The Washington Post Company

1998 ANNUAL REPORT

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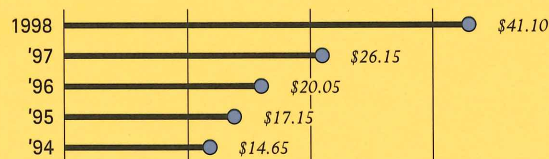
The Washington Post Company is a diversified media organization whose principal operations include newspaper and magazine publishing, broadcasting, cable television systems, electronic information services, and test preparation, job placement, and job skills training. A complete listing of the company's activities can be found inside the back cover of this report.

Financial Highlights

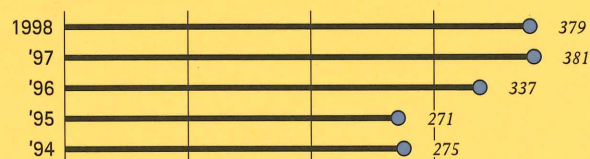
(in thousands, except per share amounts)	1998	1997	% Change
Operating revenues	$2,110,360	$1,956,253	+8%
Income from operations	$ 378,897	$ 381,351	–1%
Net income	$ 417,259	$ 281,574	+48%
Basic earnings per common share	$ 41.27	$ 26.23	+57%
Diluted earnings per common share	$ 41.10	$ 26.15	+57%
Dividends per common share	$ 5.00	$ 4.80	+4%
Common shareholders' equity per share	$ 157.34	$ 117.36	+34%
Basic average number of common shares outstanding	10,087	10,700	-6%
Diluted average number of common shares outstanding	10,129	10,733	-6%

OPERATING REVENUES
($ in millions)

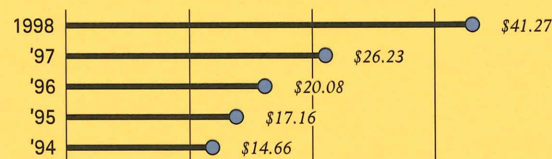
DILUTED EARNINGS PER COMMON SHARE



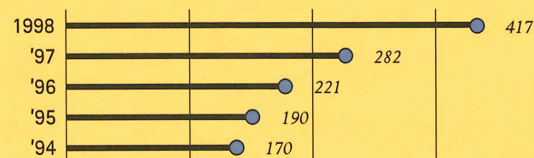
OPERATING INCOME
($ in millions)



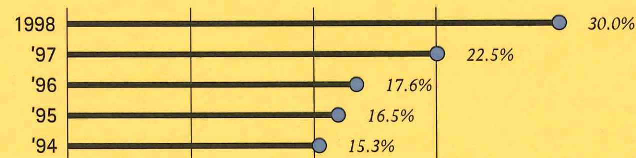
BASIC EARNINGS PER COMMON SHARE



NET INCOME
($ in millions)



RETURN ON AVERAGE COMMON SHAREHOLDERS' EQUITY



To Our Shareholders

All of business seems to be getting more complicated, and the story of our company is more complicated than it once was. We think that 1998 was a fine year, although there were some reverses along with the good news. Innumerable one-time events made it difficult to decipher our reported earnings, and we will undertake in this annual report to disentangle them and give you a clear picture of how we fared.

Of course, our own evaluation of how we performed depends in part on our aims. We've talked about those over the years, but hope this reiteration is helpful:

1. We are a highly decentralized company. Operating heads like Bill Ryan at Post-Newsweek Stations, Tom Might at Cable One, Rick Smith at Newsweek, Jonathan Grayer at Kaplan, Bev Keil at Post-Newsweek Business Information, and Marc Teren at Washingtonpost.Newsweek Interactive truly run the businesses. Our aim is top business performance in each field.
2. In most years, we make more money than we are obligated to spend on dividends and capital expenditures. Deciding how to allocate that capital is our key job. The company has never been interested in revenue growth for its own sake. Our unwavering aim, imperfectly realized, is the best use of every dollar for your benefit to increase profit and strengthen business franchises on the way to growth in value.
3. We are not at all interested in quarterly results (and we can guarantee they won't present a smooth or predictable pattern of any kind). As we grow the value of our company (and your share of it), we are willing to lose money this year if we believe we'll profit in the future from the investment. When we say this, we expect you to hold us accountable for the increase.

Our summary view of 1998 is that while earnings net of one-time events didn't grow as much as we might have

hoped, the year saw us build the intrinsic value of the company meaningfully. We did this through changes Tom Might has been gradually making in our cable division and by a significant expansion of Kaplan Educational Centers. We also cautiously saw signs of progress in our Internet activities, which are now significant enough in scale that their success or failure will be quite important for the company's future.

To begin the disentangling: total reported earnings were $41.10 per share (on a diluted basis), an increase of 57 percent over 1997. This is an all-but-meaningless figure, distorted by the huge gain on the disposition of our interest in Cowles Media Company. The profit, substantial and as welcome as it was, cannot be repeated and is consequently irrelevant to future events. (Messrs. Spoon and Graham would like to note once again that 100 percent of the credit for this large gain goes to Kay Graham, who made our initial investment in 1985.)

Unfortunately for simple financial reporting, this year we also disposed of 14 small cable systems; Moffet, Larson & Johnson (MLJ), our PCS consulting firm; and our investment interest in Junglee, a facilitator of Internet commerce. On these transactions we booked an after-tax profit of $31.0 million. (With impeccable timing, we sold most of the Amazon.com stock we received for our Junglee interest just days before Amazon tripled.)

We acquired cable systems serving 72,000 subscribers in Mississippi, Louisiana, Oklahoma, and Texas from Marcus Cable. We acquired other systems in Anniston, Alabama, and Grenada, Mississippi. Kaplan made eight acquisitions during the year, and we bought New Homes Guide, an established publication in the Washington real estate market. All of these acquisitions contributed to earnings in 1998.

Our unaudited attempt at a pro forma comparison with 1997—removing acquisitions and dispositions from both years—suggests that revenues were up 4 percent, expenses were up 4 percent, and operating income grew by 3 percent. Lower profits at The Post, big increases in Internet-related expenditures, and investments in Score! Educational Centers offset profit growth at Cable One, Post-Newsweek Stations, Newsweek, and Kaplan.

Although The Post's profits fell, the newspaper had a satisfactory year in most key respects. When 1998 dawned The Post was nervously awaiting a year in which eight new presses were to be brought on line, replacing 14 old presses, some of which had been printing papers since 1949. Press transitions can be notoriously difficult, but production vice president Mike Clurman and his team brought this one in on time and under budget. In fact, the new press project, including a new plant in Maryland and a completely modernized and expanded plant in Virginia, ended up costing $230 million, $20 million below what was authorized by our Board of Directors.

These words and figures are inadequate to convey the admiration felt by Post management for the job Mike and his team carried out, and particularly the relief of the circulation department. Daily and Sunday circulation service (measured by complaints per 1,000 subscribers) actually improved and set an all-time record during the year of press transition.

There is no rest for the weary, however. As 1999 dawned the paper faced an entirely new production schedule with color debuting in January, along with our first modest efforts at zoning the daily paper. This was soon to be followed by the computer pagination of all the pages of the newspaper, a software task of daunting complexity; a new advertising computer system; a new circulation computer system; and the year 2000 computer bug awaiting us at year end. Wish us luck.

Steve Coll, a Pulitzer Prize winner and gifted Style and financial reporter and foreign correspondent, became managing editor in July. Steve will be a huge contributor to the future of the paper.

Editorially, it was a gratifying year. The Post was the first to print the Monica Lewinsky story in early January, and executive editor Len Downie and the staff spent a year of patient days and nights deciding what stories we would print as the Starr investigation progressed. Through a year of challenging decisions, the paper managed to be both aggressive and accurate in its reporting.

At year end, investigative reporters Sari Horwitz, Jeff Leen, Jo Craven, and David Jackson wrote an astounding series that told a simple story: D.C. police officers had shot more citizens than any other police department in the country by a significant amount. A new District police chief immediately set in motion a series of reforms that will almost certainly lead to a reduction in deaths in the future.

Daily and Sunday circulation each fell 1.3 percent, a result that was disappointing. While Post market penetration remains higher than that of other big-city papers in the U.S., we need to continue to focus our efforts on the circulation of printed copies of the paper. Total readership, including the Internet, boomed, of course, but we want more readers of the printed as well as of the electronic version of the paper.

Newsweek reported all-time record profits despite the absolutely impossible difficulties endured by the international edition. The national sales force under Harold Shain and new publisher Carolyn Wall brought in an exceptional revenue performance, and expenses were as tight as ever.

One Friday in early January 1998, Newsweek reporter Michael Isikoff had the first exclusive news of the Monica Lewinsky investigation and had most of the important facts. As publication deadline approached, however, the staff had been unable to talk to key participants, including Lewinsky herself, Vernon Jordan, and President Clinton. Knowing his decision would likely be criticized, Rick Smith concluded Newsweek would not print an incomplete story and decided not to publish it. At one year's remove, we couldn't be prouder of that decision and of Rick Smith, who continues to lead Newsweek as no one else could.

Late in the year the staff was shocked by the death of Maynard Parker, Newsweek's brilliant long-time editor. A tribute to Maynard appears elsewhere in this report, but the three of us would like to add that all of you should know how uniquely, critically important Maynard was to Newsweek and its success. In Rick Smith and Maynard Parker, Newsweek has had two absolutely great editors back to back. Mark Whitaker, Maynard's trusted assistant and confidant, succeeds him with the admiration of everyone on the staff

for the judgment with which he led the magazine through the last difficult year.

Post-Newsweek Stations remained the largest contributor to the company's profits and continued to outperform the industry. Bill Ryan's choice to lead our new station in Orlando, Kathleen Keefe, strengthened the station's ratings and profits in its first year under Post-Newsweek management. Chris Rohrs, formerly station manager of WFSB in Hartford, rejoined Post-Newsweek Stations as vice president/sales and marketing. Thanks to the work of station managers Alan Frank (Detroit), Steve Wasserman (Houston), John Garwood (Miami), Jim Joslyn (San Antonio), and Sherry Burns (Jacksonville), the division's profits showed an increase in a year when not all station groups did so.

Looking ahead, digital broadcasting and the highly public attempts by the major networks to redefine relationships with affiliates signaled changes in what has been a very stable industry over the years. We welcome the chance afforded by both developments to improve the quality and extent of our broadcasting and to strengthen and improve network relations when the networks are open to it.

Changes engineered by Tom Might and his team, including Tom Basinger and Jerry McKenna, have made the cable division a far larger and more important component of The Washington Post Company in 1998 and for the future. The acquisitions completed last year gave us the largest increase in basic subscribers since we bought Cap Cities Cable in 1986.

What has made Cable One unique is Tom Might's focus on customer service. Every Cable One associate, from vice president to installer, understands that our goal is to have the best customer service of any cable company in the country. To facilitate this, we continued to spend heavily on improving our systems, consistent with the size of our markets. We also continued to prepare for new technologies, including the chance to deliver Internet service through cable modems and new digital channels through advanced set-top boxes. These remain future developments, however, in markets of our size. Nonetheless, we eagerly await these and other technology-based opportunities, and we are prepared to exploit them as technical standards stabilize and capital costs move down the volume curve. If we are able to deliver on Cable One's fanatical commitment to high-quality service—and offer attractive new services when appropriate—we will find no better way to fend off satellite and other competitors.

Tom renegotiated programming contracts to reduce the number of satellite suppliers providing partial coverage of our systems in favor of more networks supplying programming on a company-wide basis. This will help reduce future increases in programming costs, one of the major challenges for all cable companies.

Kaplan, a small business when we bought it in 1984, has now grown to meaningful size in the company. Beginning with 1999 numbers, we will break out its results in our segment reporting. We don't know how big Kaplan can become, but Jonathan Grayer has proven himself an expert evaluator of acquisition opportunities and an able manager of a range of education-related businesses.

Kaplan Professional became the number-one operator of career fairs in North America with the acquisition in 1997 of The Lendman Group in the U.S.; last year it acquired CEO Group in Canada. We also expanded into the software education business with the acquisition of Perfect Access, a unique New York City-based business. Kaplan began to provide training services for the securities, insurance, and real estate industries with the acquisition of Dearborn Publishing.

These new businesses came together as a coordinated thrust into providing professional, career, and training services that extend beyond the college and graduate school markets we traditionally served. Kaplan also is taking its brand, content, and field-execution skills into schools—public and private, secondary and collegiate—where it is providing basic skills training under the banner of Kaplan Learning Services.

But the best news was that Kaplan's core test preparation business continued to grow in revenues and profits, number of students, and general excellence.

While we strongly believe in Kaplan's growth prospects, its future ultimately depends on customers' perception that a Kaplan course, career fair, or professional training program is worth the money they spend on it. We are focusing on making Kaplan's financial results grow for you, our shareholders, but Jonathan, Andy Rosen, and the rest of the management team continue to focus just as much on delivering excellent results for every student. Success in that is what will make long-term profit growth possible.

We also continued to invest in Score! This has been a highly gratifying launch, under Rob Waldron's leadership. In 1998 he and his team opened 32 new Score! centers, most of which quickly filled to capacity. Score! now operates 70 centers. Parents learned that their kindergarten-through-eighth-grade children gained worthwhile academic skills from Score's combination of computer-based instruction and energetic, enthusiastic coaches.

Our Internet investments grew dramatically. They now include Washingtonpost.Newsweek Interactive (suggestions for a new name are welcome), as well as interests in Classified Ventures and CareerPath.com, two Internet companies seeking to capitalize on the massive classified advertising resources of newspapers across the country.

Thanks in part to an unusual amount of breaking news in Washington, the viewership of washingtonpost.com boomed as the year went on. By October the site was recording 67 million page views a month and was rated among the top five general news sites in the country. We are amazed by the size of washingtonpost.com's audience, though it hasn't yet generated any profits and won't any time soon. But independent audience measurement surveys suggest that our site's penetration of its market is far greater than most newspaper-based Web sites, giving us an important role in the future electronic marketplace in Washington if we are smart enough to manage it well. In addition, the site's national and international audience brought Post reporting to readers across the country and the world for the first time.

While newspaper classified advertising revenues increased at The Post, we redoubled our efforts to see to it that the classified sites in which we participate on the Web are long-term winners in what will be a vigorous competition. Shareholders should be under no illusion: the future of

classified advertising on the Internet is crucial to the future economics of the company, and we continue to spare no expense to try to build our place in that world.

We are pleased with the mix of businesses in The Post Company, especially at this time of accelerating Internet impact. The mix evolved not out of a grand vision, but rational forecasts of long-term business prospects and their valuations made in recent years when we had opportunities to invest. That we spent more heavily on broadcasting, cable, and education is not a random result of sellers' decisions to divest (indeed there were sellers in every one of our industries), but rather a logical outgrowth of our investment judgments about risk and return. Not surprisingly, the net effect of the Internet on our cable and education businesses is probably more favorable than on our print publishing activities.

The Internet challenge we face is not limited to designing business plans to exploit Internet opportunities or build defenses against Internet incursions. The toughest challenge, perhaps, for all our senior managers—including those mentioned here—is to sustain our operational excellence while swiftly exploring and agilely embracing new Internet business models—friend or foe. Our managers must be willing to seize new technologies for increased advantages whenever our existing business models allow (e.g., Internet enrollment and distance learning at Kaplan). They must also be willing to create or support competing, even destabilizing, business models when such models are inevitably going to be advanced by others outside our traditional marketplaces (e.g., electronic classifieds). We doubt we can control the passage from one business equilibrium to another shaped by Internet technology. But we are confident our managers can be equally aggressive in profitably operating what works in today's market while securing a solid business footing in tomorrow's technology-enabled marketplace.

Our shareholders should know that our highly profitable traditional businesses will bear the burden of the investments we're making in attractive new business positions in the technology-infused world ahead. As we noted above, had we not been engaged in such forward-looking commitments, our operating income would have been substantially higher—more so in 1999.

We ask a lot from our shareholders in this transition period. We ask a lot from our managers and Post people generally, as they wrestle with the successful present and less certain, but certainly different, future. Their willingness and skill in operating in both worlds are exceptional.

Once again we would like to call shareholders' attention vigorously to a welcome piece of financial news that's important to understand. Because of brilliant management of our pension funds, provided in great part by Bill Ruane over the past 20-plus years, The Washington Post Company's operating income now includes more than $60 million of pension credits. These earnings are real in that we will avoid spending that much of the company's money in the future on retirement benefits. But these earnings are not cash and therefore should be viewed as being of somewhat

lesser quality than other earnings. We report financial results in the format required by generally accepted accounting principles, but we wish to focus your attention on the scale of the non-cash element of our profits, and we will continue to point it out to you in the future.

Shareholders also should know that late last year we invested $165 million in the stock of Berkshire Hathaway Inc. This was a late-breaking revelation. Had Messrs. Graham and Spoon made the same investment when they assumed their present jobs in 1991, the investment would today be worth almost $1.5 billion. Berkshire's management needs no endorsement from us. Berkshire's purchase of General Re and the increasing strength of Berkshire's position in several industries attracted our interest. (Warren Buffett, our director, played no role whatever in our analysis or our decision to invest.) We hope to be long-time participants in the continued rise of this unique company.

Marty Cohen is retiring from the Board in May after 12 years as a director. As we noted last year when Marty retired from active service in the company, he has been a legend for his wise counsel, high ethical standards, and absolute frankness. We look forward to having the benefit of his judgment in an unofficial capacity in the future.

Today's Washington Post Company is not a simple one. Investors trying to understand the value of the business have to know something about newspapers, magazines, television stations, cable systems, education, and the Internet. We are willing to invest in good properties in any of these industries. Our decentralized management style means that division heads operating these businesses enjoy unusual freedom to run them, and we've been repaid with outstanding results. Our traditional businesses continue to be solid performers. Kaplan and Cable One are much more valuable today than a couple of years ago, and the future of both is very good.

Ultimately, we won't know how successful a year we had in 1998 until we know whether our Internet investments build valuable businesses for the company and new services and functionality for our customers. All three of us and everyone in Post Company management will keep focused on opportunities for wise investments to make the value of our businesses grow.

In the pages that follow, we've asked several key people in the company to talk about changes in their own jobs and businesses.

Sincerely,

Donald E. Graham
Chairman and Chief Executive Officer

Alan G. Spoon
President and Chief Operating Officer

Katharine Graham
Chairman of the Executive Committee

March 5, 1999

Of Mighty Mouse and Meters

By Ann Pace Sutton, Vice President and Station Manager, WJXT-TV, Jacksonville

Ann oversees programming, community affairs, promotion, graphics, and video services at WJXT and is involved in policy making and the development of editorial positions. She joined WJXT in 1979.

I'm a child of television. These images wallpaper my childhood memories: Dave Garroway and Jack Lescoulie on "Today," the Saturday night fights with Floyd Patterson, Bret and Bart Maverick, Mighty Mouse ("Here I come to save the daaaaay!"), and, of course, Ed Sullivan; my favorite act was that juggler spinning plates on long sticks to the high-speed *Saber Dance* music. (Can you hear it?)

When I was six, and crowned "Miss Poppy," I was featured on a Peoria TV kids' show. That did it, opening the door to my destiny: to one day become the VP/Station Manager of WJXT-TV 4, working for the best company on the planet, and living in the best town in America.

My beloved TV station celebrates its fiftieth birthday this year, and for the past 20 years, it's been an honor to be part of this extraordinary station, this extraordinary company. Since the day I walked in the door, I've known that *leadership* is the mandate. That's personified by Bill Ryan and prevails at each Post-Newsweek station. Performance

Broadcast Division

BUSINESS OVERVIEW

THE BROADCAST DIVISION had its best year ever. Operating income rose 4.6 percent to $171.2 million, from $163.7 million in 1997. Excluding the effect of the WFSB/WKMG trade, completed in September 1997, division operating income rose 7.0 percent. The stations' revenues increased 5.7 percent, buoyed by better-than-expected political revenues in all of the Post-Newsweek markets.

WDIV-DETROIT maintained the top position in its market in 1998. The station was number one in all dayparts and all news blocks, making WDIV Detroit's most-watched news organization. WDIV was chosen by the Michigan Association of Broadcasters as Station of the Year and received the General Excellence award from the Associated Press.

After Hurricane Mitch devastated Central America, WDIV organized a massive relief effort that generated an enormous response from the community. Some 125 tons of supplies were donated in six days. The station brought in a local retailer for collection sites, the Detroit Pistons contributed their team jet, and Northwest Airlines supplied a 747 to make what became known as "The Flight of Champions." Two days before Thanksgiving, WDIV crews documented the delivery of the donated supplies to Honduras.

KPRC-HOUSTON was the number-one television station in Houston in the crucial May ratings sweeps—sign-on to sign-off—for the first time in more than 20 years.

KPRC's growing local news operation received several major awards that recognize excellence in journalism, including five regional Emmys, more than any other Houston station. KPRC also won the best newscast award from the Houston Press Club for the third consecutive year and received three Katie Awards from the Dallas Press Club.

WPLG-MIAMI-FORT LAUDERDALE continues to deliver the largest audiences in daytime, early news, access, and late news programs among the English-language stations. WPLG also finished number one, sign-on to sign-off, among that same group. WLTV, a Spanish-language station, moved ahead of all stations in the market in audience ratings.

Highlights of WPLG's news programming in 1998 included live coverage of Pope John Paul's historic visit to Cuba, the devastation of Hurricane Mitch, and the corruption scandal that rocked the Miami city government. WPLG's strong commitment to community service was further solidified in the station's Town Hall Meetings, featuring live, in-studio audiences. One provided the first and most-watched live debate between gubernatorial candidates

Jeb Bush and Buddy MacKay, which also was broadcast simultaneously to a statewide network of stations.

WKMG-ORLANDO weathered killer tornadoes and rampant wildfires while continuing to work on the basics: building and branding WKMG's unique news elements and developing a strong management team.

WKMG created a strategy to dominate local weather coverage in a volatile weather area, including acquiring Doppler radar and installing live weather stations and cameras throughout the area. As part of its strategy to improve news coverage, KMG updated its entire on-air look and debuted a state-of-the-art news set.

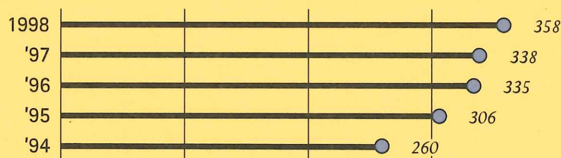
KSAT-SAN ANTONIO continued for the fifth consecutive year to dominate the market in local news and local programming. Strong key younger demographics continue to generate revenue growth for the station.

In late summer KSAT broadcast 30 additional hours of live programming to cover the worst floods in South Texas in over 100 years, including a live two-hour phone-in show enabling viewers to speak with relief organizations.

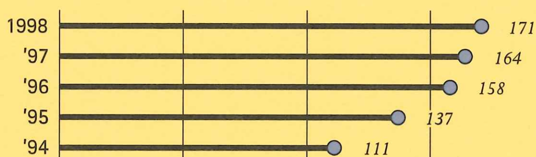
WJXT-JACKSONVILLE thrived during a year of tumult, relishing the return of the NFL to CBS, and the Jaguars to JXT, as well as the changeover from a Nielsen diaried market to a metered one—a transition that has proved a ratings disaster for many long-time market leaders. WJXT emerged victorious, not only dominating local news time periods but earning the highest ratings in the nation among metered markets for its 6 p.m. Eyewitness News.

For the second consecutive year, WJXT was awarded the Edward R. Murrow Award for Overall Excellence from the Radio-Television News Directors Association.

BROADCAST DIVISION OPERATING REVENUES
($ in millions)



BROADCAST DIVISION OPERATING INCOME
($ in millions)



expectations are high. And we thrive on that challenge, *especially* when grappling with change. During my career at PNS, there's been plenty.

In 1979 the plate-spinning act in Jacksonville was simple: there were just three commercial stations. Cable was not a factor. Our ratings dominance was mind-boggling, yet we never took it for granted. During those days, I was proud to create news promotion campaigns that helped us generate 50+ shares of audience.

Wow! Times have changed! Today, Jacksonville is served by eight stations, and cable has wired 73 percent of the market, with nearly 100 channels. Jacksonville is booming. Our population is past the million mark, we're the proud fans of a successful NFL franchise, and national magazines rank our city as one of the most livable. The influx of newcomers here is outpacing the rest of the state.

In the broadcast world, WJXT has always been the one constant amid market confusion and commotion. Our dominance originates from decades of Washington Post ownership and our adherence to high journalistic standards, as well as a commitment to our community. It has earned us long-term viewer loyalty in a market where competing stations have swapped network affiliations, changed ownership, and suffered chronic talent turnover. Today, the competitors are owned by established broadcast groups who have invested the resources to produce a competitive product. People moving to Jacksonville grew up on the other networks, not our CBS. We are challenged to attract newcomers to our station.

So we innovate. We reinvest in our core business and contemporize that precious product that distinguishes us: local news. Just as WJXT pioneered animated weather graphics and the tower cam, we lead in weather technology and boost our live trucks with "eagle eye" mast-cameras. Our studio provides a vibrant, high-tech setting for the longest-running four-person anchor team in America. Custom promotion campaigns stick in your head like the *Saber Dance* music. On-air announcements are supplemented with creative use of new media including e-mail and the Internet. No sitting on our laurels here. We're very aggressive in protecting and *growing* our leadership position.

This year we faced our biggest change yet. Our market converted from Nielsen's diary system to meters. *Meters: notorious for diminishing dynamic stations.* Doomsday prophets predicted WJXT would topple. The competition smacked its lips in anticipation.

Not so! As the "overnights" document each morning, WJXT remains the market leader! Our newscast of record at 6 p.m. is watched by 32 percent of the market's viewers, and is the number-one ranked newscast among all "metered" markets in the country. We deliver the number-one Dan Rather program in the nation and we overperform CBS' prime time by 13 percent. Our sign-on/sign-off viewership is at a remarkable 21 percent. That's day-in and day-out performance.

What about breaking news coverage in this *new, metered* world? Last June we tackled one of our toughest news events: in an insidious about-face of nature, summer's afternoon thunderstorms were replaced by terrifying *fire* storms. For days the wildfires seared through our neighboring communities. Water was rationed. Skies took on a wartime look, sooty in daylight, glowing red at night. WJXT's news operations stayed with it, around the clock, delivering tireless, quality coverage. The new meters confirmed what was true then is still true today: when news happens, folks tune to WJXT-TV...yes, even *the newcomers.* Our ratings actually *exceeded* our competition *combined.* That's what being a Post-Newsweek station is all about.

Embrace change? It's more like waltzing with it—as long as we can lead. From my station's 50-year perspective, the more things change, the more they stay the same. And after 20 years, I am still thrilled to be a child of television—*Post-Newsweek* television.

The Making of a Front Page

By Milton Coleman, Deputy Managing Editor, The Washington Post

Milton joined The Washington Post as a reporter on the Metro staff in 1976. After serving as an assistant city editor and city editor, he joined the National staff as a reporter. In 1986 he was named assistant managing editor-metropolitan news. He has been deputy managing editor since July 1996.

I can't recall exactly where I was at each of the final mile-posts of the Watergate scandal 25 years ago. I know where I was *not*, however: in the newsroom of The Washington Post. I came two years later, in 1976.

But on Saturday, February 6, 1999, the day that Monica Lewinsky told her story in public for the first time, I was there. Not in the Senate, where her videotaped testimony was played. But in The Post's fifth-floor newsroom, as the weekend duty officer in charge of the front page of the next day's newspaper.

As deputy managing editor, my primary responsibility is to run the newsroom personnel office. I also coordinate much of the strategic development of regional zoning at The Post. And as the titular number-three editor in the newsroom, I am occasionally in charge during the week and on weekends.

The front page of The Washington Post in many respects is where the newspaper comes together 365 days a year, the journalistic best foot forward of more than 600 professionals. It's also a snapshot of sorts of who and where we are as a newsroom.

This front page was only the second Sunday edition to be printed in full color on our new presses. Barely a month

Newspaper Division

BUSINESS OVERVIEW

NEWSPAPER DIVISION operating income decreased 4 percent in 1998 to $165.1 million, from $172.6 million in 1997. The decline resulted primarily from a 10 percent increase in newsprint expense and additional costs associated with the expansion of the printing facilities of The Washington Post, offset partially by growth in advertising revenue. Operating revenue totaled $846.8 million, an increase of 4 percent over revenue of $812.9 million in 1997. The 1998 year included 53 weeks, compared to 52 weeks in 1997. (Operating losses from investments in Internet-related activities are included in Other Businesses.)

THE WASHINGTON POST recorded a wide range of achievements. The most important and far-reaching accomplishment was the completion of The Post's new printing facilities. This project included building a new plant in College Park, Maryland; expanding and modernizing The Post's plant in Springfield, Virginia; and replacing all of the paper's letterpress presses with eight new offset machines. The project, originally budgeted for $250 million, was brought in for $230 million. Conversion of all production to the new presses was completed in January 1999 and enabled The Post to introduce several improvements. These included color on the front page and elsewhere in the paper, standard organization of sections and features, better black-and-white reproduction, new color advertising positions, and increased zoning of news and advertising. The introduction of a narrower and shorter newspaper provided an easier-to-handle format for readers and will save significantly on newsprint.

Advertising revenue increased 4 percent to $630.1 million, from $604.1 million in 1997. The Post had a strong revenue picture through most of the first eight months of the year. However, when the stock market declined sharply in the fall, advertising slowed at The Post as well. Although the climate began to improve in November, retail advertising volume was off 7.5 percent for the year, and classified was up only 0.4 percent. General advertising was essentially flat. Low unemployment and continued growth of the region's technology sector contributed to robust results in recruitment advertising, which was a $150 million business in 1998. Preprints also were strong, rising 6.5 percent to more than 1.6 billion pieces.

Circulation declined, falling 1.3 percent both daily and Sunday. This is a primary concern of Post management. However, readership and household penetration have remained very high. The Post also had a remarkable achievement during the year. In the face of new plants, new presses, and new distribution procedures, the paper's home delivery distributors set an all-time record for fewest circulation complaints.

In order to stay competitive beyond its core, in circulation areas where the region's population is growing, The Post in 1998 launched another new outer-county section, in Southern Maryland. The Post also introduced an expanded weekly section in Prince George's County.

THE NATIONAL WEEKLY EDITION of The Post, with a circulation of approximately 81,000, continues to serve a national readership with a strong interest in news about politics, foreign affairs, and public policy.

THE WASHINGTON POST WRITERS GROUP in 1998 reported significant gains in revenue from international sales and from its worldwide photo and text reprint business. Despite difficult economic conditions in some parts of the world, international revenue rose 20 percent. The Writers Group will launch two new comics in the spring of 1999.

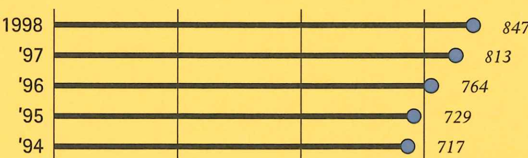
THE HERALD (Everett, WA) enjoyed exceptionally strong advertising revenues, which led to record operating profits and margins. Thanks to a strong economy and a commitment to investing in sales, sales support, and new products, company-wide revenues grew almost 10 percent compared to 1997, and overall operating income rose 16 percent.

Foremost among the 1998 highlights was the April launch of a new business publication targeted at business owners in Everett and the surrounding areas of Snohomish County. First-year revenues exceeded the launch plan by 16 percent.

GAZETTE NEWSPAPERS posted its fifth straight year of solid growth in operating income, led by a record year in classified advertising, business and technology publications, and commercial printing. Circulation for Gazette Newspapers' 30 free community newspapers and one paid-circulation weekly is now 433,000 copies. The company launched six weekly newspapers in 1998, all in Prince George's County, where circulation now totals 110,000 copies. The Montgomery Gazette, a weekend edition circulated statewide, received the General Excellence Award from Suburban Newspapers of America.

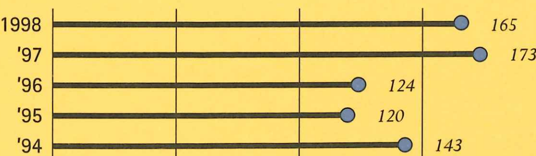
NEWSPAPER DIVISION OPERATING REVENUES

($ in millions)



NEWSPAPER DIVISION OPERATING INCOME

($ in millions)



earlier, we silenced forever the ancient black-and-white presses in our downtown Washington headquarters. So be it. The work we do is no longer as black and white as it was a generation ago.

That Sunday's front page was crowned with a superbly crafted news report on the findings of 29 Post reporters dispersed hither and yon to chronicle a day in the life of city services in the nation's capital. A quarter century after Watergate, we are still first and foremost a local newspaper. Extraordinary enterprise journalism like this article is what our core readers throughout the ever-expanding local region expect from The Washington Post.

As fine a story as this was, we could not simply plop it atop the front page and assume the readers would come. Visual appeal is very much a part of newspapering today. There are no more old gray ladies.

So to accompany the story we used a full-color montage of two graphic elements: digital images of basic D.C. government documents—including a driver's license, a library card, and a parking ticket—surrounding the stern-faced image of Mayor Anthony A. Williams, who has pledged to end the "tyranny of those DMV lines." Staffer John Anderson produced the illustration in about an hour. Just a decade ago, when computer software was less advanced, this task would have taken two days.

News photography in The Washington Post also has changed dramatically in that time. Then, we did not have an award-winning photo department. Nor did we have Joe Elbert, the head of that staff who has schooled our top editors on how to choose and present images more effectively.

All four photographs on that Sunday front page contained at least one of the elements that Joe says make news photography most compelling—emotion and intimacy. The centerpiece photo, recommended by assistant photo editor Luis Rios, showed Jordan's Queen Noor. Her eyes were closed and her fingers laced before her as if she were pleading in prayer, as she thanked well-wishers outside the hospital where her husband, King Hussein, lay, a single sunset away from death. The image was riveting, especially in full color.

The three news editors with whom I worked most directly that day—Cheney Baltz, Laurel Dalrymple, and Nicole Werbeck—are all women, all young. All worked in color images and electronic page design *before* they joined The Post, where the arrival this year of those twin technologies is dramatically changing our work and our workplace. And all three fit the bill for Post news editors of the future—solid news judgment, graphic creativity, and the computer-based wherewithal to put it all together, on deadline.

Women now make up 40 percent of our newsroom staff. The two editors who directed the Clinton impeachment story for The Post are Karen DeYoung and Susan Glasser. Karen has been a pioneer who, in more than 20 years in this business, has been a foreign correspondent on four continents and led our national news coverage for eight years. Susan is a relatively recent arrival. She was a first grader when Nixon resigned the presidency.

One of every six professionals in our newsroom is an ethnic minority. A few office conversations take place in Spanish. More so than many other newspapers, we've learned that journalistic excellence comes in many flavors.

It was once an adage of American newspaper journalism that if you beat the competition on Sunday, you were ahead for the entire week. Nowadays, Sunday competition is about half a dozen other newspapers, plus television, news magazines, and cyberspace. washingtonpost.com is our cyberspace warrior. In the battles of ink on paper, however, our fundamental weapon is still the grace, thoughtfulness, and power of the written word.

This front page was punctuated in the lower right corner by a story headlined "Still Groovin' on the '60s"—a thought piece of sorts about nostalgia, television, and pop culture. Even on the front page of The Washington Post, there's room to ponder the not-so-ancient lyricist's probing query: *What is hip?*

This newspaper dare not become passé.

Changing Cable Channels...and Priorities

By Jeffrey L. Olson, General Manager, Cable One, Sioux City, Iowa

Jeff is responsible for achieving financial goals, increasing customer and associate satisfaction, and maintaining community relationships at Sioux City's 25,000-customer system. He joined The Washington Post Company as accounting manager in 1988 and moved to the cable division in 1993.

Change in the cable industry goes a lot further than using the remote control to switch channels. As Sioux City's general manager, my priority list has evolved considerably in the past several years. In prehistoric times (that is, four years ago), I spent most of my day reading financial statements, reacting to cash flow needs, and troubleshooting.

Today, while cash flow remains a top priority, my office calendar is very different. I devote much of my time to training, coaching, and motivating my staff. Above all, I am focusing as never before on meeting and beating the competition, increasing customer satisfaction, and using new technology to improve the business.

Competition, on the horizon four years ago, is now a fact of life in Sioux City. Direct broadcast satellite (DBS) companies have stormed the marketplace, and the threat of competition from telephone companies and municipal utilities is right around the corner. Every day television and radio commercials, newspaper advertising, and direct mail pieces

Cable Division

BUSINESS OVERVIEW

THE CABLE DIVISION concentrated on two major strategic activities in 1998. First, it continued the customer-oriented initiatives that it had started in 1997, and second, it grew substantially through acquisitions.

Let's go back a year. The programs and initiatives begun in 1997 ranged from a new name, Cable One, to over two dozen other programs designed to enhance customer and associate satisfaction. These actions were undertaken in the face of increasing competition from direct broadcast satellites (DBS) and came at a price of slowing cash flow growth in 1997.

In 1998 the investments began to pay dividends. Total cash flow (earnings before interest, taxes, depreciation, and amortization) increased to $126.5 million, up almost 21 percent from 1997's $104.7 million. Cash flow from systems that were owned for the entire year increased $13.2 million, or almost 13 percent over 1997.

At the end of 1998 the division had 733,000 basic subscribers, up 95,700 from year-end 1997. Approximately 115,400 subscribers came from newly acquired systems, 29,000 subscribers were lost in systems that were sold, and internal growth added about 9,200 new customers. Internal growth in subscribers was slightly better than 1 percent, and total growth was 15 percent.

This past year was busy on the acquisition front. In March the division acquired 7,400 customers in the cable system serving Grenada and Bruce, Mississippi, from Bresnan Communications. At the end of June the division acquired 36,000 subscribers in Anniston, Alabama, from Time Warner. Finally, at the end of July the division purchased from Marcus Cable systems serving 72,000 subscribers in Mississippi, Louisiana, western Oklahoma, and the panhandle of Texas. In addition, the division sold 14 of its smallest systems, with a total of approximately 29,000 subscribers, to Classic Cable.

All of these acquisitions and sales furthered the division's clustering in key geographical areas; the acquisitions were made at prices well below some of the large deals seen in the headlines. Cable One is now the largest operator in Mississippi and has more subscribers in that state than in any other. It also has a significant non-urban presence in Oklahoma and Arizona.

Cable One continued to invest in system rebuilds and upgrades. In 1998 the division spent $70 million to increase plant capacity, deploy fiber and other technologies to improve picture quality and reliability, improve the security on premium services so that customers with cable-ready sets did not need a converter, and start rolling out Internet services in its largest systems. While the technology of cable's core business—providing analog television signals to customers—continues to be much the same, new technologies are opening up the prospects of future new businesses.

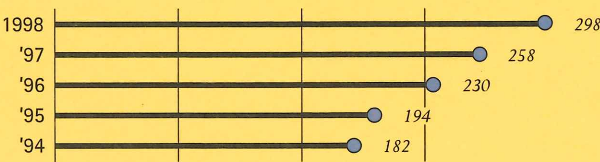
DBS remains the most pressing competitive challenge to cable operators. While Cable One continues to experience small losses in subscribers due to DBS, the losses are being more than offset by internal growth. Many cable operators have now launched digital cable services as their primary response to DBS competition. Cable One expects to begin providing this new technology and its accompanying services by the end of 2000. The benefit of Cable One's concentration on non-urban markets has allowed it to wait until the digital technology and service offerings settle down.

Some cable operators around the country also are deploying high-speed cable modems, primarily in urban markets, to enhance their competitive position. Cable One has chosen not to enter the high-speed business until uniform standards for the high-speed modems are in place, until modems are for the most part purchased by customers rather than provided by cable operators, and until most modems can be self-installed by customers. Cable One instead has launched a dial-up telephone Internet service. This service was introduced in ten systems by the end of 1998 and will be expanded to an additional nine systems in 1999, covering 70 percent of subscribers. As a result, Cable One will be in an excellent position to start providing high-speed service when the time is right.

In the meantime the division will not have spent millions of capital dollars on technology that becomes obsolete quickly, but will have been through all of the customer service, marketing, billing, and headend issues that the high-speed business will bring with it. At year-end 1998, Cable One had approximately 2,500 Internet customers and believes that, in the long run, both slower speed dial-up and higher speed cable modem businesses will simultaneously exist in the same market.

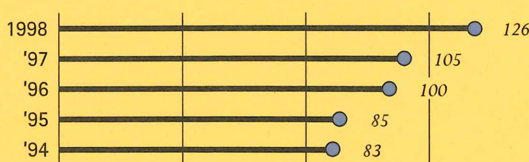
CABLE DIVISION OPERATING REVENUES

($ in millions)



CABLE DIVISION CASH FLOW

($ in millions)



tout the advantages of DBS over cable.

Because cable companies were relatively new to the competitive arena, we've had to revolutionize our culture and our approach to doing business in order to position ourselves to beat the competition.

Customer satisfaction is key. Although making customers happy has always been a top priority in Sioux City, we've recently revised past practices and launched new initiatives to build customer loyalty. We know our competitors offer many of the same channels and that their prices are similar to ours. Our primary advantage is delivering superior service in a local setting. We try to make every contact with each customer a positive experience, starting with the first phone call to establish cable service. Our employees (whom we call associates) are empowered to do whatever it takes to meet the customer's needs.

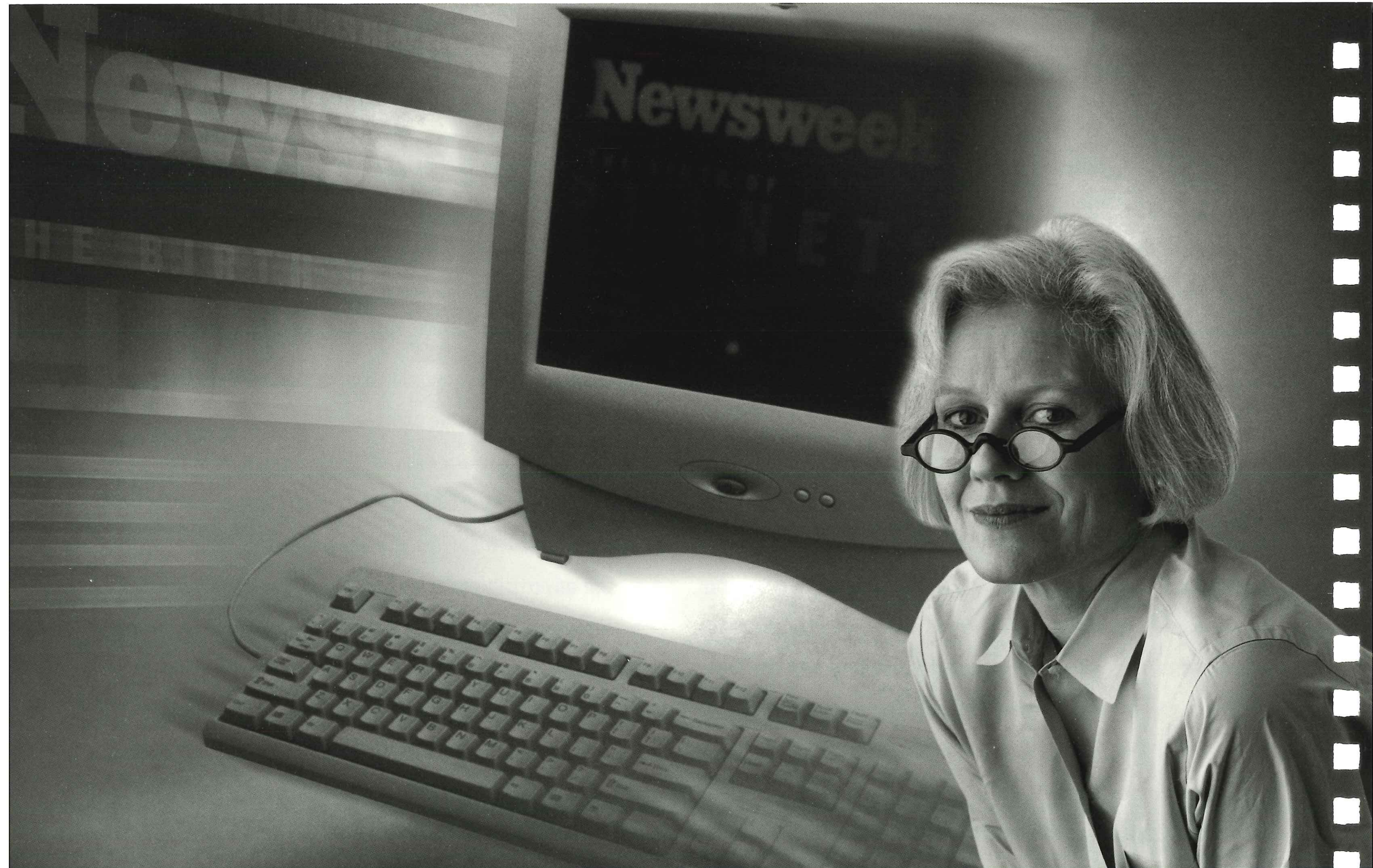
The quality of our technology also is important. Cable One has invested heavily to improve the reliability of our service, improve picture quality, and keep cable outages to a minimum. If maintenance requires us to interrupt service, we make every attempt to perform the work in the middle of the night, when viewership is the lowest. Response times to outages also have improved. Technical advances even make it possible for an alarm to alert us when a cable outage is about to occur due to power failure. We have backup power sources throughout the system, so we can respond swiftly, before customers actually lose service.

Just as cash flow and customer satisfaction can be objectively determined, we have begun measuring associate satisfaction. Associates who take pride in their company and their work create satisfied customers, which in turn leads to cash flow growth. An associate attitude survey was first given to employees in 1996 and repeated in 1998. As a result, we are developing new initiatives surrounding associate empowerment, training, performance evaluation, and work environment.

As is the case for many Cable One systems, the Sioux City system has been upgraded within the past two years. In addition to enabling us to carry more networks and reduce cable outages, these investments position us to offer future services. These include digital cable, cable modems, and telephony. We are prepared to offer any or all of these services through our cable plant just as soon as the economics support entry into any or all of them. Future increases in cash flow will come from these new services as well as from pay services such as HBO and Showtime.

Our advertising department, too, is taking advantage of technological advances to insert local commercials on cable networks. In early 1999 we installed state-of-the-art digital insertion equipment, which replaced the unwieldy, labor-intensive tape decks we used before. Digital equipment allows our advertising associates to respond much more quickly to advertisers' demands for quicker ad changes. Also, advertising schedules run at levels much closer to full capacity, and audio and video levels are much more consistent.

Are we beating the competition? So far, so good. Our increased emphasis on customer satisfaction and associate satisfaction, along with our rebuilt cable system and other technical advances, position us well for the future. But we know we can't take success for granted. We've got to keep sharpening our competitive edge.



A Place at the Table

By Lynn Staley, Assistant Managing Editor/Design, Newsweek

Lynn, who joined Newsweek in 1995, is responsible for the overall look of the magazine and oversees the art, graphics, cover, and photo departments for all domestic and international editions.

It was not an auspicious beginning. My first job out of college was as a paste-up artist for a gritty alternative weekly in Boston. We worked on the second floor of a walkup on Boylston Street, over a pizza parlor, next door to a martial arts studio. On hot summer days the scent of day-old tomato sauce from downstairs mingled with the aroma of overtaxed black belt aspirants next door. And in the winter we huddled for warmth over the dryer attached to the stat camera. That stat camera was one of many tools I learned to use in those early days. There were X-Acto knives, Rapidographs, Letraset, and Rubylith, waxers, burnishers, and rubber cement erasers. Arcane artist stuff—very arcane.

By the early 1980s, I had taken a job at the Boston Globe, where text—heavy and gray—was king. Design was relegated to the fronts of the Magazine and Lifestyle sections, so on the editorial floor designers were out of the loop. And without a union card we couldn't touch anything in the basement where the paper was assembled. Retribution was

Magazine Division

BUSINESS OVERVIEW

THE MAGAZINE DIVISION, which includes Newsweek, Inc., and Post-Newsweek Business Information, Inc., recorded operating income of $44.5 million, an increase of 4 percent over $42.7 million in 1997. Revenue totaled $399.5 million, an increase of 2 percent from $389.9 million in 1997.

NEWSWEEK turned in record operating income for the second year in a row, despite a difficult advertising climate worldwide and particular challenges in the tumultuous Asian market. The gain in Newsweek's operating income was fueled largely by careful cost controls and growth in the pension credit.

On the editorial side, Newsweek was widely acknowledged as the leader among news magazines on the year's biggest story, the Monica Lewinsky scandal. Newsweek also set the pace with its expanded coverage of science and technology, introducing a new supersection devoted exclusively to these subjects and publishing another edition of Computers & the Family, an annual consumer guide. The magazine also expanded its collaboration with Kaplan Educational Centers, introducing a new parent's guide to primary education. With the fall launch of Newsweek.com, the magazine moved from America Online to the World Wide Web.

As anticipated, domestic advertising pages and revenues declined slightly in 1998. Contributing factors included two fewer special issues compared to 1997; a decrease in ad pages from U.S. automotive manufacturers as a result of the introduction of fewer new models in 1998 than in the previous year; and the migration of pharmaceutical ad dollars to television following a change in FDA rules on drug advertising. However, Newsweek made up much of that ground in other high-growth categories: technology; financial, insurance, and real estate; media and advertising; and government and organizations.

Once again domestic paid circulation remained strong at more than 3.2 million. The magazine's circulation strategy continues to yield the most long-term subscribers among the three newsweeklies, as well as the fewest subscriptions sold with premiums. Newsweek's U.S. edition reaches more than 19 million readers, according to the most recent MRI study. Moreover, Newsweek leads the news magazine field in both audience efficiency and quality, delivering more readers in the key groups that advertisers most want to reach.

NEWSWEEK'S INTERNATIONAL EDITIONS experienced a difficult year. Asia edition revenues, both for advertising and circulation, were particularly hard hit by the region's financial crisis. In Europe advertising revenues benefited from the publication of a special issue on the birth of the Euro.

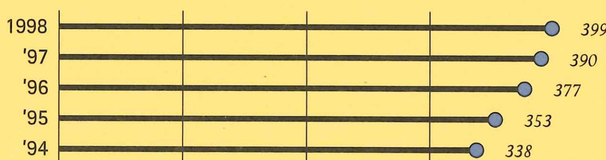
Newsweek remains the only news magazine with weekly foreign-language editions—in Japanese, Korean, and Spanish. An Arabic-language edition will be launched in 1999. Itogi, Russia's first independent news magazine, is also published in cooperation with Newsweek. In early 1998 Newsweek became the first American news magazine to publish and distribute a Chinese-language edition in mainland China, when "Your Child: From Birth to Three" was sold at newsstands there.

NEWSWEEK PRODUCTIONS, which produces the PBS series "HealthWeek," also coproduced the PBS documentary "John Glenn, American Hero" with KCET/ Hollywood in October.

POST-NEWSWEEK BUSINESS INFORMATION (PNBI) publishes controlled-circulation trade periodicals for the technology industry. During 1998 PNBI merged recently acquired publications and trade shows with existing products to become the leading magazine publisher and trade show organizer in the field of government information technology. The PNBI government effort is anchored by Government Computer News and Washington Technology, two tabloid periodicals, and FOSE, an annual trade show. Results for the year were affected by a downturn in advertising revenue for the computer trade publishing industry. However, PNBI saw significant growth in its TechCapital magazine, launched in 1997, which covers technology finance in the mid-Atlantic region. The company also operates Newsbytes News Network, which extended its reach during 1998 through new relationships with Yahoo Asia, CNNfn, Lexis-Nexis, Dialog, and others.

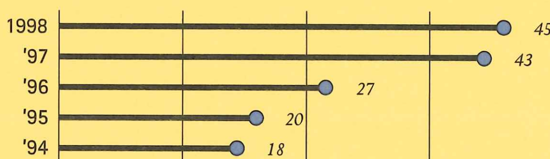
MAGAZINE DIVISION OPERATING REVENUES

($ in millions)



MAGAZINE DIVISION OPERATING INCOME

($ in millions)



Maynard Parker

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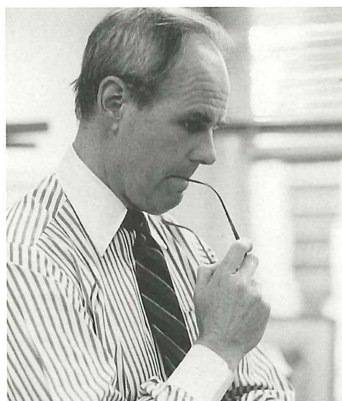


NEWSWEEK LOST A LARGER-THAN-LIFE LEADER IN 1998 with the death of editor Maynard Parker. For 30 years, Maynard gave his heart and soul to the magazine and its people, first as a legendary foreign correspondent in Asia, then as the architect of Newsweek's expanding international editions, and finally as my trusted editorial partner for the past two decades and head of all day-to-day editorial operations since 1991.

As he waged an apparently successful year-long struggle with leukemia and then battled the pneumonia that would ultimately take his life, it was hard for us at the magazine to imagine that anything could still his restless, relentless energies. Maynard was an old-fashioned editor in the very best sense, demanding more in quality and quantity of effort from those around him than even they dreamed possible—and then leading the celebration when reporters, writers, indeed, the entire staff, surprised themselves and invariably delivered excellence on deadline.

Maynard loved, to use his own favorite phrase, "scrambling the jets." When others flagged at the end of a long week or late-breaking news overturned best-laid plans, his drive and his superb instincts for a good story rarely wavered. Again and again, he called for fresher reporting, sharper editing, more compelling photography and layouts—all part of an effort to make each issue better and better. The readers have given us their proxies, we'd frequently remind each other, and Maynard never forgot the importance of earning that trust each and every week.

It goes without saying that replacing a Maynard Parker isn't easy. But again, thanks largely to his leadership, we have been fortunate to attract a gifted lineup of young editors. Maynard spotted many of them himself, and over the last decade, he inspired them, nurtured them, empowered them, and, yes, often drove them, to learn and to grow. In Newsweek's new editor, Mark Whitaker, and the talented team around him, Maynard recognized that he had shaped a more than worthy generation of successors. Indeed, it is in their good hearts and minds, in their willingness to demand much of themselves and those around them, and in their dedication to delivering the best possible magazine each week to our readers that Maynard's legacy retains a remarkable power throughout today's Newsweek.

swift for those whose fingers strayed, and I quickly learned to check page proofs with my hands clasped behind my back to avoid getting whacked with a metal ruler. Even when we got the chance, the tools were primitive: it took days to produce a simple chart or map.

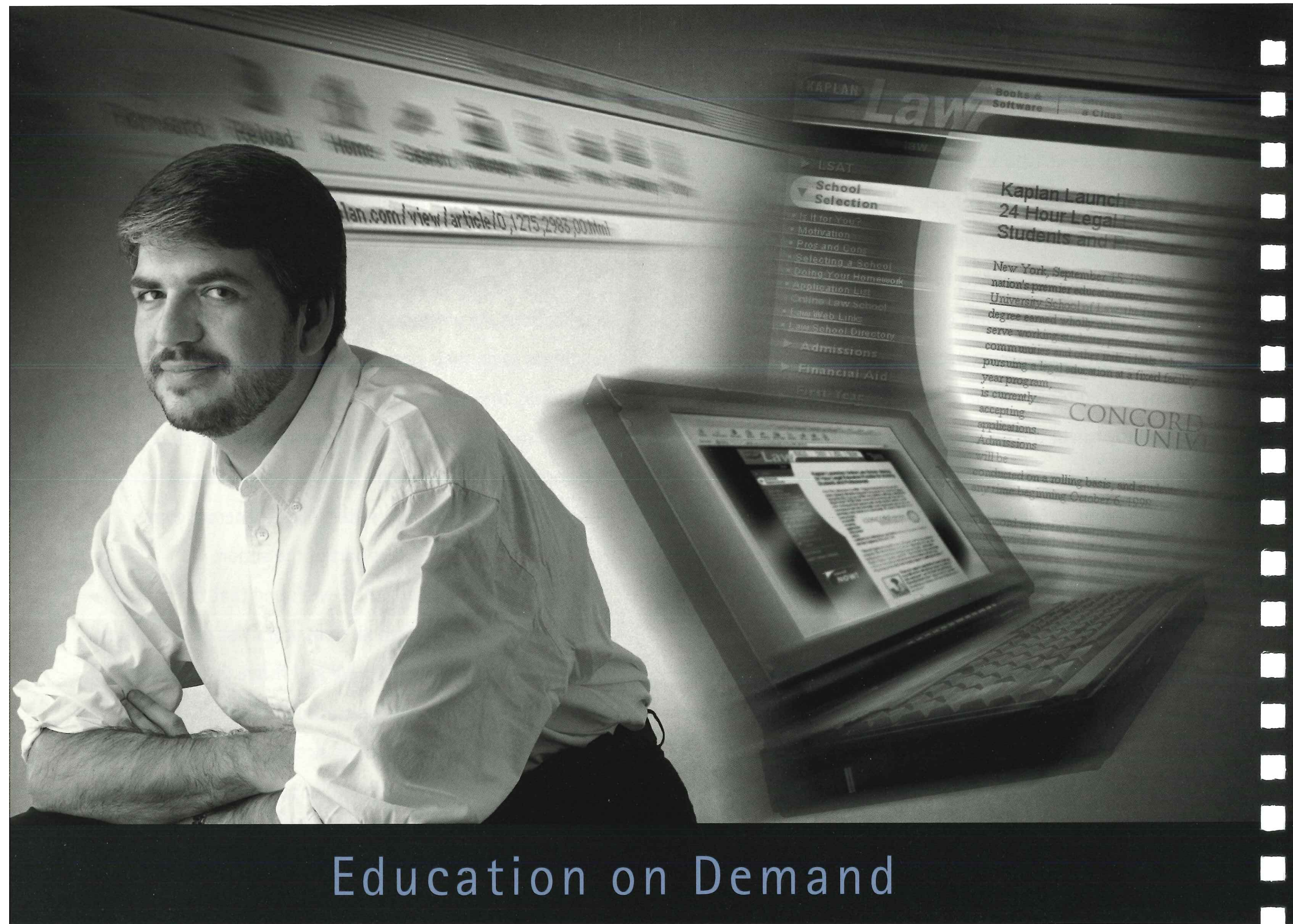
Not anymore. Today, because of seismic shifts in technology and editorial culture, designers have superb machines and the run of the building at any first-rate publication. I've found my home at just such a place: Newsweek.

It might be Michael Jordan, the Brazilian economy, or "Shakespeare in Love," Shania Twain, massacres in Kosovo, or open source code. My job here is to make them visually interesting—to grab a busy reader's attention. Like its audience, the magazine is an animal with many interests, and the mix varies from week to week. But inventing creative approaches to familiar stories—Bill Clinton, news from Washington, foreign policy—is probably my most consistent challenge. One week the solution might be a photo illustration: Clinton gazes at a wall of Saddams under the headline "Déjà Vu All Over Again." Another week, it's typography: the actual words from the articles of impeachment enlarged to headline size. But we couldn't pull off any of this without the wise decision of Newsweek managers to make a place at the table for designers, who in turn are now armed with tools we couldn't have dreamed of next door to the martial arts studio.

First, technology. The Macintosh computer was introduced at the Boston Globe in the early '80s. My first had a screen about 8 inches on the diagonal and a hard drive that held 128 kilobytes. It was loaded with utilitarian typefaces and ran a clumsy application called MacDraw. But it allowed us to combine type with drawn images, and seemed revolutionary. Soon there were more typefaces available, better printers, faster hard drives, bigger monitors, and more complex applications. Eventually whole publications could be produced by simply hitching a bunch of Macs together. (I should make clear that I am a Macintosh chauvinist, so it pains me to admit that the PC also played a role in this progression.)

Moving design off the drawing board had other, subtler implications. As writers and editors began to use similar machines to do their work, a common understanding took hold. Sure, they were typing and we were drawing, but to those of us on the ground it felt as though a wall was coming down: because we could produce visual imagery at roughly the same rate the writers could generate copy, designers found themselves part of the action.

The moment that happened, we found that the competitive environment in which all of us work was growing ever fiercer. Newsweek must survive and thrive in a world in which readers are increasingly accustomed to a video-driven, visual culture. We all go head to head with information that's coming at the audience on screens—whether it's MTV or C-Span or the Internet. So graphics play an incredibly important role in enhancing the efficiency of the magazine for the reader. When it's all working together—the type faces, the heads, the call outs, the captions, the photos, and the diagrams—there really is no better or faster way to convey information and understanding than in the pages of Newsweek. Smart editors know that you can't get a visual pass—that you have to bring the same rigorous standards and energy to the look of the magazine as you do to the word side. Readers expect—and deserve—the best. At Newsweek they get it—and designers like me don't have to worry about getting our fingers whacked.



Education on Demand

By Andrew E. Kaplan, Vice President and Publisher, Kaplan InterActive

Andy, who joined Kaplan Educational Centers in 1996, is responsible for building and overseeing the technology-based products and services used by Kaplan's customers in each of its businesses. He is directing Kaplan's efforts in personalized Web-based instruction, assessment, and feedback, as well as in recruiting and career services.... And no, he's not related.

They say the Internet operates in dog years. One year online is like seven years in other businesses. I came to Kaplan in 1996—two decades ago in Web years, and a lifetime ago in terms of Kaplan's evolution and the extensive changes in technology and the education industry. I was attracted to Kaplan for two reasons. First, I wanted to have a broad impact on people's lives as they faced some of their most significant academic and professional hurdles. Second, the management team was passionate about changing for-profit education. I believe technology will be a key driver of that change, and that the technology-based products and services we create will help hundreds of thousands of people a year accomplish their goals, wherever and whenever they choose.

Technology has been enriching education for several years. For instance, CD-ROMs have provided immersive information experiences, drills for building skills, and tools such as word processors and spreadsheets. But

Other Businesses

BUSINESS OVERVIEW

KAPLAN EDUCATIONAL CENTERS

In 1998 Kaplan continued its record of fast growth through aggressive expansion and strategic acquisitions. Revenues climbed to $195 million in 1998, while annualized revenues totaled $225 million. Kaplan has been organized into six operating divisions, each dedicated to helping individuals achieve their educational and career goals. The company posted growth in every division.

TEST PREPARATION AND ADMISSIONS. Kaplan's test prep business had another strong year, increasing revenue by more than 11 percent. Kaplan introduced new tutoring programs in its pre-college business, with revenue growing 12 percent. Revenue for the Law School Admission Test (LSAT) course rose 13 percent, while revenue for the Graduate Management Admission Test (GMAT) course grew 17 percent. Kaplan dramatically extended its market share for the United States Medical Licensing Exam (USMLE) by acquiring National Medical School Review, Inc. (NMSR), a leading provider of live lecture review programs. Kaplan partnered with the Mount Sinai School of Medicine, offering the first course preparing international medical school graduates for the new Clinical Skills Assessment (CSA). On the English-language front, Kaplan introduced a new course for the Test of English as a Foreign Language (TOEFL) as it switched to computer format. In addition, Kaplan acquired LCP International Institute, a provider of intensive English-language programs with five campus locations.

SCORE! EDUCATIONAL CENTERS. Score!, Kaplan's after-school learning center division, exceeded its goal and doubled its revenue for the third consecutive year. It continues to attract parents seeking new ways to help their children excel. Score! opened 31 centers in 1998 and now operates 70 centers in seven markets. Score! will open more than 30 centers in 1999 and will hire 250 full-time staff.

KAPLAN PROFESSIONAL. Launched in 1998, Kaplan Professional has been built largely through strategic acquisitions. The division provides recruitment, assessment, training, and certification for corporate clients and individuals seeking to advance their careers.

Kaplan Professional includes Kaplan Professional Career Services, the nation's leading provider of career fairs and diversity recruitment in North America. In 1998 Kaplan acquired four geographically diverse career fair companies, adding them to previous acquisitions. Kaplan Professional also includes HireSystems, Inc., which provides a Web-based system that offers resume processing and searching, database hosting, and applicant tracking.

Kaplan also acquired Dearborn Publishing Group, Inc., a leader in publishing and training for securities, real estate, and insurance professionals, as well as Perfect Access, which delivers customized software training, consulting, and support services to top law firms, financial services firms, and Fortune 500 companies.

PUBLISHING. Kaplan's publishing venture with Simon & Schuster had 95 book titles in print at the end of 1998, up from 69 in 1997. Topics include test prep, admissions, career guidance, academics, and life skills. Revenue grew 15 percent.

Kaplan's software business surged, with roughly 50 percent revenue growth and 100 percent profit growth. Kaplan dominates the test prep category, with 57 percent market share in SAT and 80 percent market share in graduate software.

Through its partnership with Knowledge Adventure, Inc., Kaplan added titles on basic skills, foreign languages, and more. By the end of 1998, Kaplan had ten software titles on the shelf, with plans to introduce another six in 1999.

KAPLAN LEARNING SERVICES. This division provides customized assessment, education, and training programs for K through 12 schools and universities, with major programs in New York, California, Pennsylvania, and Florida. Services include basic skills instruction, diagnostic testing, professional development, and family learning workshops.

Kaplan Learning Services continued its multi-year partnerships with Greenville Technical College in South Carolina and Chattanooga State Technical Community College in Tennessee to help incoming students excel on placement tests, improve academic performance, and boost their chances of graduating.

KAPLAN UNIVERSITY. This distance learning division was launched in September with Concord University School of Law, the nation's first online law school, whose graduates will be eligible to sit for the California State Bar Examination. In its first three months, Concord received thousands of requests for applications and enrolled its first class, half of whom hold advanced degrees. Concord, provisionally licensed by the State of California, serves an untapped niche of professionals, family caretakers, working students, and others whose circumstances prevent them from attending a fixed-facility law school.

this technology has been only supplemental to the live learning process.

When I first started in 1996, Kaplan was using technology as an extension of the classroom to provide personalized feedback to students taking practice tests. But a major change was underway. Admissions exams for business and graduate school were being replaced by "adaptive" tests given on the computer. Other major tests, including the SAT, are expected to follow. We had to figure out a way to help students prepare for exams that were not only offered on computer but were different for each student depending on his or her skills and test-taking behavior.

We developed adaptive testing CD-ROMs that provided close simulations of real computer exams to help students learn how to excel on computer adaptive tests. The CD-ROMs also strategically analyzed student performance on the test, providing detailed feedback on the kinds of questions they got right and wrong, their "guessing" skills, and how effective they were at time management. Students could use this feedback to focus their studies and improve performance.

Meanwhile, the Internet had become broadly available, along with the growing sense that "everything" could be done somewhere on the Web. It wasn't just cool gizmos and flaming logos anymore. The Internet's interpersonal communications capabilities and instant access to the benefits of multimedia software finally allowed for significant and rich learning to take place on demand—anywhere a student could access the Net. Customers in all of Kaplan's businesses were beginning to seek personalized education for the most efficient learning experiences.

To meet our customers' needs and drive the growth of our business, we have been developing a set of Internet distance learning tools that allows Kaplan to deliver lessons, tests, and feedback that are all specific to a student's goals, learning styles, skills, and preferences. Students can get just what they need, when they need it. The instruction can be truly customized to the unique abilities of each learner. We can track student behaviors and provide individually tailored education, anytime and anywhere.

People are increasingly using the Internet to take courses and get advanced degrees, and Kaplan has been at the forefront of that trend. In the fall, Kaplan launched the country's first online law school, Concord University. We use distance learning as an extension of our test prep courses and also plan to deliver continuing education courses for insurance agents and preparation for securities tests online. And we will use the Internet to help us train large numbers of Score! coaches. But the most exciting part for me is that this is just the beginning—there are dozens of innovative programs under consideration.

I have been an educational technology professional for 11 years—ancient in Web years. I chose this field because I wanted to use the technology I love to do something meaningful and positive. I sought the opportunity to transform education with technology. Kaplan has a chance to revolutionize the way people learn, and for me, it's my dream career come true.

Rules of the e-Road

By Caroline H. Little, Vice President, Administration,
and General Counsel, Washingtonpost.Newsweek Interactive
Caroline represents Washingtonpost.Newsweek Interactive in corporate, editorial, copyright, and trademark matters. She joined WPNI in 1997.

I came to Washingtonpost.Newsweek Interactive in 1997, moving from print media to electronic media. The move proved to be more dramatic than I had anticipated. No longer could I anticipate what issues might come across my desk (or computer screen); and no longer was there a mature body of law to serve as precedent for commonly understood questions and more importantly, answers. Over the past two years, I have had a few pangs of nostalgia for more ordinary questions for which there were clear legal precedents to consult, yet the creativity that the medium requires—from each person in the company, including its lawyers—is a welcome and exhilarating challenge.

This medium also encourages collaboration—certainly more collaboration between the editorial and business side than in the print medium, with its relatively strict "church and state" separation. Perhaps that's because the Internet is still in its nascent stages, and we are experimenting with its reach and voice. Also, the standards (and

Other Businesses

BUSINESS OVERVIEW

WASHINGTONPOST.NEWSWEEK INTERACTIVE

As the Internet continues to revolutionize information delivery, communications, and business, Washingtonpost.Newsweek Interactive (WPNI) is setting the standard for journalistic endeavors on the Web and building a worldwide online audience for The Washington Post and Newsweek.

In 1998, with the eyes of the world focused on Washington, washingtonpost.com established itself as the premier source for news and information in the nation's capital. In addition, washingtonpost.com extended The Washington Post franchise to national and global audiences. The site consistently ranked among the top five news sites on the Web—second only to USA Today among newspaper sites. Having experienced significant growth in page views, washingtonpost.com currently serves nearly 70 million page views a month.

washingtonpost.com was named best overall online service among large newspapers in the 1999 EPpy Awards competition, sponsored by Editor & Publisher Interactive. The site also was honored for having the best news section, best design, and best classified section. washingtonpost.com was recognized by various industry groups for its superior political news coverage and local arts and entertainment guide.

Locally, washingtonpost.com remains committed to serving the greater Washington community with a comprehensive suite of services designed to enhance daily life. Style Live is washingtonpost.com's award-winning city guide, built with tools and technology from CitySearch. The washingtonpost.com yellowpages, a complement to the Style Live service, is among the most successful newspaper-originated online yellow pages in the country. In concert with The Washington Post newsroom, washingtonpost.com regularly features extensive coverage of local news events.

Throughout the year, WPNI developed new products to support key categories where advertiser relationships are strongest. In conjunction with Classified Ventures, a consortium of eight media companies that unite local newspapers with a nationwide technological platform and brand, WPNI launched Apartments.com, NewHomeNetwork.com and cars.com in the classified category. In the recruitment category, washingtonpost.com pioneered the development of online employment classified solutions through CareerPost. As a member of CareerPath.com, a national consortium that includes over 70 newspapers in every major market in the country, washingtonpost.com expanded awareness of its employment products.

WPNI was one of the first media companies to introduce integrated e-commerce for its Web sites. The Marketplace section, designed to convert the sizable

editorial traffic of washingtonpost.com and Newsweek.com into revenue, is phase one of what will become a fully integrated shopping service featuring local and national merchants, classifieds, yellow pages, and auctions.

In October, Washingtonpost.Newsweek Interactive launched Newsweek.com, an Internet version of the magazine featuring Newsweek's perspective, insight, and wit. The site offers breaking news from washingtonpost.com, weekday updates to readers' favorite sections—Newsmakers, Periscope, and Cyberscope—as well as the full contents of the print edition, enhanced with links and multimedia additions. The arrival of Newsweek.com on the Web was well received by reviewers and readers alike and was heralded as an "...impressive debut on the Web" by American Journalism Review.

In 1999 WPNI will be focused on building revenues, readership, and sustainable businesses to support its leading news, information, and e-commerce products.

LEGI-SLATE, INC.

Legi-Slate has been meeting the legislative and regulatory information needs of professionals in a wide spectrum of industries for more than 20 years. Focused on meeting specific customer needs, Legi-Slate provides a wide range of news, uniquely-indexed data, information, and analysis of federal and state legislative and regulatory issues, online, via fax, and over the Web.

Continuing in the tradition of developing services to meet the evolving demands of the marketplace, Legi-Slate expanded its services in 1998 by consolidating its 50-state monitoring subsidiary, focusing on its proprietary research business, and partnering with industry leader StateNet to market and sell one another's online tracking services.

infinite possibilities) of advertising and editorial placement are less established. And all departments of the company are united in our dependence on an evolving technology. These new partnerships make for fascinating discussions and debates, many of which I am privileged to participate in as counsel to the company.

The medium of the Internet is a fine example of the fast pace of technology and the slower pace of the law to catch up with its dizzying speed. Indeed, the Web has even developed its own language with some strange terminology, such as *spamming* (sending thousands or millions of the same message to Internet users, typically for advertising purposes), *flaming* (sending offensive mail messages), and, my favorite, *netiquette* (Internet etiquette).

That's not to say that Congress and the courts have been silent on key issues affecting the Internet. Last year lower courts ruled for the first time on several issues involving the use of copyrighted works on the Internet. And in just the last few years, a substantial body of case law has developed with regard to Internet domain names and related trademark infringement issues. Similarly, courts have adjudicated with increasing frequency the issue of, and have sustained in many cases, personal jurisdiction in cyberspace—that is, the ability of a court to adjudicate a dispute over an out-of-state defendant. Cyberspace turns the traditional jurisdictional analysis of "minimum contacts" on its head, since a Web site is continually accessible to Internet users around the world. Thus, the global reach of the Internet poses difficult questions about increased exposure to lawsuits in distant forums.

Congress has been active in this area, too. While several other pending bills were deferred to this Congress, including those relating to "junk" electronic mail, legal protection for databases, and prohibition of Internet gambling, Congress passed and President Clinton signed new laws addressing Internet privacy for children, copyright, taxation, and pornography. Perhaps the most visible and contentious of the new laws is the Digital Millennium Copyright Act. The Act seeks to balance the public interest in the free flow of information with the rights of copyright holders. Most notably, the Act adds a new section to the Copyright Act that limits the copyright liability of Internet service providers and access providers under certain circumstances.

The area of law most affected by the Internet seems to be copyright. Since information in digital form can easily be copied, it also can be easily infringed. This is a concern not only to publishers and other content providers, but also to software companies. Coupled with the physical ease of copying in a digital medium, there is also a prevalent attitude on the Internet, held by at least a vocal minority of "netizens," that one of the fundamental principles of the copyright law—that the copyright holder holds the exclusive right to reproduce the work—should not be as sacrosanct in the electronic medium as in the print medium. In this arena where the law by itself may not provide adequate protections, copyright owners are increasingly looking for and using other avenues to protect their work, including digital watermarking, encryption, monitoring services, and other technologies that limit the ability to reproduce.

What will 1999 bring? More attention by lawmakers to privacy issues on the Web. More electronic commerce initiatives in the industry. More Internet users. And—best of all for Washingtonpost.Newsweek Interactive—more collaboration and more challenges.

Report of Independent Accountants

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS
OF THE WASHINGTON POST COMPANY.

In our opinion, the consolidated financial statements appearing on pages 29 through 45 of this report present fairly, in all material respects, the financial position of The Washington Post Company and its subsidiaries at January 3, 1999 and December 28, 1997, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 3, 1999, 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.

PricewaterhouseCoopers LLP

Washington, D.C.
February 22, 1999

Management's Discussion and Analysis of Results of Operations and Financial Condition

This analysis should be read in conjunction with the consolidated financial statements and the notes thereto.

RESULTS OF OPERATIONS—1998 COMPARED TO 1997

Net income in 1998 was $417.3 million, an increase of 48 percent over net income of $281.6 million in 1997. Basic and diluted earnings per share both rose 57 percent to $41.27 and $41.10, respectively, in 1998. The Company's 1998 net income includes $194.4 million from the disposition of the Company's 28 percent interest in Cowles Media Company, the sale of 14 small cable systems and the disposition of the Company's investment interest in Junglee, a facilitator of Internet commerce. The Company's 1997 net income includes $44.5 million from the sale of the Company's investment in Bear Island Paper Company, L.P., and Bear Island Timberlands Company, L.P., and the sale of the assets of its PASS regional cable sports network. Excluding these non-recurring gains, net income decreased 6 percent in 1998 and basic and diluted earnings per share remained essentially unchanged with fewer average shares outstanding.

Revenues for 1998 totaled $2,110.4 million, an increase of 8 percent from $1,956.3 million in 1997. Advertising revenues increased 5 percent in 1998, and circulation and subscriber revenues increased 5 percent. Other revenues increased 33 percent over 1997. The newspaper and broadcast divisions generated most of the increase in advertising revenues. The increase in circulation and subscriber revenues is primarily due to a 15 percent increase in subscriber revenues at the cable division (arising mostly from cable system acquisitions in 1998 and 1997). Revenue growth at Kaplan Educational Centers (about two-thirds of which was from acquisitions) accounted for the increase in other revenues.

Operating costs and expenses for the year increased 10 percent to $1,731.5 million, from $1,574.9 million in 1997. The cost and expense increase is primarily due to companies acquired in 1998 and 1997, increased spending for new media activities, a 10 percent increase in newsprint expense, and expenses arising from the expansion of the printing facilities of The Washington Post. These expense increases were partially offset by an increase in the Company's pension credit.

Operating income decreased 1 percent to $378.9 million in 1998, from $381.4 million in 1997.

Division Results. In December 1998, the Company implemented Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," which requires companies to report certain information about their operating segments. Upon implementing this new accounting standard, the Company changed the manner in which it reports operating segment results to reflect its corporate office expenses in the "other businesses and corporate office" segment. Previously, the Company had allocated its corporate office expenses to each of its operating segments. Prior period operating segment results have been adjusted to reflect this reporting change.

Newspaper Division. At the newspaper division, 1998 included 53 weeks as compared to 52 weeks in 1997. Newspaper division revenues increased 4 percent to $846.8 million, from $812.9 million in 1997. Advertising revenues at the newspaper division rose 5 percent over the previous year. At The Washington Post, advertising revenues increased 4 percent as a result of higher rates and a slight increase in volume. Classified advertising revenues at The Washington Post increased 5 percent primarily due to higher rates and higher recruitment volume. Retail advertising revenues at The Post declined 3 percent primarily as a result of a 7.5 percent decline in inches. Other advertising revenues (including general and preprint) at The Post increased 11 percent; general advertising volume was essentially unchanged for 1998; however, preprint volume increased 6 percent.

Circulation revenues for the newspaper division remained essentially unchanged from 1997, with the extra week in 1998 offsetting the effects of a 1.3 percent decline in daily and Sunday circulation at The Washington Post

Newspaper division operating margin in 1998 decreased to 19 percent, from 21 percent in 1997. The decrease in 1998 operating margin is primarily attributable to increased costs arising from the expansion of the printing facilities of The Washington Post and a 10 percent increase in newsprint costs. The 10 percent increase in newsprint costs is comprised of a 4 percent increase in newsprint consumed (driven primarily by expanded suburban community coverage at The Washington Post) and a 6 percent increase in newsprint prices.

Broadcast Division. Revenues at the broadcast division rose 6 percent to $357.6 million in 1998, compared to $338.4 million in 1997. The increase in revenues is primarily attributable to 1998 political advertising and increased local advertising revenues.

Competitive market position remained strong for the Company's television stations. In the November 1998 Nielsen ratings book, WDIV (NBC affiliate in Detroit), WJXT (CBS affiliate in Jacksonville) and KSAT (ABC affiliate in San Antonio) continued to rank number one in audience share sign-on to sign-off, while

WPLG (ABC affiliate in Miami) tied for first place among English-language stations in the Miami market. KPRC (NBC affiliate in Houston), although still ranked third in the market, has narrowed the gap significantly and now challenges its closest competitors by as little as two audience share points. WKMG (CBS affiliate in Orlando), which the broadcast division took over in September 1997, has remained in third place in Orlando while moving aggressively to build a strong news franchise.

The operating margin at the broadcast division was 48 percent in 1998 and 1997. Excluding amortization of goodwill and intangibles, the operating margin was 52 percent in 1998 and 1997.

Magazine Division. Magazine division revenues, which beginning in 1997 also included the Company's business information unit, rose 2 percent to $399.5 million, from $389.9 million in 1997. The increase in revenue is attributable to revenue contributed by the business information trade periodicals acquired in December 1997, offset partially by a decline in revenue at Newsweek. Advertising revenues at Newsweek declined 7 percent primarily as the result of two fewer Newsweek domestic special issues in 1998 versus 1997 and softness in advertising at the international editions of Newsweek (particularly the Asian and Latin American editions). Total circulation revenue for the magazine division decreased 6 percent in 1998 due predominantly to the newsstand sales of two Newsweek domestic edition special issues in 1997, which were not recurring in 1998, as well as currency deflation at most of the international editions of Newsweek.

Operating margin at the magazine division was 11 percent in both 1998 and 1997. The 2 percent increase in 1998 revenues combined with an increase in the pension credit at Newsweek were offset by normal expense growth and the amortization expense arising from the December 1997 acquisition of the business unit trade periodicals.

Cable Division. Revenues at the cable division increased 16 percent to $298.0 million in 1998, from $257.7 million in 1997. Basic, tier, pay and advertising revenue categories showed improvement over 1997. Increased subscribers in 1998, primarily from acquisitions, and higher rates accounted for most of the 15 percent increase in subscriber revenues. The number of basic subscribers at the end of the year increased to 733,000, from 637,300 at the end of 1997. During 1998, the cable division acquired cable systems serving approximately 115,400 subscribers and sold cable systems serving approximately 29,000 subscribers.

Operating margin at the cable division was 22 percent in 1998, compared to 21 percent in 1997. Cable operating cash flow increased 21 percent to $126.5 million, from $104.7 million in 1997. Approximately 40 percent of the 1998 improvement in operating cash flow is attributable to the results of cable systems acquired in 1998 and 1997.

Other Businesses and Corporate Office. In 1998, revenues from other businesses, including Kaplan Educational Centers, Washingtonpost.Newsweek Interactive, MLJ (sold in July 1998), Legi-Slate and PASS Sports (nine months of 1997), increased 32 percent to $208.4 million, from $157.4 million in 1997. The majority of the increase is attributable to continued growth at Kaplan Educational Centers. Kaplan's revenues increased 66 percent in 1998 (with acquisitions accounting for approximately two-thirds of the increase).

Other businesses and the corporate office recorded an operating loss in 1998 of $66.9 million, compared to a loss of $52.3 million in 1997. The increase in operating loss is principally attributable to the Company's electronic media initiatives and, to a lesser extent, the start up costs associated with Kaplan's expansion of its Score elementary education business. Offsetting these losses were improved and continued profitability from Kaplan's core test preparation business, as well as operating income contributed by the various businesses acquired by Kaplan in 1998 and 1997.

Equity in (Losses) Earnings of Affiliates. The Company's equity in losses of affiliates in 1998 was $5.1 million, compared with income of $10.0 million in 1997. The $15.1 million decline in affiliate earnings resulted from increased spending at new media joint ventures (principally Classified Ventures and CareerPath.com) and the absence of affiliate earnings that were provided in the prior year from the Company's investment interest in the Bear Island Partnerships (sold in November 1997) and Cowles Media Company (disposed of in March 1998).

Non-Operating Items. In 1998, the Company incurred net interest expense of $10.4 million, compared to $2.2 million of net interest income in 1997. The average short-term borrowings outstanding in 1998 was $231.8 million, as compared to $10.7 million in average borrowings outstanding in 1997.

Other income (expense), net, in 1998 was $304.7 million, compared to $69.5 million in 1997. For 1998, other income (expense), net, includes $309.7 million arising from the disposition of the Company's 28 percent interest in Cowles Media Company, the sale of 14 small cable systems and the disposition of the Company's interest in Junglee, a facilitator of Internet commerce. For 1997, other income (expense), net, includes $74.8 million in gains arising from the sale of the Bear Island partnerships and the sale of the assets of the Company's PASS regional cable sports network.

Income Taxes. The effective tax rate in 1998 was 37.5 percent, as compared to 39 percent in 1997. The decrease in the effective income tax rate is principally the result of the disposition of Cowles Media Company being subject to state income tax in jurisdictions with lower tax rates, and to a lesser extent, from a favorable IRS-approved income tax change in the fourth quarter of 1998.

RESULTS OF OPERATIONS—1997 COMPARED TO 1996

Net income in 1997 was $281.6 million, an increase of 28 percent over net income of $220.8 million in 1996. Basic and diluted earnings per share rose 31 and 30 percent to $26.23 and $26.15, respectively, in 1997. The Company's 1997 net income includes $28.5 million from the sale of the Company's investment in Bear Island Paper Company, L.P., and Bear Island Timberlands Company, L.P., as well as $16.0 million relating to the sale of the assets of its PASS regional cable sports network. Excluding these non-recurring gains, net income increased 7 percent in 1997 and basic and diluted earnings per share each increased 10 percent.

Revenues for 1997 totaled $1,956.3 million, an increase of 6 percent from $1,853.4 million in 1996. Advertising revenues increased 5 percent in 1997, and circulation and subscriber revenues increased 6 percent. Other revenues increased 5 percent. Substantially all of the increase in advertising revenues was generated by the newspaper and magazine divisions. The increase in circulation and subscriber revenues is due to growth at the cable division and the increase in other revenues is attributable to higher tuition revenues at Kaplan partially offset by reduced fees for engineering services at MLJ.

Costs and expenses for the year increased 4 percent to $1,574.9 million, from $1,516.3 million in 1996. In addition to the normal growth in the costs of operations, the cost and expense increase is attributable to companies acquired in 1997, expansion of Kaplan's business offerings, increased spending for new media activities offset partially by decreased newsprint and magazine paper costs, and other favorable cost experience at Newsweek.

Operating income increased 13 percent to $381.4 million in 1997.

Newspaper Division. Newspaper division revenues increased 6 percent to $812.9 million, from $763.9 million in 1996. Advertising revenues at the newspaper division rose 8 percent over the previous year. At The Washington Post, advertising revenues increased 8 percent as a result of strong volume increases and, to a lesser extent, higher rates. Classified revenues at The Washington Post increased 12 percent due to higher recruitment volume and associated rates. The Washington Post's retail revenues rose 4 percent due to higher rates and a 1 percent increase in volume. Other advertising revenues (including general and preprint) at The Washington Post increased 8 percent. General advertising and preprint volume each increased 8 percent over 1996.

Circulation revenues for the newspaper division increased 1 percent in 1997 resulting mostly from rate increases enacted in the beginning of 1997 at The Washington Post. Average daily circulation at The Washington Post fell 1.5 percent, while Sunday circulation declined 1.3 percent.

Newspaper division operating margin in 1997 increased to 21 percent from 16 percent in 1996. The increase in 1997 operating margin is primarily attributable to increased advertising revenues and lower newsprint expense (down 9 percent). Average newsprint prices paid by the newspaper division in 1997 declined about 14 percent from 1996, the positive effects of which were partially offset by a 4 percent increase in newsprint consumed.

Broadcast Division. Revenues at the broadcast division rose 1 percent to $338.4 million over last year. An increase in advertising from a number of industry categories, including restaurants, utilities, banks and finance, as well as an overall revenue share increase, allowed the broadcast division to offset the approximate $30.0 million in non-recurring advertising revenues generated in 1996 from political and Olympics-related advertising. Network revenues were down slightly from 1996.

Competitive market position remained strong for the television stations. Four stations were ranked number one in the latest ratings period, sign-on to sign-off, in their markets; one station was ranked a strong number two; one station was ranked number three.

The operating margin at the broadcast division increased to 48 percent, from 47 percent in 1996. Excluding amortization of goodwill and intangibles, operating margins for 1997 and 1996 were 52 percent and 51 percent, respectively. The improvement in the 1997 operating margin is due to increased advertising revenues and benefits derived from 1997 expense control initiatives which, in total, outpaced higher expenses associated with the new station, WCPX (renamed WKMG).

Magazine Division. Magazine division revenues, which beginning in 1997 also included the Company's business information unit, rose 3 percent to $389.9 million due primarily to increased advertising revenues at the Newsweek domestic edition. The Newsweek domestic advertising revenues increase over the prior year resulted from a 6 percent increase in domestic advertising pages sold in 1997 versus 1996. Total circulation revenues for the magazine division increased 1 percent in 1997.

Operating margin of the magazine division increased to 11 percent in 1997, from 7 percent in 1996. The increase in operating margin is primarily attributable to the operating results of Newsweek, including the higher sales of domestic advertising pages, reduced magazine paper costs, realized savings from prior year outsourcing initiatives, and other favorable cost experience.

Cable Division. Revenues at the cable division increased 12 percent to $257.7 million in 1997. Basic and tier, pay, and advertising revenue categories showed improvement over 1996. Increased subscribers in 1997 accounted for the majority of the total increase in revenues. The number of basic subscribers

increased 7 percent to 637,300. About 37,000 subscribers were added in 1997 as a result of cable system acquisitions and exchanges and the remainder by internal growth.

Cable operating cash flow increased 4 percent to $104.7 million, from $100.2 million in 1996. Operating margin at the cable division was 21 percent in 1997 compared to 25 percent in 1996, reflecting the effects of increased depreciation and amortization in 1997 from recent cable system acquisitions and capital improvements.

Other Businesses and Corporate Office. In 1997, revenues from other businesses, including Kaplan, MLJ, Legi-Slate, Washingtonpost.Newsweek Interactive, and PASS Sports (nine months of 1997), increased 7 percent over the prior year to $157.4 million. The majority of the increase in other businesses revenues is attributable to Kaplan, where revenues increased 21 percent. Student enrollments at Kaplan increased 3 percent in 1997. Partially offsetting the revenue increase generated by Kaplan was a decrease in engineering consulting revenues at MLJ.

Other businesses and the corporate office recorded an operating loss in 1997 of $52.3 million, compared to a loss of $30.6 million in 1996. The 1997 operating loss increase is directly attributable to the Company's spending on electronic media initiatives, the 1997 decline in MLJ's revenues, and, to a lesser extent, the start-up costs associated with Kaplan's significant expansion of its Score elementary education business. Offsetting these losses was improved and continued profitability from Kaplan's core test preparation business.

Equity in Earnings of Affiliates. The Company's equity in earnings of affiliates for 1997 declined to $10.0 million, from $19.7 million in 1996, reflecting the effect of lower earnings at the Company's affiliated newsprint mills for the majority of 1997 compared to 1996. The decline in earnings at the affiliated newsprint mills is due to lower average newsprint prices charged by the mills in 1997 versus 1996.

Non-Operating Items. Interest income, net of interest expense, was $2.2 million, compared to $3.8 million in 1996. Increased spending in 1997 for acquisitions, capital expenditures, and stock repurchases resulted in less invested cash in 1997 versus 1996, causing a decline in interest income. Other income (expense), net in 1997 was $69.5 million, compared with an expense of $0.5 million in 1996. The increase in other income is attributable to the 1997 gains arising from the Company's sale of its investment in Bear Island Paper Company, L.P., and Bear Island Timberlands Company, L.P., as well as the sale of the assets of the Company's PASS regional cable sports network.

Income Taxes. The effective tax rate in both 1997 and 1996 was approximately 39 percent.

FINANCIAL CONDITION: CAPITAL RESOURCES AND LIQUIDITY

Acquisitions. During 1998, the Company acquired various businesses for about $320.6 million, which included, among others, $209.0 million for cable systems serving approximately 115,400 subscribers and $100.4 million for various educational, training and career services companies to expand Kaplan's business offerings.

During 1997, the Company acquired various businesses for about $118.9 million. These acquisitions included, among others, $23.9 million for cable systems serving approximately 16,000 subscribers and $84.5 million for the publishing rights to two computer services industry periodicals and the rights to conduct two computer industry trade shows.

In 1996, the Company spent approximately $147.5 million on business acquisitions. The 1996 acquisitions included, among others, $129.0 million (including $11.9 million of the Company's Series A redeemable preferred stock) for cable systems serving about 66,000 subscribers.

Exchanges. During 1997, the Company exchanged the assets of certain cable systems with Tele-Communications, Inc., resulting in an increase of about 21,000 subscribers for the Company. The Company also completed, in 1997, a transaction with Meredith Corporation whereby the Company exchanged the assets of WFSB-TV, the CBS affiliate in Hartford, Connecticut, and $60.0 million in cash for the assets of WCPX-TV (renamed WKMG), the CBS affiliate in Orlando, Florida.

Dispositions. In March 1998, the Company received $330.5 million in cash and 730,525 shares of McClatchy Newspapers, Inc. Class A common stock as a result of the merger of Cowles and McClatchy. The market value of the McClatchy stock received was $21.6 million, based upon publicly quoted market prices. During the last three quarters of 1998, the Company sold 464,700 shares of the McClatchy stock (64 percent of the total shares received) for $15.4 million.

In July 1998, the Company completed the sale of 14 small cable systems in Texas, Missouri and Kansas serving approximately 29,000 subscribers for $41.9 million. In August 1998, the Company received 202,961 shares of Amazon.com common stock as a result of the merger of Amazon.com and Junglee Corporation. At the time of the merger transaction, the Company owned a minority investment interest in Junglee Corporation, a facilitator of Internet commerce. The market value of the Amazon.com stock received was $25.2 million. In the fourth quarter of 1998, the Company sold 178,459 shares of the Amazon.com common stock (88 percent of the total shares received) for $22.8 million.

In November 1997, the Company sold its 35 percent interest in Bear Island Paper Company, L.P., and Bear Island Timberlands Company, L.P., for approximately $92.8 million. In September 1997, the Company sold the assets of its PASS regional cable sports network for $27.4 million.

Capital Expenditures. During 1998, the Company's capital expenditures totaled $244.2 million, the majority of which related to the replacement of the printing facilities at The Washington Post and plant upgrades at the Company's cable subsidiary. The Company estimates that in 1999 it will spend approximately $150.0 million for property and equipment, primarily for various projects at the newspaper and cable divisions.

Investments in Marketable Equity Securities. During the third and fourth quarters of 1998, the Company acquired 747,100 shares of General Re Corporation ("General Re") common stock and 20 shares of Class A Berkshire Hathaway, Inc. ("Berkshire") common stock from the open market for an aggregate purchase price of $165.0 million. On January 26, 1999, the 747,100 shares of General Re common stock converted to 2,614 and 25 shares of Berkshire Class A and Class B common stock, respectively, pursuant to the terms of a merger agreement between Berkshire and General Re. It is the Company's present intention to hold the Berkshire common stock long-term.

The Company's investment in marketable equity securities at January 3, 1999 also includes common stock investments in various publicly traded companies, including shares of Amazon.com, America Online, and Ticketmaster-Citysearch Online. The Company obtained its ownership of these common stock investments as a result of merger or acquisition transactions in which these companies merged or acquired various small Internet related companies in which the Company held minor investments.

At January 3, 1999, the fair value of the Company's investments in marketable equity securities was $256.1 million, of which $184.4 million consists of the Company's Berkshire/General Re common stock investment.

Common Stock Repurchases and Dividend Rate. During 1998, 1997 and 1996, the Company repurchased 41,033, 846,290 and 103,642 shares, respectively, of its Class B common stock at a cost of $20.5 million, $368.6 million and $32.3 million, respectively. The annual dividend rate for 1999 was increased to $5.20 per share, from $5.00 per share in 1998, $4.80 per share in 1997 and $4.60 per share in 1996.

Liquidity. At January 3, 1999, the Company had $15.2 million in cash and cash equivalents. In March 1998, the Company replaced its $300.0 million revolving credit facility with a $500.0 million revolving credit facility to provide for general corporate purposes and support the issuance of commercial paper. At January 3, 1999, the Company had $453.4 million in commercial paper borrowings outstanding at an average interest rate of 5.4 percent. On February 15, 1999, the Company issued $400.0 million of 5.5 percent, 10-year notes, netting approximately $395.0 million in proceeds after discount and fees. The Company intends to utilize the $395.0 million in proceeds to repay an equal amount of commercial paper borrowings outstanding.

The Company expects to fund its estimated capital needs primarily through internally generated funds, and, to a lesser extent, commercial paper borrowings. In management's opinion, the Company will have ample liquidity to meet its various cash needs in 1999.

Year 2000. The Company's assessment, remediation, testing and contingency planning efforts surrounding Year 2000 readiness are proceeding as planned with completion of all project phases projected for late Fall of 1999. To date, the assessment of internal systems and equipment has been completed and the Company has made substantial progress in completing the remediation, testing and contingency planning phases of its Year 2000 readiness project.

Most of the Company's significant internal systems and equipment, including equipment with embedded controls, have been determined to be Year 2000 compliant. Certain critical internal systems, however, have been identified as incapable of processing transactions beyond the Year 2000 the most significant of which include some of the revenue related business systems at The Washington Post and Newsweek. At Newsweek, the non-compliant systems have since been repaired and testing of such remediation is currently underway. For the non-compliant systems at The Washington Post, which principally include the advertising and circulation billing systems, the remediation efforts are continuing and are presently expected to be completed and tested by late Fall of 1999. The Company believes it has the ability to perform these functions manually should the remediation efforts not be completed according to plan. The majority of the non-compliant internal systems currently being replaced were scheduled to be replaced prior to Year 2000 for operating efficiency reasons.

For critical internal systems and equipment determined to be compliant during the assessment phase of the project, and for non-compliant equipment that has been repaired or replaced, the Company has devised and commenced a testing plan to provide additional compliance assurance. To date, the results of the Company's Year 2000 compliance testing program have not revealed any new problems, or ineffective remediation. The Year 2000 testing phase for internal systems and equipment is believed to be approximately 60 percent complete as of the end of January 1999.

The Company's Year 2000 readiness project also includes procedures designed to identify and assess Year 2000 business interruption which may occur as a result of the Company's dependency on third parties. Vendors, suppliers, service providers, customers and governmental entities that are believed to be critical to the Company's business operations after January 1, 2000 ("key business partners") have been identified and significant progress has been made in ascertaining their stage of Year 2000 readiness. These efforts include, among others, circularization of Year 2000 compliance confirmations and conducting interviews and on-site reviews.

The Company could potentially experience disruptions as a result of non-compliant systems utilized by some of its key business partners or unrelated third party governmental and business entities. Contingency plans are under development to mitigate these potential disruptions to business operations. These contingency plans include, but are not limited to, identification of alternative suppliers, vendors and service providers and planned accumulation of inventory to ensure production capability. The Company is also developing contingency plans for its internal critical business systems. These contingency planning activities are intended to reduce risk, but cannot eliminate the potential for business disruption caused by third party failures.

The Company estimates that its total Year 2000 compliance costs will approximate $25 million. Approximately $15 million of the estimated costs are attributable to assessment, repair and testing activities and will be expensed as incurred (approximately $7 million expensed in 1998 and $8 million expected to be expensed in 1999). The remaining $10 million represents the estimated cost to replace non-compliant systems and will be capitalized and amortized over a period ranging between five and ten years. The Company anticipates that the funds needed to complete the Year 2000 compliance efforts and referenced system replacements will be provided primarily from the Company's operating cash flows.

Based upon the activities described above, the Company does not believe that the Year 2000 problem is likely to have a material adverse effect on the Company's business or results of operations.

The above discussion contains forward-looking statements that reflect the Company's current expectations or beliefs concerning future results and events. These statements are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Readers are cautioned that forward-looking statements contained in the Year 2000 discussion should be read in conjunction with the following disclosures of the Company.

CAUTIONARY STATEMENTS CONCERNING FORWARD-LOOKING STATEMENTS

Forward-looking statements, which the Company believes to be reasonable and are made in good faith, are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, the Company.

Taking into account the foregoing, the following are identified as important risk factors that could cause actual results to differ from those expressed in any forward-looking statement made by, or on behalf of, the Company:

The dates on which the Company believes its Year 2000 readiness project will be completed are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third-party modification plans and other factors. Unanticipated failures by critical vendors, as well as a failure by the Company to execute successfully its own remediation efforts, however, could have a material adverse effect on the costs associated with the Year 2000 readiness project and on its completion. Some important factors that might cause differences between the estimates and actual results include, but are not limited to, the availability and cost of personnel trained in these areas, the ability to locate and correct all relevant computer code, the timely and accurate responses to and correction by third-parties and suppliers, the ability to implement interfaces between new systems and the systems not being replaced and similar uncertainties. Due to the general uncertainty inherent in the Year 2000 problem, the Company cannot ensure its ability to timely and cost-effectively resolve problems associated with the Year 2000 issue that may affect its operations and business or expose it to third-party liability.

Consolidated Statements of Income

(in thousands, except share amounts)	Fiscal year ended January 3, 1999	December 28, 1997	December 29, 1996
OPERATING REVENUES			
Advertising	$1,297,621	$1,236,877	$1,172,706
Circulation and subscriber	547,450	519,620	490,973
Other	265,289	199,756	189,766
	2,110,360	1,956,253	1,853,445
OPERATING COSTS AND EXPENSES			
Operating	1,139,177	1,019,869	1,007,057
Selling, general and administrative	453,149	449,996	414,280
Depreciation of property, plant and equipment	89,248	71,478	65,103
Amortization of goodwill and other intangibles	49,889	33,559	29,836
	1,731,463	1,574,902	1,516,276
INCOME FROM OPERATIONS	378,897	381,351	337,169
Equity in (losses) earnings of affiliates	(5,140)	9,955	19,702
Interest income	1,137	3,471	5,359
Interest expense	(11,538)	(1,252)	(1,514)
Other income (expense), net	304,703	69,549	(499)
INCOME BEFORE INCOME TAXES	668,059	463,074	360,217
PROVISION FOR INCOME TAXES	250,800	181,500	139,400
NET INCOME	417,259	281,574	220,817
REDEEMABLE PREFERRED STOCK DIVIDENDS	(956)	(956)	(680)
NET INCOME AVAILABLE FOR COMMON SHARES	$ 416,303	$ 280,618	$ 220,137
BASIC EARNINGS PER COMMON SHARE	$ 41.27	$ 26.23	$ 20.08
DILUTED EARNINGS PER COMMON SHARE	$ 41.10	$ 26.15	$ 20.05

Consolidated Statements of Comprehensive Income

(in thousands)	Fiscal year ended January 3, 1999	December 28, 1997	December 29, 1996
NET INCOME	$417,259	$281,574	$220,817
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustments	(1,136)	(5,127)	(874)
Change in unrealized gain on available-for-sale securities	68,768	(5,121)	(113)
	67,632	(10,248)	(987)
Income tax (expense) benefit related to other comprehensive income (loss)	(26,819)	1,997	44
	40,813	(8,251)	(943)
COMPREHENSIVE INCOME	$458,072	$273,323	$219,874

The information on pages 34 through 45 is an integral part of the financial statements.

Consolidated Balance Sheets

(in thousands, except share amounts)	January 3, 1999	December 28, 1997
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 15,190	$ 21,117
Investments in marketable equity securities	71,676	3,366
Accounts receivable, net	236,514	244,203
Federal and state income taxes	35,395	–
Inventories	20,154	19,213
Other current assets	25,949	23,959
	404,878	311,858
PROPERTY, PLANT AND EQUIPMENT		
Buildings	248,764	188,836
Machinery, equipment and fixtures	977,710	800,435
Leasehold improvements	50,556	39,017
	1,277,030	1,028,288
Less accumulated depreciation	(566,616)	(577,445)
	710,414	450,843
Land	41,191	33,953
Construction in progress	89,457	168,954
	841,062	653,750
INVESTMENTS IN MARKETABLE EQUITY SECURITIES	184,440	–
INVESTMENTS IN AFFILIATES	68,530	154,791
GOODWILL AND OTHER INTANGIBLES, less accumulated amortization of $286,135 and $241,308	883,232	679,714
PREPAID PENSION COST	256,134	194,137
DEFERRED CHARGES AND OTHER ASSETS	91,385	83,067
	$2,729,661	$2,077,317

The information on pages 34 through 45 is an integral part of the financial statements.

(in thousands, except share amounts)	January 3, 1999	December 28, 1997
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 245,068	$ 213,824
Federal and state income taxes	–	18,352
Deferred subscription revenue	85,649	80,186
Short-term borrowings	58,362	296,394
	389,079	608,756
OTHER LIABILITIES	261,896	241,234
DEFERRED INCOME TAXES	83,710	31,306
LONG-TERM DEBT	395,000	–
	1,129,685	881,296
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE PREFERRED STOCK, Series A, $1 par value, with a redemption and liquidation value of $1,000 per share; 23,000 shares authorized; 11,873 and 11,947 shares issued and outstanding	11,873	11,947
PREFERRED STOCK, $1 par value; 977,000 shares authorized, none issued	–	–
COMMON SHAREHOLDERS' EQUITY		
Common stock		
Class A common stock, $1 par value; 7,000,000 shares authorized; 1,739,250 shares issued and outstanding	1,739	1,739
Class B common stock, $1 par value; 40,000,000 shares authorized; 18,260,750 shares issued; 8,353,994 and 8,349,962 shares outstanding	18,261	18,261
Capital in excess of par value	46,199	33,415
Retained earnings	2,597,217	2,231,341
Accumulated other comprehensive income (loss), net of taxes		
Cumulative foreign currency translation adjustment	(1,600)	(464)
Unrealized gain on available-for-sale securities	41,980	31
Cost of 9,906,756 and 9,910,788 shares of Class B common stock held in treasury	(1,115,693)	(1,100,249)
	1,588,103	1,184,074
	$2,729,661	$2,077,317

The information on pages 34 through 45 is an integral part of the financial statements.

Consolidated Statements of Cash Flows

(in thousands)	Fiscal year ended January 3, 1999	December 28, 1997	December 29, 1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 417,259	$ 281,574	$ 220,817
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant and equipment	89,248	71,478	65,103
Amortization of goodwill and other intangibles	49,889	33,559	29,836
Net pension benefit	(61,997)	(30,227)	(23,269)
Gain from disposition of businesses, net	(314,400)	(44,560)	(3,112)
Equity in losses (earnings) of affiliates, net of distributions	9,145	(6,996)	(11,099)
Provision for deferred income taxes	26,987	3,089	(4,273)
Change in assets and liabilities:			
Decrease (increase) in accounts receivable, net	22,041	(8,438)	(31,444)
(Increase) decrease in inventories	(941)	5,214	2,339
Increase in accounts payable and accrued liabilities	13,949	19,638	26,923
(Decrease) increase in income taxes payable	(53,747)	(13,709)	1,887
Decrease in other assets and other liabilities, net	6,778	2,690	3,634
Other	18,902	4,985	8,073
Net cash provided by operating activities	223,113	318,297	285,415
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net proceeds from sale of businesses	376,442	120,208	3,517
Purchases of property, plant and equipment	(244,219)	(214,573)	(79,981)
Purchases of marketable equity securities	(164,955)	–	–
Sales and maturities of marketable securities	38,246	–	12,821
Investments in certain businesses	(320,597)	(178,943)	(147,471)
Other	(5,960)	(3,187)	784
Net cash used in investing activities	(321,043)	(276,495)	(210,330)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on debt	(296,394)	–	(50,209)
Issuance of debt	453,362	296,394	–
Issuance of redeemable preferred stock	–	–	11,947
Redemption of redeemable preferred stock	(74)	–	–
Dividends paid	(51,383)	(52,592)	(51,164)
Common shares repurchased	(20,512)	(368,565)	(32,302)
Proceeds from exercise of stock options	7,004	1,800	2,020
Net cash provided by (used in) financing activities	92,003	(122,963)	(119,708)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,927)	(81,161)	(44,623)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	21,117	102,278	146,901
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 15,190	$ 21,117	$ 102,278
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year for:			
Income taxes	$ 280,000	$ 164,000	$ 142,000
Interest, net of amounts capitalized	$ 8,700	$ 350	$ 5,115

The information on pages 34 through 45 is an integral part of the financial statements.

Consolidated Statements of Changes in Common 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	Unrealized Gain on Available-for-Sale Securities	Treasury Stock
Balance, December 31, 1995	$1,804	$18,196	$24,941	$1,832,706	$ 5,537	$ 3,224	$ (702,204)
Net income for the year				220,817			
Dividends paid on common stock — $4.60 per share				(50,484)			
Dividends paid on redeemable preferred stock				(680)			
Repurchase of 103,642 shares of Class B common stock							(32,302)
Issuance of 8,644 shares of Class B common stock, net of restricted stock award forfeitures			1,173				677
Change in foreign currency translation adjustment (net of taxes)					(874)		
Change in unrealized gain on available-for-sale securities (net of taxes)						(69)	
Conversion of Class A common stock to Class B common stock	(25)	25					
Other			341				
Balance, December 29, 1996	1,779	18,221	26,455	2,002,359	4,663	3,155	(733,829)
Net income for the year				281,574			
Dividends paid on common stock — $4.80 per share				(51,636)			
Dividends paid on redeemable preferred stock				(956)			
Repurchase of 846,290 shares of Class B common stock							(368,565)
Issuance of 24,962 shares of Class B common stock, net of restricted stock award forfeitures			6,025				2,145
Change in foreign currency translation adjustment (net of taxes)					(5,127)		
Change in unrealized gain on available-for-sale securities (net of taxes)						(3,124)	
Conversion of Class A common stock to Class B common stock	(40)	40					
Other			935				
Balance, December 28, 1997	1,739	18,261	33,415	2,231,341	(464)	31	(1,100,249)
Net income for the year				417,259			
Dividends paid on common stock — $5.00 per share				(50,427)			
Dividends paid on redeemable preferred stock				(956)			
Repurchase of 41,033 shares of Class B common stock							(20,512)
Issuance of 45,065 shares of Class B common stock, net of restricted stock award forfeitures			9,772				5,068
Change in foreign currency translation adjustment (net of taxes)					(1,136)		
Change in unrealized gain on available-for-sale securities (net of taxes)						41,949	
Other			3,012				
Balance, January 3, 1999	$1,739	$18,261	$46,199	$2,597,217	$(1,600)	$41,980	$(1,115,693)

The information on pages 34 through 45 is an integral part of the financial statements.

Notes to Consolidated Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Washington Post Company (the "Company") is a diversified media organization whose principal operations consist of newspaper publishing (primarily The Washington Post newspaper), television broadcasting (through the ownership and operation of six network-affiliated television stations), the ownership and operation of cable television systems, and magazine publishing (primarily Newsweek magazine). The Company also produces news and other information products and services for electronic distribution and provides test preparation and related services.

Fiscal Year. The Company reports on a 52-53 week fiscal year ending on the Sunday nearest December 31. The fiscal year 1998, which ended on January 3, 1999, included 53 weeks, while 1997 and 1996 each included 52 weeks. With the exception of the newspaper publishing operations, subsidiaries of the Company report on a calendar-year basis.

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

Presentation. Certain amounts in previously issued financial statements have been reclassified to conform to the 1998 presentation.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates.

Cash Equivalents. Short-term investments with original maturities of 90 days or less are considered cash equivalents.

Investments in Marketable Equity Securities. The Company's investments in marketable equity securities are classified as available-for-sale and therefore are recorded at fair value in the Consolidated Balance Sheets, with the change in fair value during the period excluded from earnings and recorded net of tax as a separate component of equity and comprehensive income.

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 or losses of affiliates.

Property, Plant and Equipment. Property, plant and equipment is recorded at cost and includes interest capitalized in connection with major long-term construction projects. Replacements and major improvements are capitalized; maintenance and repairs are charged to operations as incurred.

Depreciation is calculated using the straight-line method over the estimated useful lives of the property, plant and equipment: 3 to 20 years for machinery and equipment, and 20 to 50 years for buildings. 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 companies over the fair values of such companies' net tangible assets at the dates of acquisition. Goodwill and other intangibles are being amortized by use of the straight-line method over periods ranging from 15 to 40 years (with the majority being amortized over 15 to 20 years).

Long-Lived Assets. The recoverability of long-lived assets, including goodwill and other intangibles, is assessed annually or whenever adverse events and changes in circumstances indicate that previously anticipated undiscounted cash flows warrant assessment.

Program Rights. The broadcast subsidiaries are parties to agreements that entitle them to show syndicated and other programs on television. The cost of such program rights is recorded when the programs are available for broadcasting and such costs are charged to operations as the programming is aired.

Deferred Subscription Revenue and Magazine Subscription Procurement Costs. Deferred subscription revenue, which primarily represents amounts received from customers in advance of magazine and newspaper deliveries, is included in revenues over the related subscription term.

Deferred subscription revenue to be earned after one year is included in "Other liabilities" in the Consolidated Balance Sheets. Magazine subscription procurement costs are charged to operations as incurred.

Postretirement Benefits Other Than Pensions. The Company provides certain health care and life insurance benefits for retired employees. The expected cost of providing these postretirement benefits is accrued over the years that employees render services.

Income Taxes. The provision for income taxes is determined using the asset and liability approach. Under this approach,

deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities.

Foreign Currency Translation. Gains and losses on foreign currency transactions and the translation of the accounts of the Company's foreign operations where the U.S. dollar is the functional currency are recognized currently in the Consolidated Statements of Income. Gains and losses on translation of the accounts of the Company's foreign operations where the local currency is the functional currency and the Company's equity investments in its foreign affiliates are accumulated and reported as a separate component of equity and comprehensive income.

Stock-Based Compensation. The Company accounts for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Pro forma disclosures of net income and earnings per share as if the fair-value based method prescribed by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation" had been applied in measuring compensation expense are provided in Note H.

Fair Value of Financial Instruments. The carrying amount of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and short-term borrowings approximates fair value because of the short maturity of those instruments. The carrying amount of the Company's long-term debt approximates fair value as such borrowings represent commercial paper borrowings with short-term maturities. These borrowings have been classified as long-term at January 3, 1999 based upon the Company's ability and intent to refinance such amounts under a long-term borrowing arrangement completed in February 1999.

New Accounting Standards. In 1998, the Company implemented SFAS No. 130, "Reporting Comprehensive Income," which requires the presentation of comprehensive income. Comprehensive income equals the change in the equity of a business enterprise during a period from transactions and other events arising from non-owner sources. The implementation of this accounting standard resulted in the addition of the "Consolidated Statement of Comprehensive Income" to the Company's consolidated financial statements.

In December 1998, the Company implemented SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which requires companies to report certain information about their operating segments. Upon implementing this new accounting standard, the Company changed the manner in which it reports operating segment results to reflect its corporate office expenses in the "other businesses and corporate office" segment. Previously, the Company had allocated its corporate office expenses to each of its operating segments. Prior period operating segment results have been adjusted to reflect this reporting change. The Company's operating segment disclosures, reflecting the implementation of this new accounting standard, are included in Note M.

Also in December 1998, the Company adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which revises employers' disclosures about pension and other postretirement benefit plans. The Company's revised disclosures resulting from the implementation of this accounting standard are included in Note I.

B. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts receivable at January 3, 1999, and December 28, 1997, consist of the following (in thousands):

	1998	1997
Accounts receivable, less estimated returns, doubtful accounts and allowances of $55,050 and $49,706	$216,500	$229,782
Other	20,014	14,421
	$236,514	$244,203

Accounts payable and accrued liabilities at January 3, 1999, and December 28, 1997, consist of the following (in thousands):

	1998	1997
Accounts payable and accrued expenses	$170,018	$136,368
Accrued payroll and related benefits	55,133	48,115
Deferred tuition revenue	13,166	20,988
Due to affiliates (newsprint)	6,751	8,353
	$245,068	$213,824

C. INVESTMENTS IN MARKETABLE EQUITY SECURITIES

Investments in marketable equity securities at January 3, 1999 and December 28, 1997, consist of the following (in thousands):

	1998	1997
Total cost	$187,297	$3,315
Gross unrealized gains	68,819	51
Total fair value	$256,116	$3,366

At January 3, 1999, the Company's ownership of 747,100 shares of General Re Corporation ("General Re") common stock and 20 shares of Berkshire Hathaway, Inc. ("Berkshire") Class A common stock account for approximately 72 percent of the total fair value of the Company's investments in marketable equity securities. The investment in General Re and Berkshire common stock was acquired by the Company throughout the third and fourth quarters of 1998 from the open market for a total cost of $164,955,000. The gross unrealized gain on the General Re and Berkshire common stock totaled $19,485,000 at January 3, 1999.

On December 21, 1998, General Re and Berkshire announced the completion of their previously announced merger. Under the terms of the merger agreement, General Re shareholders are entitled to receive at their election either 0.0035 shares of Berkshire Class A Common Stock or 0.105 shares of Berkshire B Common Stock for each share of General Re common stock owned at December 21, 1998. On January 26, 1999, the Company converted its 747,100 shares of General Re common stock into 2,614 shares of Berkshire Class A Common Stock and 25 shares of Berkshire Class B Common Stock. The fair value of the Berkshire common stock received at the date of conversion totaled $173,240,000.

Berkshire is a holding company owning subsidiaries engaged in a number of diverse business activities; the most significant of which consist of property and casualty insurance business conducted on both a direct and reinsurance basis. Berkshire also owns approximately 17 percent of the common stock of the Company. The chairman, chief executive officer and largest shareholder of Berkshire, Mr. Warren Buffett, is a member of the Company's Board of Directors. Neither Berkshire nor Mr. Buffett participated in the Company's evaluation, approval or execution of its decision to invest in General Re common stock. The Company's investment in Berkshire common stock (after conversion) is less than 1 percent of the consolidated equity of Berkshire. At present, the Company intends to hold the Berkshire common stock investment long-term; thus this investment has been classified as a non-current asset in the Consolidated Balance Sheets.

The remaining investments in marketable equity securities at January 3, 1999 consist of common stock investments in various publicly traded companies, most of which have concentrations in Internet business activities. In most cases, the Company obtained ownership of these common stocks as a result of merger or acquisition transactions in which these companies merged or acquired various small Internet related companies in which the Company held minor investments.

During 1998, proceeds from sales of marketable equity securities were $38,246,000 and gross realized gains on such sales were $2,168,000. There were no sales of marketable equity securities during 1997 or 1996. Gross realized gains or losses upon the sale of marketable equity securities are included in "Other income (expense), net" in the Consolidated Statements of Income. For purposes of computing realized gains and losses, the cost basis of securities sold is determined by specific identification.

At February 22, 1999, the fair value of the Company's investments in marketable equity securities approximated $253,168,000, representing a $2,948,000 decline in the fair value since January 3, 1999. There were no significant acquisitions or dispositions of marketable equity securities from January 3, 1999 through February 22, 1999.

D. INVESTMENTS IN AFFILIATES

The Company's investments in affiliates at January 3, 1999 and December 28, 1997 include the following (in thousands):

	1998	1997
Bowater Mersey Paper Company Limited	$40,121	$ 39,995
Cowles Media Company	–	91,904
Other	28,409	22,892
	$68,530	$154,791

At January 3, 1999, and December 28, 1997, the Company's investments in affiliates include 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 50 percent common stock interest in the International Herald Tribune Newspaper, published near Paris, France, and a 50 percent common stock interest in the Los Angeles Times-Washington Post News Service, Inc.

At December 28, 1997, the Company's investment in affiliates also included a 28 percent interest in the stock of Cowles Media Company (Cowles), which at that time owned and operated the Minneapolis Star Tribune and several other smaller properties. As further described in Note K, in March 1998, the Company disposed of its 28 percent interest in Cowles in connection with the merger of Cowles and McClatchy Newspaper, Inc.

Operating costs and expenses of the Company include newsprint supplied by Bowater, Inc. (parent to Bowater Mersey Paper Company Limited), the cost of which was approximately $39,800,000 in 1998, $40,100,000 in 1997 and $41,500,000 in 1996. Prior to 1998, the Company owned a 35 percent interest in Bear Island Paper Company (see Note K for discussion of disposition in December 1997) which supplied the Company with newsprint at a cost of $23,700,000 in 1997 and $25,700,000 in 1996.

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

	1998	1997
Beginning investment	$154,791	$199,278
Additional investment	15,187	–
Equity in (losses) earnings	(5,140)	9,955
Dividends and distributions received	(1,587)	(2,959)
Foreign currency translation	(1,134)	(5,128)
Sale of interest in Cowles	(93,587)	–
Sale of interest in Bear Island	–	(46,355)
Ending investment	$ 68,530	$154,791

At January 3, 1999, the unamortized excess of the Company's investments over its equity in the underlying net assets of its affiliates at the dates of acquisition was approximately $13,100,000. Amortization included in "Equity in (losses) earnings of affiliates" in the Consolidated Statements of Income was approximately $777,000 for the year ended January 3, 1999, $2,500,000 for the year ended December 28, 1997, and $2,600,000 for the year ended December 29, 1996.

E. INCOME TAXES

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

	Current	Deferred
1998		
U.S. Federal	$200,898	$20,446
Foreign	1,233	255
State and local	21,682	6,286
	$223,813	$26,987
1997		
U.S. Federal	$149,003	$ 2,210
Foreign	915	(165)
State and local	28,493	1,044
	$178,411	$ 3,089
1996		
U.S. Federal	$120,612	$ (3,575)
Foreign	718	598
State and local	22,343	(1,296)
	$143,673	$ (4,273)

The provision for income taxes exceeds the amount of income tax determined by applying the U.S. Federal statutory rate of 35 percent to income before taxes as a result of the following (in thousands):

	1998	1997	1996
U.S. Federal statutory taxes	$233,821	$162,076	$126,076
State and local taxes, net of U.S. Federal income tax benefit	18,179	19,199	13,681
Amortization of goodwill not deductible for income tax purposes	5,644	2,492	2,336
IRS approved accounting change	(3,550)	–	–
Other, net	(3,294)	(2,267)	(2,693)
Provision for income taxes	$250,800	$181,500	$139,400

Deferred income taxes at January 3, 1999, December 28, 1997 and December 29, 1996, consist of the following (in thousands):

	1998	1997	1996
Accrued postretirement benefits	$ 52,971	$ 51,076	$ 49,363
Other benefit obligations	37,450	34,358	26,634
Accounts receivable	13,695	9,127	8,399
Other	9,656	8,319	12,373
Deferred tax asset	113,772	102,880	96,769
Property, plant and equipment	60,793	40,498	39,248
Prepaid pension cost	101,884	79,978	65,300
Affiliate operations	4,797	7,645	14,977
Investment tax credit	713	813	1,589
Unrealized gain on available-for-sale securities	26,839	20	2,017
Other	2,456	5,232	3,785
Deferred tax liability	197,482	134,186	126,916
Deferred income taxes	$ 83,710	$ 31,306	$ 30,147

F. DEBT

In March 1998, the Company replaced its existing $300,000,000 revolving credit facility with a five-year $500,000,000 revolving credit facility to support the issuance of commercial paper. Under the terms of the revolving credit facility, interest on borrowings are at floating rates, and the Company is required to pay a facility fee of 0.055 percent and 0.15 percent on unused and used portions of the facility, respectively. The credit facility also contains certain covenants, including a financial covenant that

requires the Company to maintain at least $850,000,000 of consolidated shareholders' equity.

At January 3, 1999 and December 28, 1997, the Company had $453,362,000 and $296,394,000, respectively, in short-term commercial paper borrowings outstanding at average interest rates of 5.4 percent and 5.8 percent, respectively. The Company incurred interest costs of $13,800,000 during 1998 on its short-term commercial paper borrowings of which $5,600,000 was capitalized in connection with the construction and upgrade of qualifying assets. The Company incurred $552,000 in interest expense on borrowings during 1997 and no interest expense in 1996.

On February 15, 1999, the Company completed the issuance of $400,000,000, 5.5 percent unsecured Notes due February 15, 2009. The Company is required to pay interest related to these notes on February 15 and August 15, of each year. The first interest payment of approximately $11,000,000 is due on August 15, 1999.

The Company intends to use the net proceeds (approximately $395,000,000) resulting from the issuance of its 5.5 percent, 10-year Notes to repay an equal amount of commercial paper borrowings outstanding. Given the Company's ability and intent to refinance $395,000,000 of its short-term commercial paper borrowings outstanding at January 3, 1999, this amount has been classified as long-term debt in the Consolidated Balance Sheets.

G. REDEEMABLE PREFERRED STOCK

In connection with the acquisition of a cable television system during the first quarter of 1996, the Company issued 11,947 shares of its Series A Preferred Stock and agreed to issue an additional 1,282 shares of such stock on February 23, 2000 (which additional number of shares is subject to reduction in the event of any breach of the representations and warranties made by the seller in the acquisition agreement). During 1998, the Company redeemed 74 shares of the Series A Preferred Stock at the request of a Series A Preferred Stockholder.

The Series A Preferred Stock has a par value of $1.00 per share and a liquidation preference of $1,000 per share; it is redeemable by the Company at any time on or after October 1, 2015 at a redemption price of $1,000 per share. In addition, the holders of such stock have a right to require the Company to purchase their shares at the redemption price during an annual 60-day election period, with the first such period beginning on February 23, 2001. Dividends on the Series A Preferred Stock are payable four times a year at the annual rate of $80.00 per share and in preference to any dividends on the Company's common stock. The Series A Preferred Stock is not convertible into any other security of the Company, and the holders thereof have no voting rights except with respect to any proposed changes in the preferences and special rights of such stock.

H. CAPITAL STOCK, STOCK AWARDS AND STOCK OPTIONS

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.

During 1998, 1997 and 1996, the Company purchased a total of 41,033, 846,290 and 103,642 shares, respectively, of its Class B common stock at a cost of approximately $20,512,000, $368,565,000 and $32,302,000.

Stock Awards. In 1982, the Company adopted a long-term incentive compensation plan that, among other provisions, authorizes the awarding of Class B common stock to key employees. Stock awards made under this 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 3, 1999, there were 92,245 shares reserved for issuance under the incentive compensation plan. Of this number, 30,730 shares were subject to awards outstanding, and 61,515 shares were available for future awards. Activity related to stock awards under the long-term incentive compensation plan for the years ended January 3, 1999, December 28, 1997 and December 29, 1996, was as follows:

	1998		1997		1996	
	Number of Shares	Average Award Price	Number of Shares	Average Award Price	Number of Shares	Average Award Price
Awards Outstanding						
Beginning of year	32,331	$281.19	30,490	$237.83	31,378	$237.85
Awarded	14,120	522.56	18,285	351.68	64	313.88
Vested	(15,075)	244.10	(13,521)	228.96	–	–
Forfeited	(646)	293.83	(2,923)	285.35	(952)	243.61
End of year	30,730	$405.40	32,331	$281.19	30,490	$237.83

In addition to stock awards granted under the long-term incentive compensation plan, the Company also made stock awards of 938 shares in 1998 and 2,000 shares in 1997.

For the share awards outstanding at January 3, 1999, the aforementioned restriction will lapse in January 2001 for 18,030 shares, January 2002 for 938 shares, January 2003 for 13,700 shares, and January 2004 for 1,000 shares. Stock-based compensation costs resulting from stock awards reduced net income by $3.2 million ($0.32 per share, basic and diluted), $1.2 million ($0.11 per share, basic and diluted), and $1.1 million ($0.10 per share, basic and diluted) in 1998, 1997 and 1996, respectively.

Stock Options. The Company's employee stock option plan, which was adopted in 1971 and amended in 1993, reserves

1,900,000 shares of the Company's Class B common stock for options to be granted under the plan. The purchase price of the shares covered by an option cannot be less than the fair value on the granting date. At January 3, 1999, there were 611,825 shares reserved for issuance under the stock option plan, of which 246,072 shares were subject to options outstanding and 365,753 shares were available for future grants.

Changes in options outstanding for the years ended January 3, 1999, December 28, 1997 and December 29, 1996, were as follows:

	1998		1997		1996	
	Number of Shares	Average Option Price	Number of Shares	Average Option Price	Number of Shares	Average Option Price
Beginning of year	251,225	$371.35	178,625	$270.21	168,525	$258.59
Granted	25,500	519.32	80,200	583.62	19,500	343.94
Exercised	(30,653)	228.53	(7,600)	234.20	(9,400)	214.89
End of year	246,072	$404.48	251,225	$371.35	178,625	$270.21

Of the shares covered by options outstanding at the end of 1998, 124,672 are now exercisable, 74,800 will become exercisable in 1999, 22,550 will become exercisable in 2000, 17,675 will become exercisable in 2001, and 6,375 will become exercisable in 2002.

Information related to stock options outstanding at January 3, 1999 is as follows:

Range of exercise prices	Number outstanding at 1/3/99	Weighted average remaining contractual life (yrs.)	Weighted average exercise price	Number exercisable at 1/3/99	Weighted average exercise price
$173–200	6,000	3.0	$173.00	6,000	$173.00
205–319	115,872	3.5	276.86	63,625	243.36
343–350	20,000	8.1	344.37	9,125	344.18
472	43,700	9.0	472.00	10,925	472.00
517–570	25,500	10.0	519.32	–	–
733	35,000	9.0	733.00	35,000	733.00

All options were granted at an exercise price equal to or greater than the fair market value of the Company's common stock at the date of grant. The weighted-average fair value at the date of grant for options granted during 1998, 1997 and 1996 was $126.57, $87.94 and $96.53, respectively. The fair value of options at date of grant was estimated using the Black-Scholes method utilizing the following assumptions:

	1998	1997	1996
Expected life (years)	7	7	7
Interest rate	4.68%	5.84%	6.26%
Volatility..................	14.6%	14.2%	14.6%
Dividend yield	1.2%	1.5%	1.5%

Had the fair values of options granted in 1998, 1997 and 1996 been recognized as compensation expense, net income would have been reduced by $2.0 million ($.19 per share, basic and diluted), $1.6 million ($.15 per share, basic and diluted) and $0.4 million ($.04 per share, basic and diluted) in 1998, 1997 and 1996 respectively.

Average Number of Shares Outstanding. Basic earnings per share are based on the weighted average number of shares of common stock outstanding during each year. Diluted earnings per common share are based upon the weighted average number of shares of common stock outstanding each year, adjusted for the dilutive effect of shares issuable under outstanding stock options. Basic and diluted weighted average share information for 1998, 1997 and 1996 is as follows:

	Basic Weighted Average Shares	Dilutive Effect of Stock Options	Diluted Weighted Average Shares
1998	10,086,786	42,170	10,128,956
1997	10,699,713	33,278	10,732,991
1996	10,963,761	16,036	10,979,797

I. PENSIONS AND OTHER POSTRETIREMENT PLANS

The Company maintains various pension and incentive savings plans and contributes to several multi-employer plans on behalf of certain union represented employee groups. Substantially all of the Company's employees are covered by these plans.

The Company also provides health care and life insurance benefits to certain retired employees. These employees become eligible for benefits after meeting age and service requirements.

The following table sets forth obligation, asset and funding information for the Company's defined benefit pension and postretirement plans at January 3, 1999 and December 28, 1997 (in thousands):

	Pension Plans		Postretirement Benefits	
	1998	1997	1998	1997
Change in benefit obligation				
Benefit obligation at beginning of year...	$ 284,278	$ 261,266	$ 101,255	$ 95,096
Service cost............................	11,335	10,567	3,764	3,511
Interest cost	21,344	19,433	7,417	6,973
Amendments	4,690	–	–	–
Actuarial loss	26,871	4,871	155	31
Benefits paid	(10,473)	(11,859)	(4,812)	(4,356)
Benefit obligation at end of year	$ 338,045	$ 284,278	$ 107,779	$ 101,255
Change in plan assets				
Fair value of assets at beginning of year ..	$1,014,531	$ 731,999	–	–
Actual return on plan assets	304,360	294,212	–	–
Employer contributions	–	179	$ 4,812	$ 4,356
Benefits paid	(10,473)	(11,859)	(4,812)	(4,356)
Fair value of assets at end of year	$1,308,418	$1,014,531	–	–
Funded status	$ 970,373	$ 730,253	$(107,779)	$(101,255)
Unrecognized transition asset	(30,606)	(38,271)	(3,366)	(3,744)
Unrecognized prior service cost	17,835	14,824	(11,433)	(12,968)
Unrecognized actuarial gain	(701,468)	(512,669)	–	–
Net prepaid (accrued) cost..............	$ 256,134	$ 194,137	$(122,578)	$(117,967)

The total (income) cost arising from the Company's defined benefit pension and postretirement plans for the years ended January 3, 1999, December 28, 1997 and December 29, 1996, consists of the following components (in thousands):

	Pension Plans			Postretirement Plans		
	1998	1997	1996	1998	1997	1996
Service cost	$ 11,335	$ 10,567	$ 10,373	$ 3,764	$ 3,511	$ 2,940
Interest cost	21,344	19,433	17,741	7,417	6,973	6,546
Expected return on assets	(71,814)	(51,842)	(43,571)	–	–	–
Amortization of transition asset	(7,665)	(7,665)	(7,665)	–	–	–
Amortization of prior service cost	1,679	1,512	1,370	(378)	(378)	(290)
Recognized actuarial gain	(16,876)	(2,232)	(1,517)	(1,379)	(1,576)	(1,286)
Total (benefit) cost for the year	$(61,997)	$(30,227)	$(23,269)	$ 9,424	$ 8,530	$ 7,910

The cost for the Company's defined benefit pension and postretirement plans are actuarially determined. Key assumptions utilized at January 3, 1999, December 28, 1997 and December 29, 1996 include the following:

	Pension Plans			Postretirement Plans		
	1998	1997	1996	1998	1997	1996
Discount rate	7.0%	7.5%	7.5%	7.0%	7.5%	7.5%
Expected return on plan assets	9.0%	9.0%	9.0%	–	–	–
Rate of compensation increase	4.0%	4.0%	4.0%	–	–	–

The assumed health care cost trend rate used in measuring the postretirement benefit obligation at January 3, 1999 was 9.8 percent for pre-age 65 benefits (9.3 percent for post-age 65 benefits) decreasing to 5.0 percent in the year 2015 and thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in the assumed health care cost trend rates would have the following effects (in thousands):

	1% Increase	1% Decrease
Benefit obligation at end of year	$14,267	$(14,029)
Service cost plus interest cost	1,637	(1,615)

Contributions to multi-employer pension plans, which are generally based on hours worked, amounted to $2,300,000 in 1998, $2,000,000 in 1997 and $1,700,000 in 1996.

The Company recorded expense associated with retirement benefits provided under incentive savings plans (primarily 401k plans) of $13,300,000 in 1998, $12,400,000 in 1997 and $12,000,000 in 1996.

J. LEASE AND OTHER COMMITMENTS

The Company leases primarily real property under operating agreements. Many of the leases contain renewal options and escalation clauses that require payments of additional rent to the extent of increases in the related operating costs.

At January 3, 1999, future minimum rental payments under noncancelable operating leases approximate the following (in thousands):

1999	$ 29,800
2000	26,700
2001	23,400
2002	19,500
2003	15,800
Thereafter	50,700
	$165,900

Minimum payments have not been reduced by minimum sublease rentals of $2,200,000 due in the future under noncancelable subleases.

Rent expense under operating leases included in operating costs and expenses was approximately $31,800,000, $27,800,000 and $24,900,000 in 1998, 1997 and 1996, respectively. Sublease income was approximately $500,000, $400,000 and $800,000 in 1998, 1997 and 1996, respectively.

The Company's broadcast subsidiaries are parties to certain agreements that commit them to purchase programming to be produced in future years. At January 3, 1999, such commitments amounted to approximately $38,400,000. If such programs are not produced, the Company's commitment would expire without obligation.

K. ACQUISITIONS, EXCHANGES AND DISPOSITIONS

Acquisitions. The Company completed acquisitions totaling approximately $320,600,000 in 1998, $118,900,000 in 1997 and $147,500,000 in 1996. All of these acquisitions were accounted for using the purchase method and, accordingly, the assets and liabilities of the companies acquired have been recorded at their estimated fair values at the date of acquisition.

Acquisitions in 1998 included an educational services company that provides English language study programs (in January 1998 for $16,100,000); a 36,000 subscriber cable system serving Anniston, Alabama (in June 1998 for $66,500,000); cable systems serving 72,000 subscribers in Mississippi, Louisiana, Texas and Oklahoma (in July 1998 for $130,100,000); and a publisher and provider of licensing training for securities, insurance and real estate professionals (in July 1998 for $35,200,000). In addition,

the Company acquired various other smaller businesses throughout 1998 for $72,700,000 (principally consisting of educational and career service companies and small cable systems).

In 1997, the Company acquired cable systems serving approximately 16,000 subscribers in Cleveland, Mississippi (in February 1997 for $23,900,000), the publishing rights to two computer service industry trade periodicals and the rights to conduct two computer industry trade shows (in December 1997 for $84,500,000), and various other smaller businesses throughout 1997 for $10,500,000.

In 1996, the Company acquired cable systems serving approximately 39,700 subscribers in Texarkana and Columbus, Missouri (in January and February 1996 for $83,000,000), a cable system serving approximately 26,300 subscribers in Prescott, Arizona (in August 1996 for $46,000,000), and various other smaller businesses throughout 1996 for $18,500,000.

The results of operations for each of the businesses acquired are included in the Consolidated Statements of Income from their respective dates of acquisition. Pro forma results of operations for 1998, 1997 and 1996, assuming the acquisitions occurred at the beginning of 1996, are not materially different from reported results of operations.

Exchanges. In June 1997, the Company exchanged the assets of certain cable systems with Tele-Communications, Inc. This trade resulted in an increase of about 21,000 subscribers for the Company.

In September 1997, the Company completed a transaction with Meredith Corporation whereby the Company exchanged the assets of WFSB-TV, the CBS affiliate in Hartford, Connecticut, and approximately $60,000,000 for the assets of WCPX-TV, the CBS affiliate in Orlando, Florida.

The assets obtained in these transactions were recorded at the carrying value of the assets exchanged plus cash consideration. No gain or loss resulted from these exchange transactions.

Dispositions. In March 1998, Cowles Media Company ("Cowles") and McClatchy Newspapers, Inc. ("McClatchy") completed a series of transactions resulting in the merger of Cowles and McClatchy. In the merger, each share of Cowles common stock was converted (based upon elections of Cowles stockholders) into shares of McClatchy stock or a combination of cash and McClatchy stock. As of the date of the Cowles and McClatchy merger transaction, a wholly-owned subsidiary of the Company owned 3,893,796 (equal to about 28 percent) of the outstanding common stock of Cowles, most of which was acquired in 1985. As a result of the transaction, the Company's subsidiary received $330,500,000 in cash from McClatchy and 730,525 shares of McClatchy Class A common stock. The market value of the McClatchy stock received approximated $21,600,000. The gain resulting from this transaction, which is included in 1998 "Other income (expense), net" in the Consolidated Statements of Income, increased net income by approximately $162,800,000 and basic and diluted earnings per share by $16.14 and $16.07 respectively.

In July 1998, the Company completed the sale of its 80 percent interest in Moffet, Larson and Johnson ("MLJ"), a telecommunications consulting firm; no significant gain or loss was realized as a result of this transaction.

In July 1998, the Company completed the sale of 14 small cable systems in Texas, Missouri and Kansas serving approximately 29,000 subscribers for approximately $41,900,000. The gain resulting from this transaction, which is included in 1998 "Other income (expense), net" in the Consolidated Statements of Income, increased net income by approximately $17,300,000 and basic and diluted earnings per share by $1.71.

In August 1998, Junglee Corporation ("Junglee") merged with a wholly owned subsidiary of Amazon.com Inc. ("Amazon.com"). As a result, each share of Junglee common and preferred stock was converted into shares of Amazon.com. On the date of the merger, a wholly-owned subsidiary of the Company owned 750,000 common shares and 750,000 preferred shares of Junglee. As a result of the merger, the Company's subsidiary received 202,961 shares of Amazon.com common stock. The market value of the Amazon.com stock received approximated $25,200,000 on the date of the merger. The gain resulting from this transaction, which is included in 1998 "Other income (expense), net" in the Consolidated Statements of Income, increased net income by approximately $14,300,000 and basic and diluted earnings per share by $1.42 and $1.41, respectively.

In September 1997, the Company sold the assets of its PASS regional sports network for approximately $27,400,000. In December 1997, the Company sold its 35 percent limited partnership interest in both Bear Island Paper Company and Bear Island Timberlands Company for approximately $92,800,000. The gains resulting from these dispositions, which are included in "Other income (expense), net" in the Consolidated Statements of Income, increased 1997 net income by approximately $44,500,000 and basic and diluted earnings per share by $4.16 and $4.15, respectively.

L. CONTINGENCIES

The Company and its subsidiaries are parties to various civil lawsuits that have arisen in the ordinary course of their businesses, including actions for libel and invasion of privacy. Management does not believe that any litigation pending against the Company will have a material adverse effect on its business or financial condition.

M. BUSINESS SEGMENTS

The Company operates principally in four areas of the media business: newspaper publishing, television broadcasting, magazine publishing, and cable television. The Company also produces news and other information products and services for electronic distribution and provides test preparation and related services.

Newspaper operations involve the publication of newspapers in the Washington, D.C. area and Everett, Washington, and newsprint warehousing and recycling facilities.

Broadcast operations are conducted primarily through six VHF television stations. All stations are network-affiliated, with revenues derived primarily from sales of advertising time.

Magazine operations consist of the publication of a weekly news magazine, Newsweek, which has one domestic and three international editions, and beginning in 1997, the publication of business periodicals for the computer services industry and the Washington-area technology community. Revenues from both newspaper and magazine publishing operations are derived from advertising and, to a lesser extent, from circulation.

Cable television operations consist of over 53 cable systems offering basic cable and pay television services to approximately 733,000 subscribers in midwestern, western, and southern states. The principal source of revenues is monthly subscription fees charged for services.

Other businesses and corporate office include the operations of educational centers engaged in preparing students for admissions tests and licensing examinations and offering academic enrichment programs, a publisher and provider of professional licensing programs, an engineering firm which provides services to the telecommunications industry (sold in July 1998, see Note K), a regional sports cable system (sold in September 1997, see Note K), an online information service devoted to federal and state legislation and regulations, a digital media and electronic information services provider and the Company's corporate office.

Income from operations is the excess of operating revenues over operating expenses. 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. Income from operations includes actuarially determined net pension benefits, which are significant to the magazine publishing division. These non-cash pension benefits totaled $36.6 million in 1998, $22.0 million in 1997 and $16.4 million in 1996.

Identifiable assets by segment are those assets used in the Company's operations in each business segment. Investments in marketable equity securities and investments in affiliates are discussed in Notes C and D, respectively.

(in thousands)	Newspaper Publishing	Broadcasting	Magazine Publishing	Cable Television	Other Businesses and Corporate Office	Consolidated
1998						
Operating revenues	$846,836	$357,616	$399,483	$297,980	$208,445	$2,110,360
Income (loss) from operations	$165,099	$171,194	$ 44,524	$ 65,022	$ (66,942)	$ 378,897
Equity in losses of affiliates						(5,140)
Interest expense, net						(10,401)
Other income, net						304,703
Income before income taxes						$ 668,059
Identifiable assets	$634,882	$437,506	$355,176	$710,641	$266,810	$2,405,015
Investments in marketable equity securities						256,116
Investments in affiliates						68,530
Total assets						$2,729,661
Depreciation of property, plant and equipment	$ 26,715	$ 11,378	$ 4,888	$ 37,271	$ 8,996	$ 89,248
Amortization of goodwill and other intangibles	$ 1,372	$ 14,368	$ 5,912	$ 24,178	$ 4,059	$ 49,889
Capital expenditures	$117,742	$ 14,492	$ 3,666	$ 80,795	$ 27,524	$ 244,219
1997						
Operating revenues	$812,896	$338,373	$389,853	$257,732	$157,399	$1,956,253
Income (loss) from operations	$172,566	$163,703	$ 42,719	$ 54,659	$ (52,296)	$ 381,351
Equity in earnings of affiliates						9,955
Interest income, net						2,219
Other income, net						69,549
Income before income taxes						$ 463,074
Identifiable assets	$515,745	$436,760	$323,573	$502,642	$140,440	$1,919,160
Investments in marketable equity securities						3,366
Investments in affiliates						154,791
Total assets						$2,077,317
Depreciation of property, plant and equipment	$ 19,104	$ 11,011	$ 4,484	$ 30,672	$ 6,207	$ 71,478
Amortization of goodwill and other intangibles	$ 874	$ 12,213	$ 136	$ 19,371	$ 965	$ 33,559
Capital expenditures	$110,070	$ 11,651	$ 3,022	$ 73,156	$ 16,674	$ 214,573
1996						
Operating revenues	$763,935	$335,156	$377,063	$229,695	$147,596	$1,853,445
Income (loss) from operations	$124,464	$158,390	$ 26,606	$ 58,328	$ (30,619)	$ 337,169
Equity in earnings of affiliates						19,702
Interest income, net						3,845
Other expense, net						(499)
Income before income taxes						$ 360,217
Identifiable assets	$420,601	$377,799	$226,411	$452,525	$185,310	$1,662,646
Investments in marketable equity securities						8,487
Investments in affiliates						199,278
Total assets						$1,870,411
Depreciation of property, plant and equipment	$ 20,386	$ 10,482	$ 4,610	$ 25,075	$ 4,550	$ 65,103
Amortization of goodwill and other intangibles	$ 830	$ 11,252		$ 16,785	$ 969	$ 29,836
Capital expenditures	$ 19,441	$ 10,923	$ 4,798	$ 37,362	$ 7,457	$ 79,981

N. SUMMARY OF QUARTERLY OPERATING RESULTS AND COMPREHENSIVE INCOME (UNAUDITED)

Quarterly results of operations and comprehensive income for the years ended January 3, 1999 and December 28, 1997, are as follows (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1998 QUARTERLY OPERATING RESULTS				
Operating revenues				
Advertising	$292,685	$342,247	$293,277	$369,412
Circulation and subscriber	130,341	133,365	138,783	144,961
Other	60,929	50,145	77,221	76,993
	483,955	525,757	509,281	591,366
Operating costs and expenses				
Operating	267,587	276,399	278,241	316,950
Selling, general and administrative	109,930	111,005	107,533	124,681
Depreciation of property, plant and equipment	20,378	20,733	22,058	26,079
Amortization of goodwill and other intangibles	10,743	11,127	13,853	14,166
	408,638	419,264	421,685	481,876
Income from operations	75,317	106,493	87,596	109,490
Equity in earnings (losses) of affiliates	988	(71)	(4,060)	(1,996)
Interest income	207	384	217	328
Interest expense	(2,244)	(330)	(2,246)	(6,717)
Other income (expense), net	258,106	(1,594)	50,241	(2,050)
Income before income taxes	332,374	104,882	131,748	99,055
Provision for income taxes	124,500	41,100	49,900	35,300
Net income	207,874	63,782	81,848	63,755
Redeemable preferred stock dividends	(478)	(239)	(239)	–
Net income available for common shares	$207,396	$ 63,543	$ 81,609	$ 63,755
Basic earnings per common share	$ 20.57	$ 6.30	$ 8.09	$ 6.32
Diluted earnings per common share	$ 20.47	$ 6.27	$ 8.05	$ 6.30
Basic average number of common shares outstanding	10,084	10,088	10,093	10,082
Diluted average number of common shares outstanding	10,131	10,136	10,139	10,124
1998 QUARTERLY COMPREHENSIVE INCOME	$207,814	$ 64,253	$ 74,503	$111,502

1997 QUARTERLY OPERATING RESULTS

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenues				
Advertising	$278,528	$327,949	$286,074	$344,326
Circulation and subscriber	123,674	128,901	134,238	132,807
Other	51,899	44,525	58,063	45,269
	454,101	501,375	478,375	522,402
Operating costs and expenses				
Operating	243,504	246,478	253,565	276,322
Selling, general and administrative	106,886	118,875	107,186	117,049
Depreciation of property, plant and equipment	17,790	17,871	18,007	17,810
Amortization of goodwill and other intangibles	7,953	8,214	8,382	9,010
	376,133	391,438	387,140	420,191
Income from operations	77,968	109,937	91,235	102,211
Equity in earnings of affiliates	125	3,331	4,712	1,787
Interest income	1,112	1,079	725	554
Interest expense	(165)	(158)	(182)	(747)
Other income (expense), net	(846)	1,668	23,471	45,257
Income before income taxes	78,194	115,857	119,961	149,062
Provision for income taxes	30,500	44,500	48,410	58,090
Net income	47,694	71,357	71,551	90,972
Redeemable preferred stock dividends	(478)	(239)	(239)	–
Net income available for common shares	$ 47,216	$ 71,118	$ 71,312	$ 90,972
Basic earnings per common share	$ 4.35	$ 6.62	$ 6.66	$ 8.66
Diluted earnings per common share	$ 4.35	$ 6.60	$ 6.64	$ 8.63
Basic average number of common shares outstanding	10,844	10,744	10,708	10,502
Diluted average number of common shares outstanding	10,866	10,772	10,743	10,544
1997 QUARTERLY COMPREHENSIVE INCOME	$ 44,067	$ 69,099	$ 71,093	$ 89,064

The sum of the four quarters may not necessarily be equal to the annual amounts reported in the Consolidated Statements of Income due to rounding.

Ten-Year Summary of Selected Historical Financial Data

See Notes to Consolidated Financial Statements for the summary of significant accounting policies and additional information relative to the years 1996–1998.

(in thousands, except per share amounts)	1998	1997	1996
RESULTS OF OPERATIONS			
Operating revenues	$2,110,360	$1,956,253	$1,853,445
Income from operations	$ 378,897	$ 381,351	$ 337,169
Income before cumulative effect of changes in accounting principle	$ 417,259	$ 281,574	$ 220,817
Cumulative effect of change in method of accounting for income taxes	–	–	–
Cumulative effect of change in method of accounting for postretirement benefits other than pensions	–	–	–
Net income	$ 417,259	$ 281,574	$ 220,817
PER SHARE AMOUNTS			
Basic earnings per common share			
Income before cumulative effect of changes in accounting principles	$ 41.27	$ 26.23	$ 20.08
Cumulative effect of changes in accounting principles	–	–	–
Net income	$ 41.27	$ 26.23	$ 20.08
Basic average shares outstanding	10,087	10,700	10,964
Diluted earnings per share			
Income before cumulative effect of changes in accounting principles	$ 41.10	$ 26.15	$ 20.05
Cumulative effect of changes in accounting principles	–	–	–
Net income	$ 41.10	$ 26.15	$ 20.05
Diluted average shares outstanding	10,129	10,733	10,980
Cash dividends	$ 5.00	$ 4.80	$ 4.60
Common shareholders' equity	$ 157.34	$ 117.36	$ 121.24
FINANCIAL POSITION			
Current assets	$ 404,878	$ 308,492	$ 382,631
Working capital	15,799	(300,264)	100,995
Property, plant and equipment	841,062	653,750	511,363
Total assets	2,729,661	2,077,317	1,870,411
Long-term debt	395,000	–	–
Common shareholders' equity	1,588,103	1,184,074	1,322,803

1995	1994	1993	1992	1991	1990	1989
$1,719,449	$1,613,978	$1,498,191	$1,450,867	$1,380,261	$1,438,640	$1,444,094
$ 271,018	$ 274,875	$ 238,980	$ 232,112	$ 192,866	$ 281,768	$ 313,691
$ 190,096	$ 169,672	$ 153,817	$ 127,796	$ 118,721	$ 174,576	$ 197,893
–	–	11,600	–	–	–	–
–	–	–	–	(47,897)	–	–
$ 190,096	$ 169,672	$ 165,417	$ 127,796	$ 70,824	$ 174,576	$ 197,893
$ 17.16	$ 14.66	$ 13.10	$ 10.81	$ 10.00	$ 14.46	$ 15.51
–	–	0.98	–	(4.04)	–	–
$ 17.16	$ 14.66	$ 14.08	$ 10.81	$ 5.96	$ 14.46	$ 15.51
11,075	11,577	11,746	11,827	11,874	12,073	12,755
$ 17.15	$ 14.65	$ 13.10	$ 10.80	$ 10.00	$ 14.45	$ 15.50
–	–	0.98	–	(4.04)	–	–
$ 17.15	$ 14.65	$ 14.08	$ 10.80	$ 5.96	$ 14.45	$ 15.50
11,086	11,582	11,750	11,830	11,876	12,081	12,768
$ 4.40	$ 4.20	$ 4.20	$ 4.20	$ 4.20	$ 4.00	$ 1.84
$ 107.60	$ 99.32	$ 92.84	$ 84.17	$ 78.12	$ 76.31	$ 75.40
$ 406,570	$375,879	$ 625,574	$ 524,975	$ 472,219	$ 471,669	$ 553,188
98,393	102,806	367,041	242,627	183,959	175,807	283,118
457,359	411,396	363,718	390,804	390,313	394,979	370,597
1,732,893	1,696,868	1,622,504	1,568,121	1,487,661	1,496,509	1,532,211
–	50,297	51,768	51,842	51,915	126,988	152,061
1,184,204	1,126,933	1,087,419	993,005	924,285	905,112	941,522

Corporate Directory

BOARD OF DIRECTORS

Donald E. Graham (3,4)
Chairman of the Board and Chief Executive Officer
Publisher, The Washington Post

Alan G. Spoon (3,4)
President and Chief Operating Officer

Katharine Graham (3,4)
Chairman of the Executive Committee

Warren E. Buffett (3)
Chairman of the Board, Berkshire Hathaway Inc.

Daniel B. Burke (1,2)
Former President and Chief Executive Officer,
Capital Cities/ABC, Inc.

James E. Burke (2,3)
Chairman, Partnership for a Drug-Free America
Former Chairman and Chief Executive Officer,
Johnson & Johnson

Martin Cohen (3)
Former Vice President, The Washington Post Company

George J. Gillespie III (3)
Attorney, Member of Cravath, Swaine & Moore

Ralph E. Gomory (1)
President, Alfred P. Sloan Foundation

Donald R. Keough (2)
Chairman, Allen & Company Incorporated

Barbara Scott Preiskel (1)
Attorney

William J. Ruane (1,3)
Chairman of the Board, Ruane, Cunniff & Co., Inc.

Richard D. Simmons (3)
Former President and Chief Operating Officer,
The Washington Post Company

George W. Wilson (2)
President, Concord (N.H.) Monitor

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

OTHER COMPANY OFFICERS

Patrick Butler
Vice President

Diana M. Daniels
Vice President, General Counsel, and Secretary

Ross F. Hamachek
Vice President

Polly Povejsil Heath
Controller

Beverly R. Keil
Vice President

Guyon Knight
Vice President—Corporate Communications

Daniel Lynch
Treasurer

John B. Morse, Jr.
Vice President—Finance
Chief Financial Officer

Gerald M. Rosberg
Vice President—Planning and Development

Ralph S. Terkowitz
Vice President—Technology

John F. Hockenberry
Assistant Secretary

James W. Keller
Assistant Treasurer

The Washington Post Company—In Brief

BROADCAST DIVISION

Post-Newsweek Stations—the owner and operator of six network-affiliated VHF television stations.

WDIV—the NBC affiliate in Detroit, Michigan, the 9th-largest broadcasting market in the United States, with 1,846,950 television households.

KPRC—the NBC affiliate in Houston, Texas, the 11th-largest broadcasting market in the United States, with 1,665,550 television households.

WPLG—the ABC affiliate in Miami, Florida, the 16th-largest broadcasting market in the United States, with 1,418,940 television households.

WKMG—the CBS affiliate in Orlando, Florida, the 22nd-largest broadcasting market in the United States, with 1,072,150 television households.

KSAT—the ABC affiliate in San Antonio, Texas, the 37th-largest broadcasting market in the United States, with 667,750 television households.

WJXT—the CBS affiliate in Jacksonville, Florida, the 52nd-largest broadcasting market in the United States, with 520,010 television households.

NEWSPAPER DIVISION

The Washington Post—a morning daily and Sunday newspaper published in Washington, D.C. For the 12-month period ending September 30, 1998, The Post's unaudited estimated average circulation was 783,000 daily and 1,095,000 Sunday. The Post maintains 20 foreign, 5 national, and 12 metropolitan news bureaus.

The Washington Post National Weekly Edition—a tabloid publication of selected Post articles on politics, foreign affairs, popular culture, public policy, and personal finance, edited for a national audience, with a circulation of 81,000.

The Washington Post Writers Group—a syndicator of 30 writers and cartoonists, and material from Newsweek to newspapers and magazines around the world. The Writers Group also conducts a worldwide reprint business with photos and text from The Post's archives.

The Herald—a morning daily and Sunday newspaper published in Everett, Washington, 30 miles north of Seattle. The Herald's unaudited estimated average circulation for the 12-month period ending September 30, 1998, was 54,000 daily and 64,000 Sunday. The Herald also publishes six community weeklies in South Snohomish and North King Counties and operates a commercial printing business.

Gazette Newspapers, Inc.—a publisher of 30 controlled-circulation community weekly newspapers in Montgomery, Frederick, Carroll, and Prince George's Counties, Maryland, and one paid-circulation statewide weekend newspaper with a combined circulation of 433,000; one monthly business publication with a circulation of 30,000; one monthly publication with a circulation of 30,000 that covers technology in Maryland; 10 military newspapers for local military bases; and operator of one of the largest commercial printing sites in the Washington area.

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

Capitol Fiber Inc.—a handler and seller to recycling industries of old newspaper and other waste paper collected in the Washington/Baltimore area.

CABLE DIVISION

Cable One, Inc.—Headquartered in Phoenix, Arizona, Cable One systems served 732,964 subscribers in 18 midwestern, western, and southern states in 1998. States served and the number of basic subscribers in each as of December 31, 1998, were:

State	Subscribers	State	Subscribers
Alabama	36,781	Missouri	23,008
Arizona	66,705	Nebraska	12,859
Arkansas	7,928	New Mexico	24,404
California	105,990	North Dakota	26,406
Indiana	16,185	Ohio	17,363
Iowa	24,912	Oklahoma	87,990
Louisiana	1,635	South Dakota	1,321
Minnesota	9,265	Tennessee	9,993
Mississippi	160,508	Texas	99,711
		Total	732,964

MAGAZINE DIVISION

Newsweek—a weekly news magazine published in New York City, with a 1999 circulation rate base of 3.1 million and a 12-month average circulation for 1998 of more than 3.2 million. Newsweek maintains 9 U.S. and 13 overseas bureaus.

Newsweek International—a weekly English-language news magazine published in New York City and circulated throughout the world. For 1999, Newsweek International's combined circulation for its three editions is 660,000: Atlantic, 340,000; Asia, 240,000; Latin America, 80,000. In Australia, Newsweek is published as part of The Bulletin with Newsweek, a news magazine with a circulation of 85,000.

Newsweek Japan (Newsweek Nihon Ban)—a Japanese-language newsweekly with a circulation of 130,000. It is produced with TBS-Britannica, which translates and publishes the magazine.

Newsweek Korea (Newsweek Hankuk Pan)—a Korean-language newsweekly with a circulation of 90,000. It is produced with Joong-ang Ilbo, a division of the Samsung Group, which translates and publishes the magazine.

Newsweek en Español—a Spanish-language newsweekly with a Latin American circulation of 50,000. It is produced with Ideas Publishing Group (IPG), based in Miami.

Itogi—a Russian-language newsweekly with a circulation of 85,000. Itogi, "summing up," is Russia's first independent newsweekly. It is produced by Seven Days Publishing, a subsidiary of Media Most.

Newsweek Productions—a television production company that produces "HealthWeek," broadcast nationally on PBS, and other television programming and media projects.

Post-Newsweek Business Information—publishes trade magazines, organizes trade shows, and runs online services in three technology industry sectors: government information technology, technology finance, and general technology news.

OTHER BUSINESSES

Kaplan Educational Centers—Headquartered in New York City with locations throughout the U.S. and abroad, Kaplan is a premier provider of educational and career services for individuals, schools, and businesses. Kaplan's six operating divisions include Test Preparation and Admissions; Score! Educational Centers, offering K-8 after-school programs; Kaplan Learning Services, providing customized education services and professional development at schools and universities; Publishing, which produces books and software; Kaplan Professional, providing recruitment, assessment, training, and certification services; and Kaplan University, offering distance learning programs including Concord University School of Law, the nation's first online law school.

Washingtonpost.Newsweek Interactive—Headquartered in Arlington, Virginia, Washingtonpost.Newsweek Interactive (WPNI) is the new-media and electronic-publishing subsidiary of The Washington Post Company. Its mission is to develop the company's editorial products and businesses on the World Wide Web. WPNI's flagship products are washingtonpost.com and Newsweek.com.

Legi-Slate, Inc.—Headquartered in Washington, D.C., Legi-Slate is one of the nation's leading research and commercial online services for legislation, regulations, and related news and analysis for the federal government and all 50 state governments. The company's Custom Research Services Division delivers customized federal and state legislative and regulatory reports that provide analysis of issues specific to a client's business.

AFFILIATES

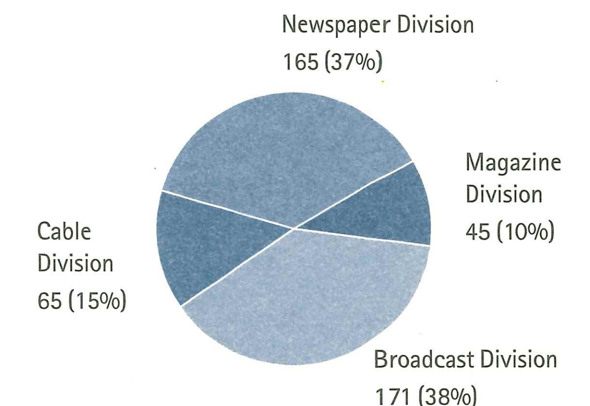
International Herald Tribune (50 percent of common stock)—a daily newspaper headquartered in Paris, France. In 1998 the International Herald Tribune had an average daily paid circulation of 222,930 in over 180 countries.

Los Angeles Times-Washington Post News Service, Inc. (50 percent of common stock)—a supplier of news, commentary, features, columns, sports, photos, graphics, series, reviews, and editorials to 853 clients in 55 countries.

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

THE WASHINGTON POST COMPANY 1998 OPERATING INCOME

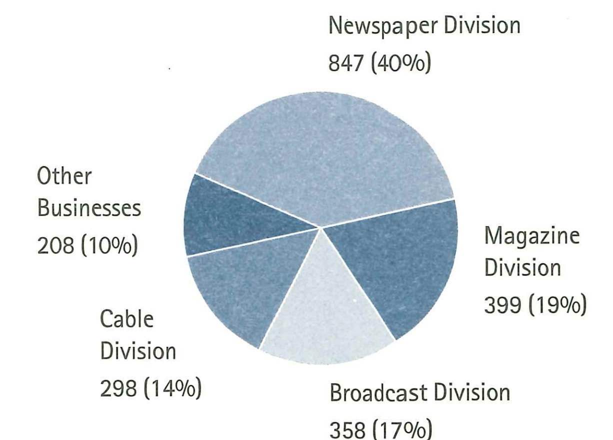
*($ in millions)**



*excluding losses from Other Businesses

THE WASHINGTON POST COMPANY 1998 OPERATING REVENUES

($ in millions)



STOCK TRADING

The Washington Post Company Class B common stock is traded on the New York Stock Exchange with the symbol WPO.

STOCK TRANSFER AGENT AND REGISTRAR

(General Shareholder Correspondence)
First Chicago Trust Company, a division of EquiServe
Post Office Box 2500
Jersey City, N.J. 07303-2500

(Transfers by Overnight Courier)
First Chicago Trust Company, a division of EquiServe
c/o S.T.A.R.S.
100 William Street
New York, N.Y. 10038

(Transfers by Certified Mail)
First Chicago Trust Company, a division of EquiServe
Post Office Box 2506
Jersey City, N.J. 07303-2506

SHAREHOLDER INQUIRIES

Communications concerning transfer requirements, lost certificates, dividends, and changes of address should be directed to First Chicago Trust Company Shareholder Relations Group. Inquiries may be made by telephone (201) 324-0498, or by fax (201) 222-4892 or 222-4872. Those who are hearing impaired may call the Telecommunications Device for the Deaf (TDD) at (201) 222-4955.
Internet—www.fctc.com
E-mail—fctc@em.fcnbd.com

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, N.W., Washington, D.C. 20071.

ANNUAL MEETING

The annual meeting of stockholders will be held on Thursday, May 13, 1999, at 8:00 a.m., at The Washington Post Company, 9th floor, 1150 15th Street, N.W., Washington, D.C.

COMMON STOCK PRICES AND DIVIDENDS

The Class A common stock of the company is not traded publicly. The Class B common stock of the company is listed on the New York Stock Exchange. High and low sales prices during the last two years were:

	1998		1997	
Quarter	High	Low	High	Low
January-March	$540	$462	$361	$325
April-June	$576	$514	$413	$335
July-September	$606	$493	$448	$400
October-December	$578	$481	$491	$426

During 1998 the company repurchased 41,033 outstanding shares of Class B common stock in unsolicited transactions at prices no higher than the last sale price on the New York Stock Exchange. Of the total shares repurchased in 1998, all were included in trading volume on that year's consolidated tape and accounted for 1.3 percent of such volume.

Both classes of common stock participate equally as to dividends. Quarterly dividends were paid at the rate of $1.25 per share in 1998. At February 19, 1999, there were 23 Class A and 1,234 Class B shareholders.

ELECTRONIC ADDRESSES

The Washington Post Company
www.washpostco.com
The Washington Post
www.washingtonpost.com
The Herald
www.heraldnet.com
Gazette Newspapers
www.gazette.net
Comprint Military Publications
www.d.c.military.com
Post-Newsweek Stations
www.wdiv.com
www.kprc.com
www.wplg.com
www.wkmg.com
www.wjxt.com
Cable One
www.cableone.net

Newsweek
www.newsweek.com
HealthWeek
www.pbs.org/healthweek
Post-Newsweek Business Information
www.pnbi.com
www.fedimaging.com
www.fose.com
www.gcn.com
www.newsbytes.com
www.techcapital.com
www.technews.com
www.wtonline.com
Washingtonpost.Newsweek Interactive
www.washingtonpost.com
www.newsweek.com
PhotoStore
www.photostore.com

Kaplan Educational Centers
www.kaplan.com
America Online: Keyword: Kaplan
www.kaplanprofessional.com
Score! Educational Centers
www.scorekids.com
Concord University School of Law
www.concord.kaplan.edu
HireSystems
www.hiresystems.com
Legi-Slate
www.legislate.com
International Herald Tribune
www.iht.com
Los Angeles Times-Washington Post News Service
www.newsservice.com

Design: IconixGroup; Photography: Rhoda Baer; Photograph of Maynard Parker: Michael Melford, 1987; Printing: Westland Printers; Printed on recycled paper.

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