, is growing at a rapid rate. Pay-per-view offerings, including recent movies, boxing, wrestling and entertainment specials, contributed $954,000 to 1988 revenue, compared to $294,000 in 1987. Approximately half of Post-Newsweek Cable's subscribers are in systems that have access to addressable converters, which make pay-per-view possible. Both the number of pay-per-view events and the number of subscribers with addressable converters will increase in 1989.

Operating Revenues
($ in millions)

Operating Income
($ in millions)

Cable Cash Flow
($ in millions)

Basic Subscribers
(in thousands)

Some People Who Made a Difference in 1988

Sam Attolico
Manager,
Sooland Cablecom,
Sioux City, Iowa
Sam was instrumental in achieving an 11 percent reduction in operating expenses in 1988 through greater efficiency in operations, while simultaneously increasing customer satisfaction to an all-time high. This was the second year in the past three that cost reductions were achieved in the Sioux City system.

■ ***Advertising sales revenue*** rose to $3 million in 1988, up from $2.1 million in 1987. Spot advertising, introduced in 1985, is now sold in 24 PNC systems. Classified advertising also is being sold. High-resolution computer technology allows pictures and character-generated text to be blended together and sold on classified-ad channels. Real estate companies, automobile dealers and others have been enthusiastic advertisers.

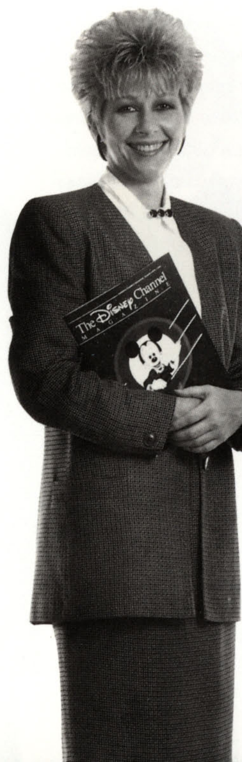
■ ***Capital expenditures*** decreased in 1988 to approximately $24 million, down from $27 million in 1987. System rebuilds were completed in Ponca City, Oklahoma, Dyersburg, Tennessee, and Cottonwood, Arizona, and are well underway in Miami, Oklahoma, and Kirksville, Missouri. Capital expenditures will decline after 1989 and will shift away from system rebuilds toward line extensions within existing systems. As the cost of acquiring cable subscribers has risen in recent years, line extensions to connect newly built homes are the most efficient means of subscriber acquisition.

■ ***Franchises*** were awarded to Post-Newsweek Cable in 1988 by the communities of Glencoe and Winnetka, Illinois, located in the northern suburbs of Chicago. Both cities will be served from the existing PNC system in Highland Park. Glencoe and Winnetka were two of a small number of communities throughout the United States that had not previously awarded franchises for cable television. PNC will spend approximately $5 million in 1989 to construct systems in newly awarded franchises.

Jan Beeson
Advertising Sales Manager, Post-Newsweek Cable, Ponca City, Oklahoma
Under Jan's leadership, the Ponca City system was the Cabletelevision Advertising Bureau's Grand Prize winner in its category of the sales excellence competition.

Mitch Bland
Manager, Post-Newsweek Cable, Highland Park, Illinois
As manager of the Santa Rosa system in 1988, Mitch implemented an improved preventive maintenance program, better dispatch procedures and improved quality control, achieving reductions in service calls to a level of six-tenths of one percent of all subscribers monthly. This equates to only 10 to 15 service calls daily from over 42,000 subscribers.

Cheri Fincher
Manager, Cablecom of Dyersburg, Tennessee
As sales manager responsible for marketing new services to subscribers of this recently rebuilt cable system, Cheri achieved the greatest increase in premium service subscriptions ever produced by one of Post-Newsweek Cable's rebuilds.



■ ***Programming choices*** available to PNC subscribers increased in quantity and quality in 1988. Locally originated programming was produced in 13 systems, supplementing the growing and varied array of national cable services offered by PNC. Local-origination programs range in scope from sports and community news, to financial planning and money matters, to senior citizens' concerns.

■ ***Several Post-Newsweek Cable employees*** were recognized by their colleagues in the cable industry for achievements in 1988. Michael Monroe and Narciso Garcia of Modesto, California, won top honors in the Second Annual City Videos competition for their tribute to the city of Modesto. Frank Woodbeck, PNC's vice president of advertising sales, was the recipient of a Cabletelevision Advertising Bureau (CAB) President's Award for service to CAB and the cable industry. Other PNC employees who won CAB Grand Prizes in their respective categories were Jan Beeson of Ponca City, Oklahoma, Bruce Blankenhorn of Union City, California, and Michael Monroe and Catherine Crown of Modesto, California.

Mary K. Manning
Director of Regulatory Affairs, Post-Newsweek Cable, Phoenix, Arizona
Mary was most instrumental in the company's obtaining franchises in the communities of Winnetka and Glencoe, Illinois. With other anticipated acquisitions, Post-Newsweek Cable's suburban Chicago system is expected to double in size in 1989.

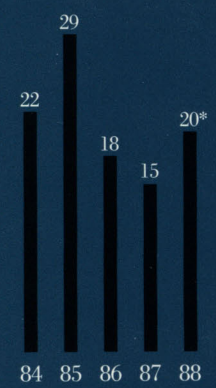
Maxine Sanford
Manager, Cablecom of Ardmore, Oklahoma
A tireless community worker, Maxine is the recipient of many awards for community, state and business service, including Outstanding Woman Award from the Ardmore Chamber of Commerce in 1988 and Outstanding Ardmore Executive in 1987.

NEWSWEEK

■ ***Newsweek*** maintained its standard for fresh, incisive reporting in covering the 1988 presidential election campaign. Newsweek's February 1 "Campaignland" cover story, written on the eve of the Iowa caucuses, set the tone for the magazine's original and often irreverent coverage throughout the election year. Created specifically for Campaign '88, the weekly "Conventional Wisdom Watch" column humorously monitored the fluctuating opinions of media pundits—and added "CW" to the journalistic lexicon. Newsweek's November 21 single-topic special issue, "How Bush Won," offered readers an exclusive and detailed account of the campaign less than 36 hours after the polls closed. In its annual "Best in the Business" poll, the Washington Journalism Review gave Newsweek its 1988 "Best Political Reporting by a Magazine" award.

Throughout 1988, Newsweek provided readers with the kind of reporting and writing that has earned it more National Magazine Awards than any other newsweekly. The February 22 "Pacific Century" special report assessed the burgeoning strength of Asian trading powers and the threat they pose to the U.S. economy. Newsweek marked the 20th anniversary of Martin Luther King, Jr.'s, assassination with "Black and White: How Integrated Is America?" The March 7 special report came after a four-month investigation into the state of

Operating Revenues
($ in millions)

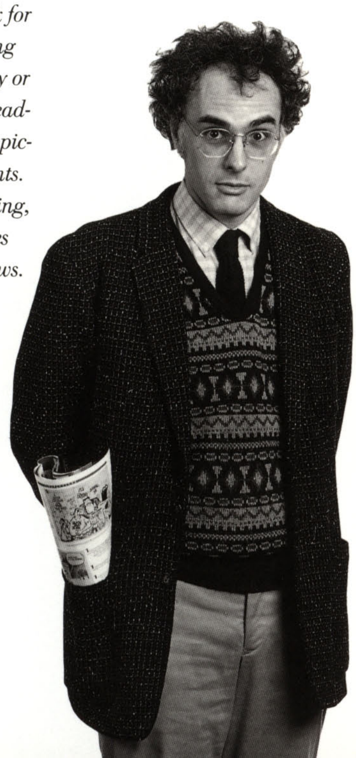


Pro Forma Operating Income
($ in millions)
*Excluding one-time restructuring charges

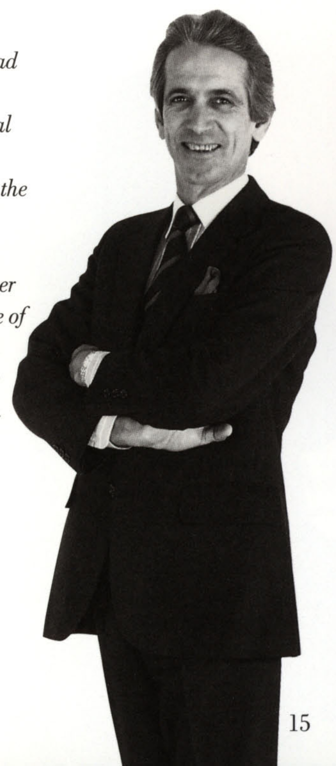
Newsweek Circulation
(in millions)
Source: Audit Bureau of Circulations

Some People Who Made a Difference in 1988

David Gates
General Editor
Much of the credit for making Perspectives one of Newsweek's most read pages goes to David, whose uncanny knack for finding the most telling quotes—serious, funny or off-the-wall—gives readers an impressionistic picture of the week's events. When not quote hunting, David also contributes music and book reviews.



Ian A.C. Leonard
Advertising Director/ Atlantic, Newsweek International
Ian's European sales team was the spearhead for a dramatically improved International sales picture in 1988. Advertising pages for the three principal International editions were up 25 percent over 1987. The lion's share of the growth came from companies covered by Ian and his European team.



American race relations. Asia regional editor Melinda Liu contributed yet another exclusive story to the magazine as the only Western staff journalist to be on the scene in Burma during the October uprisings. For "Crack, Hour by Hour" (November 28), a team of 12 Newsweek correspondents in nine cities documented the damage inflicted by this highly addictive form of cocaine. The two-day, round-the-clock account displayed Newsweek's commitment to covering issues of national importance with hard-hitting, on-scene reporting.

■ ***Domestic circulation rose again,*** breaking its 1987 record. Twelve-month average circulation increased 2.3 percent to 3,262,900. Total readership is estimated at over 18 million. Newsweek maintained its rate base of 3.1 million.

■ ***Domestic advertising pages*** decreased 2 percent to 2,474, down 63 pages from 1987.

■ ***Newsweek promotions*** included Dominique Browning from senior editor to assistant managing editor and Patricia Deneroff from director of marketing to vice president of marketing. Director of information systems Joseph Gonzalez was named vice president/information systems in January 1989. Also in January, chief counsel Tina Ravitz became a vice president.

Melinda Liu
Asia Regional Editor
One Saturday night last September, Melinda took the last civilian plane into Rangoon and became the only Western staff correspondent to witness Burma's bloody coup. Her reporting of the popular opposition to the Burmese Army takeover was followed during the next weeks with chilling accounts of a reign of terror that brought over a thousand killings and several close calls for Melinda herself.

Peter Modi
Manager of Technical Development and Statistical Analysis
Peter developed systems for Newsweek's circulation promotional mailings and for its toll-free subscriber telephone service that have reduced costs in both areas, while enhancing customer service.

■ ***Newsweek International*** enjoyed a major turnaround in 1988, demonstrating the strength and appeal of the news magazine, both as a vital source of news and information and as an effective worldwide advertising vehicle. Advertising pages in the Atlantic, Pacific and Latin America editions rose 25 percent. Market share continued to improve against the major competition in all three regions.

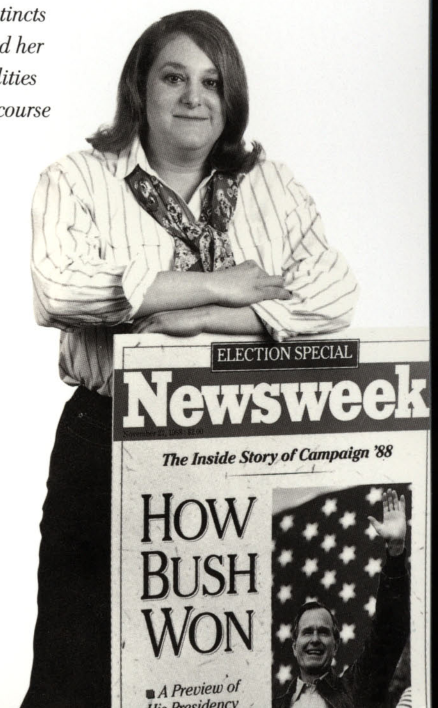
■ ***Global economic growth*** and increased focus on the European Economic Community's plans for 1992 fueled the turnaround. The weak dollar made Newsweek International a more appealing advertising buy but had a negative effect on costs. To counteract this, further steps were taken to reduce currency exposure.

■ ***In January 1989***, Francois Verglas was promoted to Newsweek International senior vice president from vice president of operations. John Alexander, associate publisher, was named a Newsweek International vice president.

Mary Susan Rynecki
Assistant Circulation Director
Marketing improvements in the renewals and new business areas under Mary Sue's direction contributed significantly to Newsweek's ability in 1988 to deliver its highest circulation in history, while pushing the net financial contribution from circulation operations to a record high.

Joseph E. Sampson
Tax Director
Magazines face increasingly complex and difficult state tax questions. Through his hard work, determination and skilled planning, Joe helped Newsweek stay abreast of constantly changing state tax laws and issues.

Nancy Stadtman
Associate Editor, Head of Research, National Affairs
Nancy, a 21-year veteran of Newsweek, was instrumental in the success of the magazine's 1988 political coverage. She directed a staff of researchers who were responsible for the accuracy of the often late-breaking political stories. Her journalistic instincts were invaluable and her organizational abilities kept the section on course and on time.



Stanley H. Kaplan Educational Center

■ ***In its 50th anniversary year,*** Stanley H. Kaplan Educational Center again achieved record growth. Despite the controversy over the use of standardized tests and the increase in competition from both the private and public sectors, student enrollments continued to grow with the law school admissions test (LSAT), nursing boards, bar review and advanced medical programs leading the way. Since The Washington Post Company acquired Kaplan Educational Center four years ago, revenues have grown more than 50 percent.

■ ***Founder Stanley H. Kaplan*** was elected chairman and chief executive officer. Michaelita Quinn was named president and chief operating officer. Alex Schibanoff joined Kaplan Center as vice president of marketing and sales.

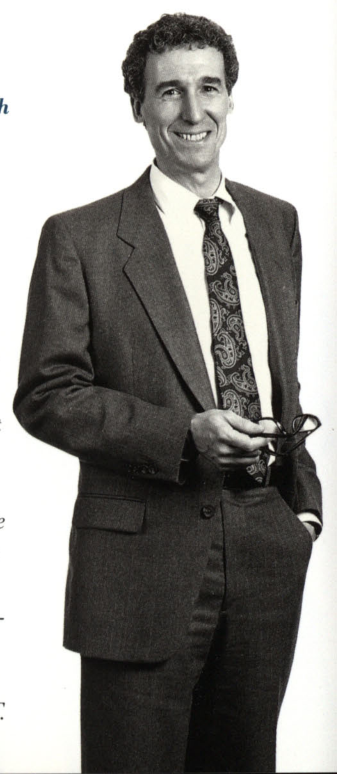
■ ***Expansion in the field*** continued as four new centers were opened in 1988 in Bryn Mawr, Pennsylvania, Norfolk, Virginia, and Boca Raton and Jacksonville, Florida, increasing the number of permanent centers to 130. Arrangements were made to open four more centers in early 1989. In order to extend its outreach, the number of temporary locations increased to more than 500. Significant progress was made in establishing cooperative ventures with high schools, universities and corporations.

■ ***Product lines were expanded*** by offering additional programs in both the specialized high school entrance and medical licensure markets.

Some People Who Made a Difference in 1988

Barbara Caplan
Administrator, Portland, Oregon, Center
A program Barbara began three years ago that paired Kaplan SAT minority students with community mentors from a black sorority and fraternity has led to a pilot project with the local school district. If successful, the Portland Mentoring Program will enable several hundred promising low-income and minority youths to receive Kaplan's SAT course as well as support and encouragement from adult mentors.

Fred G. Danzig
Vice President/Research and Product Development
Fred directed product changes and creative pricing that increased revenue from Advanced Medical courses by 50 percent over the past two years. In 1988 he negotiated an agreement for medical and nursing licensure courses with a chain of 60 hospitals. He added videotaped lessons and computerized diagnostics to complement revisions in prep courses for PSAT/SAT, ACT, GMAT, GRE and LSAT.



Legi-Slate

■ ***A steadily expanding subscriber base*** enabled Legi-Slate to accelerate its growth in operating revenue and income last year. A new pricing plan for client-based subscribers resulted in significantly increased market penetration among law firms.

■ ***To complement its day-to-day coverage*** of Congress and the Federal Register, Legi-Slate began development of a new product scheduled for release in 1989: full text of the United States Code and the Code of Federal Regulations. Searchable online and updated within 48 hours of the passage or enactment of each new law or regulation, this product is expected to have broad appeal among law firms nationwide.

■ ***Legi-Slate's computer*** was replaced in 1988 by a system two-and-one-half times larger. To support projected growth, a computer double that size is planned for early 1989. Regional offices to serve Legi-Slate's growing clientele outside Washington also are planned.

Kathryn Hurst and James Hurst,
Co-Administrators, Milwaukee and Madison, Wisconsin, Centers
After five successful years as manager of the Detroit Kaplan Center, where she doubled enrollments, Kathy was chosen to operate the Milwaukee Center in 1985. Her husband, Jim, joined her as co-administrator, and in 1987 the Hursts became managers of the Madison Center as well. Revenue from the combined markets has increased over 50 percent.

Gary C. Adkins
Operations Manager, Legi-Slate, Washington, D.C.
Gary oversees a staff of 28 who each day prepare and edit the growing mass of information about Congress and regulatory affairs that Legi-Slate provides online to its clients. Gary and his department must daily fulfill the pledge to clients that "Legi-Slate won't let you miss a thing."

CONTENTS

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

■ ***Results of Operations***

In 1988 sales of advertising accounted for approximately 69 percent of the company's operating revenues, up slightly from 68 percent in 1987 and 1986. Revenues derived from newspaper and magazine circulation represented 17 percent of total revenues in 1988, 18 percent in 1987 and 19 percent in 1986. "Other revenues," primarily from the cable division, Stanley H. Kaplan Educational Center and, in 1987 and 1986, Florida cellular telephone operations, contributed 14 percent of total operating revenues in both 1988 and 1987, up from 13 percent in 1986.

■ ***1988 Compared to 1987***

Net income was $269.1 million in 1988, an increase of 44 percent over net income of $186.7 million in 1987. However, the comparison of 1988 and 1987 earnings is significantly affected by certain nonrecurring items. In 1988 the sale of the company's Miami-Ft. Lauderdale ("Florida") cellular telephone operations on January 4, 1988, generated a nonrecurring after-tax gain of $115.7 million. Additionally, during the fourth quarter of 1988, nonrecurring after-tax charges of $12.6 million were incurred in connection with restructuring actions taken at Newsweek. Earnings in 1987 included nonrecurring after-tax gains of $54.3 million from the sales of the company's minority interests in Washington/Baltimore and Detroit cellular telephone operations and the sales of the company's remaining interests in certain sports programming networks. Excluding these nonrecurring items in 1988 and 1987, net income in 1988 would have been up 25 percent. An increase in net interest income and a decrease in the company's effective income tax rate significantly contributed to the improvement in 1988.

Earnings per share increased 44 percent to $20.91 from 1987 earnings per share of $14.52, with $8.01 attributable to nonrecurring items in 1988 and $4.22 attributable to nonrecurring gains in 1987.

Advertising revenues increased 5 percent in 1988 primarily due to increased rates at The Washington Post and improved pricing at the broadcast division. Although 1988 had one less week than 1987, advertising inches at The Washington Post rose 2 percent, led by increases in classified and preprint volume. An increase in advertising pages at the international edition of Newsweek more than offset a 2.5 percent decline in the number of domestic advertising pages, with 52 issues in both 1988 and 1987. Circulation revenues were up 2.5 percent in 1988, primarily reflecting volume increases at The Washington Post and Newsweek. Other revenues were up only slightly, because 1987 included revenues from the Florida cellular operations that were sold at the beginning of 1988. If the Florida cellular operations are excluded from revenues in 1987, other revenues would have increased 13.5 percent as a result of volume and rate increases at the cable division and Stanley H. Kaplan Educational Center.

Total operating costs and expenses for 1988 included nonrecurring pre-tax charges of $21.1 million related to restructuring activities at Newsweek. If these one-time charges are excluded in 1988, and operating costs related to the Florida cellular operations are excluded in 1987, total operating costs and expenses would have been up 7.5 percent. This increase reflects a significant rise in the cost of newsprint, normal increases in costs and increased volume. In addition, 1988 costs included a pre-tax charge at the broadcast division of $7.2 million reflecting the write-down of certain program rights to their net realizable values.

Income from operations was down in 1988, basically due to restructuring charges at Newsweek, increases in the price of newsprint and the write-down of program rights at the broadcast division. The newspaper division's operating margin in 1988 was 21 percent, down from 22 percent in 1987. Increases in the price of newsprint, combined with a payment made in connection with a mailroom labor contract settlement and normal increases in costs, contributed to the decline. The operating margin at the broadcast division fell in 1988, essentially due to the write-down of program rights. The cable division maintained an 18 percent operating margin, while the margin for the company's "other businesses" increased to 14 percent in 1988, up from 11 percent in 1987, when the Florida cellular operations incurred an operating loss. If restructuring charges are excluded from operating income in 1988, Newsweek's operating margin would have been 6 percent, compared to 5 percent in 1987. The increase was primarily due to operating improvements at the international edition of Newsweek.

In 1988 the company's equity in earnings of its affiliated companies was $19.1 million, compared to earnings of $17.7 million in 1987. Improved operations at the affiliated newsprint mills added over $3 million to the company's share of those profits in 1988, while lower earnings at Cowles Media Company reduced equity earnings by about $2 million.

Net interest income increased substantially in 1988 as internally generated funds combined with proceeds from the sales of businesses enabled the company to reduce debt and increase temporary cash investments.

In 1988 and 1987, other income and expense principally included pre-tax gains of $179.8 million and $81.6 million, respectively, from the sales of the company's interests in the previously mentioned cellular telephone and cable sports programming operations.

The effective income tax rate declined to approximately 38 percent in 1988, reflecting the full year's impact of changes included in the Tax Reform Act of 1986 and the tax accounting benefits related to the sale of the Florida cellular operations.

■ ***1987 Compared to 1986***

In 1987 net income increased 86 percent to $186.7 million, from $100.2 million in 1986. However, 1987 earnings included after-tax nonrecurring gains of $54.3 million from the sales of the company's minority interests in Washington/Baltimore and Detroit cellular telephone operations and the sales of the company's remaining interests in certain sports programming networks. Also contributing to the 1987 increase were improved operating results, higher earnings from the company's affiliates, a decline in interest expense and a reduction in the company's effective income tax rate.

Earnings per share in 1987 increased by $6.72, with $4.22 of that increase attributable to nonrecurring gains realized during the year.

Total operating revenues were up 8 percent in 1987 as advertising revenues increased 7 percent, circulation revenues increased 3 percent and other revenues rose 21 percent. The increases in advertising and circulation revenues primarily reflect price and volume increases at The Washington Post, while the increase in other revenues is due to volume and rate increases at the cable division and Stanley H. Kaplan Educational Center and volume increases at the Florida cellular telephone system.

The increase of 7 percent in total operating costs and expenses resulted from normal increases in costs, increased volume and large increases in the cost of newsprint in 1987.

Income from operations increased by 12 percent in 1987, with the newspaper division maintaining a 22 percent operating margin, while the operating margins at the broadcast division and Newsweek fell slightly to 41 percent and 5 percent, respectively. The decline in the broadcast division's operating margin reflects the impact of the Florida services tax on revenues at the company's Miami and Jacksonville stations. Despite a strong year for the domestic edition, Newsweek's operating margin was down in 1987 due to the adverse effects of a soft overseas advertising climate and unfavorable currency fluctations. Increases in sales of premium services, price increases and increases in the number of subscribers helped the cable division's operating margin reach 18 percent in 1987, while the operating margin for the company's "other businesses" increased to 11 percent due to volume increases at the Florida cellular operations and price and volume increases at Kaplan.

The company's share of earnings of its affiliated companies was $17.7 million in 1987, up from $12.4 million in 1986. Volume and price increases at the company's newsprint mills boosted the company's share of those earnings by $3.4 million over 1986, while the company's share of losses from sports programming affiliates totaled $2.1 million, virtually even with the prior year. Operations improved at the company's affiliated cellular companies in 1987 and the company recognized earnings of $1.8 million, up from earnings of $0.8 million in 1986. Also included in the company's equity in earnings of affiliates were earnings from its interest in Cowles Media Company.

Interest expense declined in 1987 as funds generated from normal operations and the sales of businesses accelerated a reduction in the company's outstanding debt.

Other income and expense included pre-tax gains of $81.6 million in 1987 from the sales of the company's minority interests in Washington/Baltimore and Detroit cellular operations and in the four sports programming operations. In 1986 a loss associated with the retirement of a portion of the company's debt and pre-tax gains on the sales of certain minority interests were reflected in other income and expense.

The effective income tax rate in 1987 declined to approximately 44 percent as a result of changes in tax law contained in the Tax Reform Act of 1986 and because the gains on the sales of businesses were taxable at lower capital gain rates.

■ ***Financial Condition: Capital Resources and Liquidity***

The company expended approximately $610 million during the period 1986 through 1988 on various capital programs, principally investments in new businesses and purchases of additional property, plant and equipment. In anticipation of the acquisition of the cable systems in January 1986, the company borrowed approximately $350 million in late 1985 and early 1986, while the remaining expenditures during the three-year period were financed primarily through the use of internally generated funds.

Proceeds from the sales of the company's interests in the cellular telephone and sports programming operations, in addition to internally generated funds, enabled the company to reduce debt and increase its cash position. As a result, since the end of 1987 working capital increased by approximately $290 million, and at January 1, 1989, the company had $303 million of cash and temporary investments and $156 million of debt.

In December 1987 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (SFAS No. 96), which significantly changes the approach and methodology for accounting for income taxes. The new rules adopt the liability method of accounting for income taxes, which requires adjustment of deferred taxes to reflect changes in tax rates when they are enacted. The statement also limits the ability to recognize deferred tax effects of expenses or losses reported later for tax purposes than for financial statement purposes. In accordance with Statement of Financial Accounting Standards No. 100, "Accounting for Income Taxes—Deferral of the Effective Date of FASB Statement No. 96," the new rules must be adopted for fiscal years beginning after December 15, 1989, by either retroactive restatement of prior financial statements or as a cumulative effect of a change in accounting principle in the year of adoption. The company believes it will adopt SFAS No. 96 in 1990 as a cumulative effect of a change in accounting principle. Based on preliminary calculations, the adoption of SFAS No. 96 is not expected to materially affect the company's financial position. Under existing rules for accounting for income taxes, the company's effective income tax rate for 1989 is expected to approximate 40 percent.

In management's opinion, the provisions of the Tax Reform Act of 1986 and the application of the provisions of SFAS No. 96 will not significantly affect the future financial position or liquidity of the company. The company currently estimates that it will expend a total of approximately $110 million on plant and equipment for projects planned for 1989. It expects to fund such expenditures with cash flow from operations.

In management's opinion the favorable changes in financial position as a result of increased cash balances and reduced debt have placed the company in a position of excellent liquidity.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share amounts)	Fiscal Year Ended January 1, 1989	January 3, 1988	December 28, 1986
Operating Revenues			
Advertising	$ 937,230	$ 892,884	$ 831,205
Circulation	237,218	231,479	225,450
Other	193,165	191,059	158,409
	1,367,613	1,315,422	1,215,064
Operating Costs and Expenses			
Operating	764,182	713,832	671,199
Selling, general and administrative	290,078	288,868	265,484
Depreciation and amortization of property, plant and equipment	45,317	42,918	37,210
Amortization of goodwill and other intangibles	13,602	12,731	12,185
Restructuring	21,144	—	—
	1,134,323	1,058,349	986,078
Income from Operations	233,290	257,073	228,986
Equity in earnings of affiliates	19,114	17,663	12,421
Interest income	19,841	3,130	1,858
Interest expense, net of capitalized interest of $734 in 1987 and $171 in 1986	(16,889)	(25,479)	(35,490)
Other income (expense), net	179,914	79,062	(3,152)
Income before Income Taxes	435,270	331,449	204,623
Provision for Income Taxes	166,153	144,706	104,450
Net Income	$ 269,117	$ 186,743	$ 100,173
Earnings per Share	$20.91	$14.52	$7.80

The information on pages 28 through 36 is an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	January 1, 1989	January 3, 1988
ASSETS		
Current Assets		
Cash and temporary cash investments	$ 302,638	$ 20,660
Accounts and notes receivable, net	129,900	156,085
Inventories at lower of cost or market	27,806	20,225
Program rights	23,372	18,814
Other current assets	10,020	10,739
	493,736	226,523
Investments in Affiliates	163,250	152,636
Property, Plant and Equipment		
Buildings	125,872	126,014
Machinery, equipment and fixtures	400,792	387,755
Leasehold improvements	26,261	26,625
	552,925	540,394
Less accumulated depreciation and amortization	(244,469)	(209,320)
	308,456	331,074
Land	22,506	23,643
Construction in progress	21,151	16,363
	352,113	371,080
Goodwill and Other Intangibles, less accumulated amortization of $54,125 and $40,523	341,588	358,337
Deferred Charges and Other Assets	71,580	85,620
	$1,422,267	$1,194,196

The information on pages 28 through 36 is an integral part of the financial statements.

(In thousands, except share amounts)	January 1, 1989	January 3, 1988
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 180,328	$ 162,853
Federal and state income taxes	10,778	22,392
Current portion of long-term debt and notes payable	1,091	29,396
	192,197	214,641
Other Liabilities	59,964	64,315
Long-Term Debt and Notes Payable	154,751	155,791
Deferred Subscription Revenue	83,955	81,017
Deferred Income Taxes	63,160	64,423
	554,027	580,187
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; 2,058,702 shares issued and outstanding	2,059	2,059
Class B common stock, $1 par value, authorized 40,000,000 shares; 17,941,298 shares issued; 10,804,343 and 10,786,078 shares outstanding	17,941	17,941
Capital in excess of par value	13,234	12,113
Retained earnings	1,055,070	806,021
Cumulative foreign currency translation adjustment	1,979	(1,491)
Cost of 7,136,955 and 7,155,220 shares of Class B common stock held in Treasury	(222,043)	(222,634)
	868,240	614,009
	$1,422,267	$1,194,196

The information on pages 28 through 36 is an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Fiscal Year Ended January 1, 1989	January 3, 1988	December 28, 1986
Cash Flows from Operating Activities:			
Net Income	$269,117	$186,743	$100,173
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property, plant and equipment	45,317	42,918	37,210
Amortization of goodwill and other intangibles	13,602	12,731	12,185
Amortization of program rights	29,116	18,476	15,971
Provisions for doubtful accounts receivable	40,102	47,039	39,054
Undistributed earnings of affiliates	(8,351)	(14,305)	(11,081)
Net gains from sales of businesses	(115,671)	(54,309)	(1,782)
(Decrease) increase in interest and income taxes payable	(10,407)	18,550	15,363
Provision for deferred income taxes	(1,009)	7,961	23,904
Increase in deferred subscription revenue	2,938	3,922	7,986
Other noncash income and expense items	(853)	(4,796)	(3,273)
Change in assets and liabilities (net, in 1986, of effects from purchase of Cable Division):			
(Increase) in accounts and notes receivable	(37,413)	(53,166)	(48,714)
(Increase) decrease in inventories	(8,134)	(5,987)	4,947
(Increase) decrease in other assets	(701)	4,518	3,994
Increase in accounts payable and accrued liabilities	19,443	20,333	4,371
(Decrease) increase in other liabilities	(5,691)	3,590	(4,522)
Net cash provided by operating activities	231,405	234,218	195,786
Cash Flows From Investing Activities:			
Net proceeds from sales of businesses	173,315	61,258	2,491
Purchases of property, plant and equipment	(55,400)	(83,326)	(62,986)
Investments in certain businesses	(15,096)	(24,217)	(368,984)
Payments for program rights	(23,902)	(22,921)	(15,245)
Other	20,613	25,053	1,473
Net cash provided (used) by investing activities	99,530	(44,153)	(443,251)
Cash Flows From Financing Activities:			
Principal payments on debt	(29,396)	(190,556)	(55,682)
Proceeds from issuance of long-term debt	—	—	152,131
Dividends on common stock	(20,068)	(16,439)	(14,365)
Other	507	—	119
Net cash (used) provided by financing activities	(48,957)	(206,995)	82,203
Net Increase (Decrease) in Cash and Temporary Cash Investments	281,978	(16,930)	(165,262)
Cash and Temporary Cash Investments at Beginning of Year	20,660	37,590	202,852
Cash and Temporary Cash Investments at End of Year	$302,638	$ 20,660	$ 37,590

The information on pages 28 through 36 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 December 30, 1985	$2,199	$17,801	$ 8,156	$ 549,909	$(5,092)	$(223,425)
Net income for the year				100,173		
Dividends—$1.12 per share				(14,365)		
Issuance of 3,765 shares of Class B common stock, net of restricted stock award forfeitures			74			184
Conversion of 90,000 shares of Class A common stock to Class B common stock	(90)	90				
Change in foreign currency translation adjustment					860	
Other			116			
Balance December 28, 1986	2,109	17,891	8,346	635,717	(4,232)	(223,241)
Net income for the year				186,743		
Dividends—$1.28 per share				(16,439)		
Issuance of 19,242 shares of Class B common stock, net of restricted stock award forfeitures			2,430			607
Conversion of 50,000 shares of Class A common stock to Class B common stock	(50)	50				
Change in foreign currency translation adjustment					2,741	
Other			1,337			
Balance January 3, 1988	2,059	17,941	12,113	806,021	(1,491)	(222,634)
Net income for the year				269,117		
Dividends—$1.56 per share				(20,068)		
Issuance of 18,265 shares of Class B common stock, net of restricted stock award forfeitures			1,080			591
Change in foreign currency translation adjustment					3,470	
Other			41			
Balance January 1, 1989	$2,059	$17,941	$13,234	$1,055,070	$ 1,979	$(222,043)

The information on pages 28 through 36 is an integral part of the 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 year 1988, which ended on January 1, 1989, included 52 weeks, while 1987 included 53 weeks and 1986 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.

■ ***Consolidated Statement of Cash Flows.*** The company has adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows." Prior years have been restated to conform to the 1988 presentation. For purposes of this statement, temporary cash investments that generally mature within ninety days are considered cash equivalents. The effect of changes in foreign exchange rates on cash balances is not material.

■ ***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 12 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 represent 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 of up to 40 years in accordance with Opinion No. 17.

■ ***Deferred Program Rights.*** The broadcast subsidiaries are parties to agreements that 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 for tax and financial reporting purposes (principally depreciation), in the recognition of income tax to be paid or withheld on earnings of 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. CASH AND TEMPORARY CASH INVESTMENTS

The company's cash and temporary cash investments at January 1, 1989, and January 3, 1988, consist of the following (in thousands):

	1988	1987
Cash	$ 15,640	$15,660
U.S. Government and Government agency obligations	139,321	—
Commercial paper	131,753	5,000
Bank acceptances	15,924	—
	$302,638	$20,660

Temporary cash investments are carried at cost, which approximates market value.

C. ACCOUNTS AND NOTES RECEIVABLE AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts and notes receivable at January 1, 1989, and January 3, 1988, consist of the following (in thousands):

	1988	1987
Accounts receivable, less estimated returns, doubtful accounts and allowances of $29,367 and $26,928	$119,949	$122,770
Notes receivable	740	21,276
Other	9,211	12,039
	$129,900	$156,085

Accounts payable and accrued liabilities at January 1, 1989, and January 3, 1988, consist of the following (in thousands):

	1988	1987
Accounts payable and accrued expenses	$109,238	$ 91,260
Accrued payroll and related benefits	30,776	34,643
Accrued interest expense	9,559	9,605
Accounts payable for program rights	23,894	19,681
Due to affiliates (newsprint)	6,861	7,664
	$180,328	$162,853

D. INVESTMENTS IN AFFILIATES

The company's investments in affiliates at January 1, 1989, and January 3, 1988, consist of the following (in thousands):

	1988	1987
Cowles Media Company	$ 78,399	$ 77,512
Newsprint mills	80,269	68,656
Other	4,582	6,468
	$163,250	$152,636

The company's investment in affiliates in 1988 includes a 26 percent interest in the stock of Cowles Media Company, which owns and operates the Minneapolis Star and Tribune and several other smaller properties. In 1987 and 1986 the company owned a 21 percent interest.

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 a one-third limited partnership interest in Bear Island Timberlands Company, which owns timberlands and supplies Bear Island Paper Company with a major 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 $71,400,000 in 1988, $63,300,000 in 1987, and $61,400,000 in 1986.

During 1983 the company acquired interests in several businesses that distribute programming, principally sports events, to pay cable and subscription television subscribers. During 1986 and a portion of 1987, the company's interests included a 33.5 percent partnership interest in SportsChannel Associates, which operates in the metropolitan New York City area; a 33⅓ percent partnership interest in SportsChannel Prism Associates, which operates in the metropolitan Philadelphia area; a 33⅓ percent partnership interest in SportsChannel Chicago Associates, which operates in the metropolitan Chicago area; and a 16⅔ percent limited partnership interest in SportsChannel New England, which operates in the New England and upstate New York areas. In August 1987, the company sold its interests in each of the four sports programming businesses.

The company's other investments include a one-third common stock interest in a French corporation based near Paris that publishes the International Herald Tribune and a 50 percent common stock interest in the Los Angeles Times-Washington Post News Service, Inc. In 1986 the company sold its 20 percent common stock interest in the National Journal, Inc., publisher of a weekly magazine specializing in national affairs. In 1987 and 1986 the company's investments also included various interests in several partnerships that were constructing and operating cellular telephone systems. In 1986 these investments included an 18 percent partnership interest in Detroit Cellular Telephone Company, a 20 percent partnership interest in Washington/Baltimore Cellular Telephone Company and small interests in cellular partnerships in three Florida locations. The interests in two of the Florida locations were sold in 1986, while in 1987 the company's interests in Detroit and Washington/Baltimore were sold, and, in 1988, the company's minority interest in the third Florida location was sold.

Summarized financial data for the affiliates' operations are as follows (in thousands):

	1988	1987	1986
Financial Position			
Working Capital	$ 17,185	$100,100	$ 98,485
Property, plant and equipment	456,160	370,781	380,518
Total assets	694,751	642,374	676,831
Long-term debt	263,773	129,651	155,033
Net equity	226,160	339,905	316,419
Results of Operations			
Operating revenues	$662,691	$616,387	$640,353
Operating income	91,957	78,972	81,442
Net income	54,914	53,439	44,356

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

	1988	1987
Beginning investment	$152,636	$168,421
Equity in earnings	19,114	17,663
Dividends received	(1,803)	(1,638)
Additional investments	599	5,927
Sale of investments	(1,806)	(27,004)
Other	(5,490)	(10,733)
Ending investment	$163,250	$152,636

At January 1, 1989, the unamortized excess of the company's investments over its equity in the underlying net assets of its affiliates at the date of acquisition was approximately $71,000,000, which is being amortized over 40 years. Amortization included in equity in earnings of affiliates for the years ended January 1, 1989, January 3, 1988, and December 28, 1986, was $1,150,000, $1,900,000, and $2,300,000, respectively.

E. INCOME TAXES

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

	Current	Deferred
1988		
U.S. Federal	$138,746	$(2,186)
Foreign	308	837
State and local	28,108	340
	$167,162	$(1,009)
1987		
U.S. Federal	$115,567	$ 5,889
Foreign	228	778
State and local	20,950	1,294
	$136,745	$ 7,961
1986		
U.S. Federal	$ 65,846	$19,881
Foreign	51	610
State and local	14,649	3,413
	$ 80,546	$23,904

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

	1988	1987	1986
Tax depreciation in excess of depreciation for financial reporting purposes	$ 3,989	$6,467	$19,072
Deferral of restructuring charges for income tax purposes	(8,375)	—	—
Deferral of investment tax credits for financial reporting purposes	(958)	(47)	2,349
Other	4,335	1,541	2,483
	$(1,009)	$7,961	$23,904

The provision for income taxes exceeds the amount of taxes determined by applying the U.S. Federal statutory rate of 34 percent in 1988, 40 percent in 1987 and 46 percent in 1986 to income before taxes as a result of the following (in thousands):

	1988	1987	1986
U.S. Federal income taxes	$147,992	$132,580	$ 94,127
State and local taxes net of Federal income tax benefit	18,776	13,346	9,754
Amortization of goodwill not deductible for income tax purposes	2,640	3,493	3,737
Domestic and foreign income taxes netted in equity in earnings of affiliates	(2,518)	(3,475)	(3,392)
Other	(737)	(1,238)	224
Provision for income taxes	$166,153	$144,706	$104,450

Payments of income taxes were $176,400,000 in 1988, $113,036,000 in 1987 and $78,154,000 in 1986.

In December 1987 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (SFAS No. 96), which significantly changes the approach and methodology for accounting for income taxes. The new rules adopt the liability method of accounting for income taxes, which requires adjustment of deferred taxes to reflect changes in tax rates when they are enacted. The statement also limits the ability to recognize deferred tax effects of expenses or losses reported later for tax purposes than for financial statement purposes. In accordance with Statement of Financial Accounting Standards No. 100, "Accounting for Income Taxes—Deferral of the Effective Date of FASB Statement No. 96," the new rules must be adopted for fiscal years beginning after December 15, 1989, by either retroactive restatement of prior financial statements or as a cumulative effect of a change in accounting principle in the year of adoption. The company intends to adopt SFAS No. 96

in 1990 as a cumulative effect of a change in accounting principle. Based on preliminary calculations, the adoption of the statement is not expected to materially affect the company's financial position.

F. DEBT

Long-term debt of the company as of January 1, 1989, and January 3, 1988, is summarized as follows (in thousands):

	1988	1987
10.68 percent unsecured promissory notes due 1991-1994	$100,000	$100,000
10.1 percent unsecured European Currency Unit notes due 1996	50,734	50,808
10.875 percent unsecured Eurodollar notes due 1995	1,400	1,400
Unsecured short-term notes supported by credit agreements with banks	—	28,700
Other	3,708	4,279
Less amounts included in current liabilities	(1,091)	(29,396)
	$154,751	$155,791

During 1987 and 1986 the company issued unsecured short-term notes supported by bank credit agreements. The average daily borrowings supported by these agreements were $126,400,000 and $103,200,000 at a weighted average cost of 7.1 percent and 7.8 percent in 1987 and 1986, respectively. The maximum borrowings outstanding at the end of any period for the years ended January 3, 1988 and December 28, 1986 were $193,700,000 and $191,500,000, respectively. There were no such borrowings during 1988, and the bank credit agreements have been terminated.

The agreements relating to the promissory notes include restrictive provisions that principally pertain to limits on indebtedness, minimum working capital requirements, the payment of dividends and the redemption or purchase of the company's capital stock. At the end of 1988, retained earnings unrestricted by these provisions were $328,600,000.

Annual maturities of long-term debt based on existing loan repayment schedules are $1,200,000 in 1990, $26,000,000 in 1991, $25,000,000 in each of the years 1992-1994, $1,400,000 in 1995, and $50,000,000 in 1996. The terms of these agreements generally do not permit accelerated payments of principal amounts outstanding until 1992.

Interest paid, net of amounts capitalized, was $16,200,000, $21,000,000 and $31,600,000 during 1988, 1987 and 1986, respectively.

Noncash investing activities related to program rights amounted to $26,200,000 in 1988, $33,100,000 in 1987 and $19,700,000 in 1986.

G. 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 January 1, 1989, there were 169,200 shares reserved for issuance under the Stock Option Plan. Of this number, 31,500 shares were subject to options outstanding and 137,700 shares were available for future grants. Changes in the options outstanding for the years ended January 1, 1989, and January 3, 1988, were as follows:

	1988		1987	
	Number of Shares	Average Option Price	Number of Shares	Average Option Price
Beginning of year	27,500	$ 41.03	26,500	$ 35.37
Granted	24,500	199.38	1,000	191.00
Exercised	(20,500)	24.74	—	—
End of year	31,500	174.79	27,500	41.03

Of the shares covered by options outstanding at the end of 1988, 5,375 are now exercisable, 7,000 will become exercisable in 1989, 6,625 will become exercisable in 1990, 6,375 will become exercisable in 1991 and 6,125 will become exercisable in 1992.

■ ***Stock Awards.*** In 1982 the company adopted a Long-Term Incentive Compensation Plan that, 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. At January 1, 1989, there were 199,789 shares reserved for issuance under the Incentive Compensation Plan. Of this number, 45,885 shares were subject to awards outstanding and 153,904 shares were available for future awards. Activity related to stock awards for the years ended January 1, 1989, and January 3, 1988, was as follows:

	1988		1987	
	Number of Shares	Average Award Price	Number of Shares	Average Award Price
Awards Outstanding				
Beginning of year	48,419	$112.92	58,863	$ 69.17
Awarded	872	204.06	19,690	156.00
Vested	(251)	78.75	(29,686)	55.27
Forfeited	(3,155)	118.28	(448)	78.75
Awards Outstanding				
End of year	45,885	114.47	48,419	112.92

For the shares outstanding at January 1, 1989, the aforementioned restriction will lapse in January 1989 for 27,525 shares and in January 1991 for 18,360 shares.

■ ***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 12,873,000 for 1988, 12,861,000 for 1987, and 12,842,000 for 1986.

H. 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. Pension cost (benefit) for all retirement plans combined was $5,300,000 in 1988, $(1,100,000) in 1987 and $(400,000) in 1986. Included in 1988 are costs of $6,200,000 associated with early retirement benefits offered to certain employees in connection with restructuring activities at Newsweek.

The following table sets forth the funded status of the defined benefit plans and amounts recognized in the Consolidated Balance Sheets at January 1, 1989, and January 3, 1988, (in thousands):

	1988	1987
Actuarial present value of accumulated plan benefits, including vested benefits of $75,885 and $60,186	$ 83,889	$ 66,939
Plan assets at fair value, primarily listed securities	$ 274,142	$ 250,935
Projected benefit obligation for service rendered to date	(105,275)	(84,306)
Plan assets in excess of projected benefit obligation	168,867	166,629
Prior service cost (benefit) not yet recognized in periodic pension cost	538	(108)
Less unrecognized net gain from past experience different from that assumed	(43,072)	(38,336)
Less unrecognized net asset (transition amount) being recognized over approximately 17 years	(107,326)	(114,743)
Prepaid pension cost	$ 19,007	$ 13,442

The net pension credits for the years ended January 1, 1989, January 3, 1988, and December 28, 1986, included the following components (in thousands):

	1988	1987	1986
Service cost for benefits earned during the period	$ 6,209	$ 5,607	$ 5,386
Interest cost on projected benefit obligation	6,982	6,166	5,609
Cost of special retirement benefits related to restructuring	6,221	—	—
Less actual return on plan assets	(25,621)	(24,641)	(32,685)
Net amortization and deferral	930	2,475	12,717
Net pension credit	$ (5,279)	$(10,393)	$ (8,973)

The weighted average discount rate and rate of increase in future compensation levels used for 1988, 1987 and 1986 in determining the actuarial present value of the projected benefit obligation were 7.5 percent and 4 percent, respectively. The expected long-term rate of return on assets was 8 percent in 1988, 1987, and 1986.

Contributions to multi-employer pension plans, which are generally based on hours worked, amounted to $1,200,000, $1,400,000 and $1,300,000 in 1988, 1987 and 1986, respectively.

The costs of unfunded retirement 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 $23,300,000 at January 1, 1989, and $20,900,000 at January 3, 1988.

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. The cost of these plans, which is charged to expense as premiums are paid or trust contributions are made, was approximately $20,800,000 for 1988, $16,900,000 for 1987, and $16,300,000 for 1986. Retiree participation in these plans as a percentage of total participation approximated 9 percent in 1988 and 8 percent in 1987 and 1986 for the life insurance plan, and 15 percent in 1988, 12 percent in 1987 and 10 percent in 1986 for the medical plan.

I. LEASES

Total rental expense under operating leases included in operating costs and expenses was approximately $16,500,000 for 1988, $15,500,000 for 1987, and $16,000,000 for 1986. As of January 1, 1989, minimum future rentals under non-cancelable leases, principally all for real estate, were as follows (in thousands):

1989	$13,250
1990	11,312
1991	10,044
1992	8,127
1993	6,499
Thereafter	11,331
	$60,563

Included in the rentals above is $4,100,000 per year related to a real estate lease that 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.

J. ACQUISITIONS AND DISPOSITIONS

On January 4, 1988, the company sold its 100 percent interest in the Miami-Ft. Lauderdale cellular telephone system and its minority interest in the Palm Beach County cellular system. The related gain of $179,754,000, before giving effect to taxes of $64,083,000, is included in "Other income (expense), net" in the Consolidated Statement of Income. This transaction increased earnings by $8.99 per share in 1988. In conjunction with this sale, liabilities assumed by the purchaser were as follows (in thousands):

Fair value of assets sold	$177,265
Net proceeds from sale	173,315
Liabilities assumed by purchaser	$ 3,950

During 1987 the company sold its remaining partnership interests in certain cable sports programming businesses and its minority interests in the Washington/Baltimore and Detroit cellular companies. The effect of these transactions before giving effect to taxes of $27,265,000 was a gain of $81,574,000, which amount is included in "Other income (expense), net" in the Consolidated Statement of Income for 1987. These gains increased earnings per share by $4.22.

During 1986 the company sold its 20 percent interest in National Journal, Inc., and its minority interests in two Florida cellular systems. The effect of these transactions on 1986 earnings was an increase of $1,900,000, or fifteen cents per share.

On January 3, 1986, the company completed its acquisition of over 50 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 transaction was accounted for as a purchase and the results of operations of the systems were included with those of the company for the period subsequent to the date of acquisition. In conjunction with this acquisition, liabilities were assumed as follows (in thousands):

Fair value of assets acquired	$368,613
Cash paid for capital stock, net	344,151
Liabilities assumed	$ 24,462

During 1986 the company acquired an additional 30 percent partnership interest in its Miami-Ft. Lauderdale cellular system and, in January 1987, acquired the remaining 10 percent partnership interest outstanding.

K. COMMITMENTS AND CONTINGENCIES

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.

L. BUSINESS SEGMENTS

The company operates principally in four areas of the communications industry: newspaper publishing, magazine publishing, television broadcasting and cable television.

Newspaper operations 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.

Cable television operations consist of over 50 cable systems that offer basic cable and pay television services to approximately 400,000 subscribers in 15 midwestern, western and southern states. The principal source of revenues is monthly subscription fees charged for services.

"Other Businesses" include the operations of a database publishing company, educational centers engaged in preparing students for admissions tests and licensing examinations, including the preparation and publishing of training materials and, in 1987 and 1986, a cellular telephone system in Miami-Ft. Lauderdale.

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.

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

(in thousands)	Newspaper Publishing	Broadcasting	Cable Television	Magazine Publishing	Other Businesses	Consolidated
1988						
Operating revenues	$682,708	$180,195	$115,210	$327,540	$61,960	$1,367,613
Income from operating segments	$140,697	$ 64,456	$ 20,434	$ 20,131	$ 8,716	$ 254,434
Restructuring costs				(21,144)		(21,144)
Income from operations						233,290
Equity in earnings of affiliates						19,114
Interest expense						(16,889)
Other income, net						199,755
Income before income taxes						$ 435,270
Identifiable assets	$267,173	$158,973	$382,802	$106,951	$48,483	$ 964,382
Investments in affiliates						163,250
Corporate assets						294,635
Total assets						$1,422,267
Depreciation and amortization of property, plant and equipment	$ 13,908	$ 7,289	$ 17,213	$ 5,645	$ 1,262	$ 45,317
Amortization of goodwill and other intangibles	$ 533	$ 664	$ 10,225		$ 2,180	$ 13,602
Capital expenditures	$ 17,982	$ 7,381	$ 25,835	$ 2,445	$ 2,841	$ 56,484

	Newspaper Publishing	Broadcasting	Cable Television	Magazine Publishing	Other Businesses	Consolidated
1987						
Operating revenues	$648,133	$171,396	$ 98,625	$322,233	$75,035	$1,315,422
Income from operations	$145,088	$ 70,295	$ 17,822	$ 15,305	$ 8,563	$ 257,073
Equity in earnings of affiliates						17,663
Interest expense						(25,479)
Other income, net						82,192
Income before income taxes						$ 331,449
Identifiable assets	$254,962	$166,892	$378,569	$104,527	$99,656	$1,004,606
Investments in affiliates						152,636
Corporate assets						36,954
Total assets						$1,194,196
Depreciation and amortization of property, plant and equipment	$ 13,660	$ 7,243	$ 13,052	$ 5,091	$ 3,872	$ 42,918
Amortization of goodwill and other intangibles	$ 543	$ 664	$ 9,553		$ 1,971	$ 12,731
Capital expenditures	$ 16,003	$ 5,999	$ 27,060	$ 14,270	$10,564	$ 73,896
1986						
Operating revenues	$589,252	$167,122	$ 84,878	$320,924	$52,888	$1,215,064
Income from operations	$130,138	$ 70,004	$ 11,829	$ 17,934	$ (919)	$ 228,986
Equity in earnings of affiliates						12,421
Interest expense						(35,490)
Other expense, net						(1,294)
Income before income taxes						$ 204,623
Identifiable assets	$246,810	$151,962	$365,963	$ 86,992	$84,279	$ 936,006
Investments in affiliates						168,421
Corporate assets						40,800
Total assets						$1,145,227
Depreciation and amortization of property, plant and equipment	$ 13,072	$ 6,641	$ 10,465	$ 4,756	$ 2,276	$ 37,210
Amortization of goodwill and other intangibles	$ 534	$ 664	$ 9,517		$ 1,470	$ 12,185
Capital expenditures	$ 11,888	$ 6,650	$ 23,695	$ 8,872	$15,480	$ 66,585

M. SUMMARY OF QUARTERLY OPERATING RESULTS (UNAUDITED)

Quarterly results of operations for the years ended January 1, 1989, and January 3, 1988, are as follows (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1988				
Operating revenues	$321,236	$346,249	$329,371	$370,757
Income from operations	45,550	78,090	58,087	51,563
Net income	144,819	49,305	38,060	36,933
Earnings per share	$11.25	$3.83	$2.96	$2.87
Average number of shares outstanding	12,873	12,874	12,873	12,872
1987				
Operating revenues	$298,364	$339,126	$312,910	$365,022
Income from operations	39,524	81,555	59,337	76,657
Net income	18,649	42,362	61,314	64,418
Earnings per share	$1.45	$3.29	$4.77	$5.01
Average number of shares outstanding	12,859	12,861	12,862	12,861

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

N. RESTRUCTURING ACTIVITIES

During the fourth quarter of 1988, the company provided for pre-tax charges of approximately $21,100,000 related to restructuring activities at Newsweek. These charges primarily include costs associated with an employee voluntary early retirement program and estimates of costs related to the relocation of certain facilities.

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

In our opinion, the consolidated financial statements appearing on pages 23 through 27 present fairly, in all material respects, the financial position of The Washington Post Company and its subsidiaries at January 1, 1989, and January 3, 1988, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 1, 1989, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Washington, D.C.
February 8, 1989

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 1986-1988.

(In thousands, except per share amounts)	1988	1987	1986
Results of Operations			
Operating revenues	$1,367,613	$1,315,422	$1,215,064
Income from operations	$ 233,290	$ 257,073	$ 228,986
Income before cumulative effect of change in method of accounting	$ 269,117	$ 186,743	$ 100,173
Cumulative effect in 1979 of change in method of accounting for magazine subscription procurement costs	—	—	—
Net income	$ 269,117	$ 186,743	$ 100,173
Per Share Amounts			
Earnings per share			
Income before cumulative effect of change in method of accounting	$20.91	$14.52	$ 7.80
Cumulative effect in 1979 of change in method of accounting for magazine subscription procurement costs	—	—	—
Net income	$20.91	$14.52	$ 7.80
Cash dividends	$ 1.56	$ 1.28	$ 1.12
Shareholders' equity	$67.50	$47.80	$34.04
Average Number of Shares Outstanding	12,873	12,861	12,842
Financial Position			
Current assets	$ 493,736	$ 226,523	$ 219,422
Working capital	301,539	11,882	34,309
Property, plant and equipment	352,113	371,080	343,702
Total assets	1,422,267	1,194,196	1,145,227
Long-term debt	154,751	155,791	336,140
Shareholders' equity	868,240	614,009	436,590
Pro Forma Amounts (See Notes)			
Net income	$ 166,059	$ 132,434	$ 100,173
Earnings per share	$12.90	$10.30	$ 7.80

NOTES:

Pro forma amounts for 1981, 1985, 1987 and 1988 calculate net income excluding nonrecurring gains and losses from the sales of businesses and restructuring costs, as described below.

In 1981 the company realized a net nonrecurring loss 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 this loss 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. In 1987 the company realized nonrecurring gains from the sales of portions of the company's cellular telephone interests and the company's remaining SportsChannel interests. The effect of these gains was to increase net income and earnings per share by $54,300,000 and $4.22. In 1988 the company realized a nonrecurring gain from the sale of its Miami-Ft. Lauderdale cellular telephone system subsidiary and its minority interest in the Palm Beach cellular system. The effect of this gain was to increase net income and earnings per share by $115,700,000 and $8.99. Also in 1988, the company incurred nonrecurring charges related to restructuring activities at Newsweek. The effect of these charges was to decrease net income and earnings per share by $12,600,000 and $.98.

1985	1984	1983	1982	1981	1980	1979
$1,078,650	$984,303	$877,714	$800,824	$753,447	$659,535	$593,262
$ 204,186	$166,295	$132,415	$ 98,106	$ 65,714	$ 65,513	$ 80,421
$ 114,261	$ 85,886	$ 68,394	$ 52,413	$ 32,710	$ 34,335	$ 42,999
—	—	—	—	—	—	13,531
$ 114,261	$ 85,886	$ 68,394	$ 52,413	$ 32,710	$ 34,335	$ 29,468
$ 8.66	$ 6.11	$ 4.82	$ 3.70	$ 2.32	$ 2.44	$ 2.75
—	—	—	—	—	—	.86
$ 8.66	$ 6.11	$ 4.82	$ 3.70	$ 2.32	$ 2.44	$ 1.89
$ .96	$ .80	$ .66	$ .56	$ .50	$ .44	$ .36
$27.26	$27.17	$22.50	$18.32	$15.17	$13.40	$11.56
13,194	14,050	14,195	14,153	14,077	14,068	15,609
$359,174	$218,559	$190,616	$170,658	$135,002	$126,070	$112,168
202,454	105,016	81,846	62,342	34,030	41,615	36,615
219,310	191,072	181,333	181,982	171,301	152,109	93,734
885,079	645,800	570,676	501,223	458,197	429,103	357,949
222,392	6,250	8,500	10,750	23,000	43,586	17,550
349,548	380,127	318,890	258,843	213,393	187,270	164,782
$101,993	$ 85,886	$ 68,394	$ 52,413	$ 34,817	$ 34,335	$ 42,999
$ 7.73	$ 6.11	$ 4.82	$ 3.70	$ 2.47	$ 2.44	$ 2.75

■ *Newspaper Division*

The Washington Post—a morning daily and Sunday newspaper published in Washington, D.C. For the 12 months ending September 30, 1988, The Post's unaudited average circulation was 789,665 daily and 1,122,579 Sunday. The Post maintains 19 foreign, 6 national and 11 metropolitan news bureaus. It is printed at sites in Northwest and Southeast Washington and nearby Springfield, Virginia.

The Washington Post National Weekly Edition—Selected Post articles on politics and government, edited for a national audience, appear in this tabloid publication, which has a circulation of approximately 68,000.

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, 1988, was 56,217 daily and 61,953 Sunday.

The Washington Post Writers Group—a syndicator of 32 features to newspapers throughout the United States.

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

■ *Post-Newsweek Stations*

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

WDIV-4—an NBC affiliate in Detroit, Michigan, the 7th largest U.S. broadcasting market, with 1,712,600 television households.

WPLG-10—an ABC affiliate in Miami, Florida, the 14th largest U.S. broadcasting market, with 1,259,900 television households.

WFSB-3—a CBS affiliate in Hartford, Connecticut, the 23rd largest U.S. broadcasting market, with 883,100 television households.

WJXT-4—a CBS affiliate in Jacksonville, Florida, the 57th largest U.S. broadcasting market, with 449,800 television households.

■ *Post-Newsweek Cable*

Post-Newsweek Cable—Headquartered in Phoenix, Arizona, Post-Newsweek Cable systems currently serve over 401,000 subscribers in 15 midwestern, western and southern states.

Principal communities served and the number of basic subscribers in each as of December 31, 1988:

Arizona	
Bisbee	2,964
Clifton	1,445
Cottonwood	1,710
Globe	4,383
Holbrook	1,484
Page	1,723
Safford	5,037
Showlow	6,072
Winslow	2,564
California	
Burlingame	6,447
Modesto/Oakdale	48,057
Santa Rosa	42,320
Union City	7,616
Illinois	
Highland Park	9,359
Indiana	
Greenwood	7,508
Iowa	
Sioux City	19,382
Kansas	
Abilene	2,516
Beloit	1,677
Clay Center	1,950
Concordia	2,375
Mississippi	
Clarksdale	6,748
Gulfport	19,172
Missouri	
Brookfield	2,079
Joplin	10,311
Kirksville	5,117
Trenton	2,746
Nebraska	
Norfolk	9,535
New Mexico	
Rio Rancho	5,253
Roswell	11,408
North Dakota	
Fargo	16,142
Ohio	
Akron	11,445
Oklahoma	
Altus	8,349
Ardmore	9,102
Frederick	1,724
Hobart	1,769
Idabel	2,247
Mangum	1,478
Miami	4,407
Ponca City	11,325
Vinita/Nowata	2,664
Tennessee	
Dyersburg	6,854
Texas	
Aransas Pass	4,048
Bonham	2,846
Childress	1,872
Lampasas	2,215
Lufkin/Livingston	14,828
Memphis	928
Odessa	23,587
Port Lavaca	4,016
Sherman/Denison	19,873
Wellington	1,021
TOTAL	401,698

■ ***Newsweek***

Newsweek—a weekly news magazine published in New York City. Its 1989 rate base is 3.1 million. Newsweek maintains 10 U.S. and 15 foreign news bureaus and has 8 domestic advertising sales offices. The magazine is printed at 4 U.S. sites and in Ontario, Canada.

Newsweek International—a weekly English-language news magazine published in New York City and circulated throughout the world. For 1988, Newsweek International's circulation was 675,000. Breakdown of rate bases was: 300,000 for the Atlantic edition, 320,000 for the Pacific edition (including 120,000 for The Bulletin with Newsweek, Australia's largest newsweekly) and 55,000 for the Latin America edition. Newsweek International maintains 12 sales offices, one in the U.S. and 11 overseas. The magazine is printed in Zurich, Hong Kong, Sydney and Hollywood, Florida.

Newsweek Japan (Newsweek Nihon Ban)—The first Japanese-language newsweekly, Nihon Ban has a circulation of 120,000. Launched in 1986, it is produced with TBS-Britannica, which translates and publishes the magazine.

■ ***Other Businesses***

Stanley H. Kaplan Educational Center—Headquartered in New York City, Kaplan Center offers courses at 130 permanent centers throughout the United States and in Canada and Puerto Rico, and at about 500 other locations on a seasonal basis, to prepare students for a broad range of academic, professional and licensing examinations, including SAT, LSAT, GMAT, GRE, medical and nursing boards and bar reviews. Kaplan Center also offers general skill-building programs such as speed reading. In 1988 enrollment exceeded 110,000 students.

Legi-Slate—a Washington, D.C., online information service covering Congressional legislation and voting records, federal regulatory activity and other government-related matters.

■ ***Affiliates***

Los Angeles Times-Washington Post News Service, Inc. (50 percent of common stock)— a supplier of spot news and features to more than 600 newspapers, broadcast stations and magazines in 48 countries.

Bowater Mersey Paper Company Limited (49 percent of common stock)—a newsprint manufacturer in Liverpool, Nova Scotia.

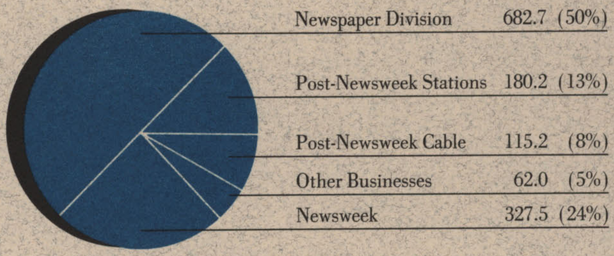
Bear Island Paper Company (one-third limited partnership interest)—a newsprint manufacturer in Doswell, Virginia.

Bear Island Timberlands Company (one-third limited partnership interest)—an owner/manager of timberland.

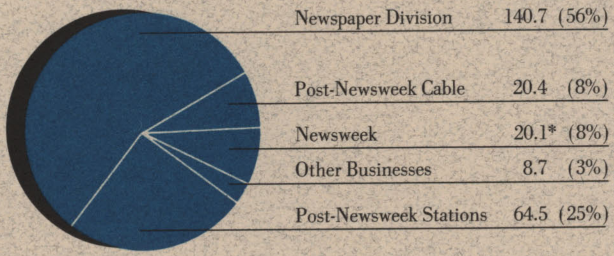
International Herald Tribune, S.A. (33⅓ percent of common stock)—a daily newspaper published in Paris, France. In 1988 the International Herald Tribune had an average daily paid circulation of 190,000 in 164 countries, served from printing sites in Paris, Zurich, London, Marseilles, The Hague, Singapore, Hong Kong, Tokyo, New York and Miami.

Cowles Media Company (26 percent of common stock)—owner of the Minneapolis Star and Tribune and other smaller properties.

1988 Operating Revenues
($ in millions)



1988 Pro Forma Operating Income
($ in millions)



*Excluding restructuring charges

CORPORATE DIRECTORY

■ *Board of Directors*

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Chairman of the Board
Chief Executive Officer

Richard D. Simmons (3)
President
Chief Operating Officer

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Vice President

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Attorney, Member of Cravath, Swaine & Moore

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Publisher, The Washington Post

Nicholas deB. Katzenbach (2)
Attorney; Former Senior Vice President, IBM Corporation

Robert S. McNamara (1)
Retired; Former President, The World Bank

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Dean Emeritus, Stanford University Graduate School of Business

Anthony J.F. O'Reilly (1)
Chairman, President and Chief Executive Officer,
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Barbara Scott Preiskel (1)
Attorney

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

George W. Wilson (2)
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Committees of the Board of Directors
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(2) Compensation Committee
(3) Finance Committee

■ *Other Company Officers*

Joel Chaseman
Vice President
Chairman and Chief Executive Officer,
Post-Newsweek Stations

Diana M. Daniels
Vice President and General Counsel

Alan R. Finberg
Vice President and Secretary

Ross F. Hamachek
Vice President-Planning and Development

Leonade D. Jones
Treasurer

Beverly R. Keil
Vice President-Human Resources

Gordon C. King, Jr.
Vice President

Guyon Knight
Vice President-Corporate Communications

Alan G. Spoon
Vice President-Finance

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

■ ***Stock Trading***

The Washington Post Company Class B common stock is traded on the American Stock Exchange with the symbol WPOB.

■ ***Stock Transfer Agents and Registrar***

Morgan Shareholder Services Trust Company
30 West Broadway
New York, NY 10007-2193

The Riggs National Bank of Washington, DC
Corporate Trust Division
Post Office Box 2651
Washington, DC 20013

■ ***Shareholder Inquiries***

Communications concerning transfer requirements, lost certificates, dividends and changes of address should be directed to either transfer agent. Inquiries may be made by telephone to Morgan Shareholder Services Telephone Response Group at (212) 587-6515.

■ ***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 Treasurer, The Washington Post Company, 1150 15th Street, NW, Washington, DC 20071.

■ ***Annual Meeting***

The annual meeting of stockholders will be held on Thursday, May 11, 1989, at 9:00 a.m., at The Washington Post Company, 9th floor, 1150 15th Street, NW, Washington, DC.

■ ***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:

	1988		1987	
Quarter	High	Low	High	Low
January-March	$229	$187	$194	$153
April-June	229	204	222	177
July-September	206	187	269	206
October-December	216	190	266	150

Both classes of common stock participate equally as to dividends. Quarterly dividends were paid at the rate of 39 cents per share in 1988 and 32 cents per share in 1987. At February 22, 1989, there were 16 Class A and 1,937 Class B shareholders of record.

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The Washington Post Company
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Washington, D.C. 20071