

**THE
WASHINGTON
POST
COMPANY**

**1977
ANNUAL
REPORT**

The Washington Post Company

Corporate Office

1150 15th Street, N.W.
Washington, D.C. 20071
(202) 223-6000

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. on Wednesday, May 10, 1978 at The Washington Post Company 1150 15th Street, N.W. Washington, D.C. 20071

Formal notice of the Annual Meeting together with Proxy Statement and Proxy will be mailed in April to shareholders of record at the close of business March 24, 1978.

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Newspaper Division

The Washington Post
Washington, D.C.

The Trenton Times and Sunday Times-Advertiser
Trenton, New Jersey

Robinson Terminal Warehouse Corporation
Alexandria, Virginia
(85 percent ownership)
Newsprint warehousing

The Washington Post Writers Group
Washington, D.C.
Newspaper feature syndication and other publications

Magazine and Book Division

Newsweek
Newsweek, Atlantic and Pacific editions
Newsweek Books

Broadcasting Division

Television Stations

WTOP-TV
Washington, D.C. (CBS affiliate)

WJXT
Jacksonville, Florida (CBS affiliate)

WPLG
Miami, Florida (ABC affiliate)

WFSB-TV
Hartford, Connecticut (CBS affiliate)

Radio Station

WTOP (AM)
Washington, D.C.

Affiliates

Bowater Mersey Paper Company Limited
Liverpool, Nova Scotia
(49 percent of common stock)
Newsprint manufacturing

International Herald Tribune, S.A.
Paris, France
(30 percent of common stock)
Newspaper publishing

Los Angeles Times/Washington Post News Service
(50 percent interest in joint venture)

Financial Highlights

(In thousands, except for per share amounts)	1977	1976	% Change
Revenues	\$436,102	\$375,729	+ 16%
Net Income	\$ 35,469	\$ 24,490	+ 45%
Earnings Per Share	\$ 4.18	\$ 2.72	+ 54%
Dividends Per Share	\$.36	\$.25	+ 44%
Shareholders' Equity	\$140,377	\$123,392	+ 14%
Average Number of Shares and Share Equivalents	8,476	9,019	- 6%
Total Assets	\$278,574	\$259,000	+ 8%
Long-Term Debt	\$ 22,300	\$ 29,550	- 25%
Shareholders' Equity Per Share	\$ 17.19	\$ 14.03	+ 23%

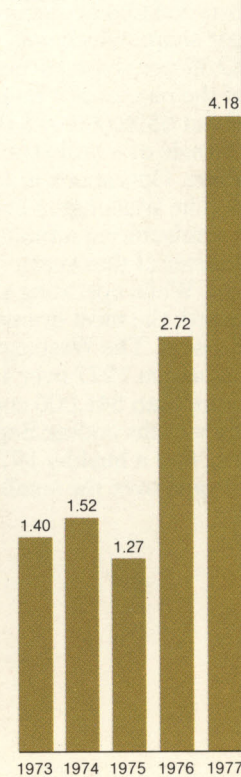
Operating Revenues
(In millions)



Net Income
(In millions)



Earnings per Share
(In dollars)



To Our Shareholders

In 1977 we celebrated the 100th anniversary of the founding of The Washington Post in many ways. Perhaps the most extraordinary way was in the achievement of new records in revenues and profits in each of our divisions—newspaper, broadcasting and magazine and books—and for the company overall. We are particularly proud that the company's paired commitments to quality publishing and broadcasting and to better management came to such full and timely fruition.

We continue to believe that The Washington Post Company serves its various audiences in their interests in news, information and entertainment with excellence and energy. Emphasis on quality reflected itself in all three divisions in 1977 and, while our business results have been dramatically better than even the record results attained in 1976, so have our newspapers, magazines and stations.

To improve coverage of business and finance in The Washington Post, we have added several columns each day to the paper and four new business reporters. We have also started a new "Weekend" tabloid section and have greatly improved our Sunday rotogravure magazine.

At Newsweek we have made substantial expenditures to enable the magazine's editors to use more color; we are currently running about six times as many news pages in color as we were able to only a year ago.

Revenues of \$436.1 million for the year were 16% higher than the \$375.7 million reported for 1976. More significantly, consolidated net income for 1977 was \$35.5 million or \$4.18 per share, which was 45% higher than the \$24.5 million or \$2.72 per share earned in 1976. Net income includes the effect of the receipt of a nonrecurring insurance payment in 1977 of about \$500,000 or \$.06 per share and a nonrecurring gain on the sale of a radio station in 1976 of \$1.8 million or \$.20 per share. Operations in 1976 were adversely affected by strikes at The Washington Post and at our Canadian newsprint manufacturing affiliate, both of which ended in the first quarter of that year.

While operating income gains were once again broadly based, the most dramatic change occurred in the newspaper division. The Washington Post more than doubled its operating income in 1977 over 1976 with record average circulation of more than 541,000 copies daily and 762,000 Sunday for the six months ending September 30, 1977. The Trenton Times, too, had a healthy 1977 reflecting growth in 1977 operating income over the small operating profit reported for 1976.

The magazine and broadcasting divisions each reported significant increases in 1977 operating income on top of their record gains in 1976. As a result, we have come close to achieving the financial goals for all of our publishing and broadcasting divisions which we established when the company offered its shares to the public in 1971.

We moved decisively in the closing months of the year to secure our broadcasting division objectives. On November 2, the company announced the sale of its Washington, D.C., radio station, WTOP (AM), to The Outlet Company for \$6,675,000 in cash and notes. Even more significantly, the company agreed on December 6, 1977 to exchange its Washington, D.C., television station, WTOP-TV, and \$2 million in cash for WWJ-TV in Detroit, Michigan, which is owned by the Evening News Association, the publisher of the Detroit Evening News. WWJ-TV is the NBC affiliate in Detroit, the country's seventh largest television market. Detroit's television market attracts about 15% more revenue than the Washington television market.

The sale of WTOP (AM) and the exchange of WTOP-TV for WWJ-TV are expected to take place in 1978 and are subject to approval of the Federal Communications Commission where the requisite transfer applications were filed in January of this year. These changes are not expected to have a material effect on either the operating revenues or income of the broadcasting division. The company will realize a nonrecurring gain of around \$3 million from the sale of the radio station in 1978.

The company has been well served by its loyal, dedicated and truly professional group of employees at Broadcast House in Washington, D.C. We think that Post-Newsweek Stations' operation of radio and television in Washington has been good for the company and the community. We are, therefore, of mixed minds about these moves—particularly the exchange of WTOP-TV.

For years the Federal Communications Commission and the courts have been contesting the question of common ownership of a newspaper and a broadcasting station in the same market. Last March the United States Court of Appeals rendered a decision which could ultimately force divestiture of cross-owned media. This decision has been appealed to the Supreme Court and we believe it should be reversed. Since the continuing litigation created substantial uncertainty and made it very difficult to plan intelligently and commit for the future, the opportunity to eliminate that uncertainty by making a mutually advantageous exchange is, we believe, in the company's best interests.

In November 1977, Mark J. Meagher was named president of The Washington Post Company. Since June 1, 1970, he has served as vice president of finance for the company, general manager of The Washington Post, and most recently, as president of the Newspaper Division.

The company continued the stock repurchase program initiated in 1975, and as of the end of 1977, 1,763,880 Class B



common shares had been acquired at an average cost of \$19.15 per share. In 1977 itself we repurchased 742,380 shares and at the end of the year had 8,166,424 common shares outstanding, 71% less than at the end of 1976. We also continued the acceleration of debt repayment by prepaying \$4.8 million during the year. Shareholders' equity grew to \$140.4 million at the end of 1977, up 14% from the previous year. The return on shareholders' equity was the best in our history, 25% for the year. Our financial position has never been stronger.

In recognition of our excellent financial performance, the Board of Directors this January authorized a substantial increase in the dividend for 1978—up from 36¢ a share paid in 1977 to 60¢ per share. This followed the increase of a year ago from 25¢ to 36¢.

On February 14, 1978, the company acquired, for cash, the Everett, Washington, Herald. The newspaper has a daily circulation of 53,000, primarily in Everett, 30 miles north of Seattle, and southwestern Snohomish County. We are enthusiastic about the Herald, a growing newspaper with a fine journalistic reputation and excellent management.

We at The Washington Post Company are committed to both vigorous internal growth and the acquisition of communication properties which we deem compatible with our thriving operations. Never in our history have we been better poised to pursue such opportunities.

While we do not consider it realistic to expect to match the 114% increase in earnings per share achieved in 1976 and the 54% increase in 1977, we look with confidence to the coming years. The Washington Post Company enjoys the benefits of many talented and conscientious employees. We are grateful to them for the outstanding results they have achieved in all our behalves.

February 15, 1978

Katharine Graham

Katharine Graham
Chairman of the Board

Mark J. Meagher

Mark J. Meagher
President





The Magazine and Book Division

Cover department staffers examine photographs for one of the latest-closing covers ever. Taken in Israel on Saturday and transmitted via satellite, a cover shot of Sadat and Begin reached U.S. newsstands by Monday morning—thanks to Newsweek's new run-of-press color printing.

Production innovation and editorial excellence combined with advertising growth and circulation vitality to make 1977 the most successful year in Newsweek's 44-year history.

Total 1977 advertising revenues for domestic and international editions climbed to their highest levels—\$105.6 million, up 17.1% over 1976. And total circulation revenues hit a record high of \$69.7 million, a 20.5% gain over last year. Vigorous newsstand and subscription sales led domestic circulation to its highest revenues in history, up 21.2% over 1976.

Domestic advertising topped the 3,000-page mark for the first time since 1974 with 3,130 pages—a 213-page increase over last year. Newsweek carried more advertising pages than any other U.S. newsweekly for the tenth consecutive year and had a 179-page lead over its nearest rival, Time.

Executive Newsweek, the three-year old demographic edition for high-income executives, continued to establish new highs, contributing \$11.4 million to revenues in 1977, a 21.8% increase over 1976.

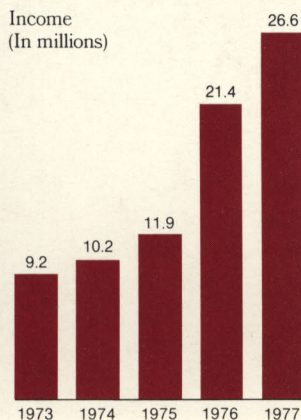
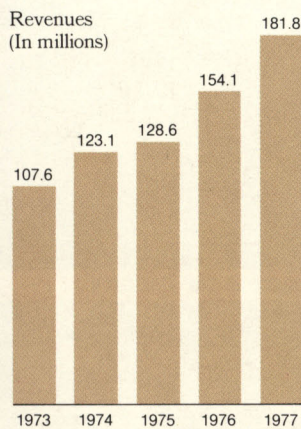
Newsweek's vitality reflects a general upward trend within the magazine industry. During 1977 magazines increased their share of the total U.S. advertising expenditure in measured media; Publishers' Information Bureau reported a 21% gain in advertising revenue for magazines in 1977. Newsweek initiated its own marketing effort this year to develop and promote marketing information that benefits the entire industry; its success warrants expansion in 1978.

Color production quadrupled when Newsweek introduced run-of-press (ROP) color with the March 21 issue. This new production system using web offset presses enables Newsweek to add the excitement of four-color photo coverage to late-breaking news. In November, for example, Egyptian President Anwar Sadat's historic trip to Israel made on-deadline news. Newsweek not only featured a cover photograph of Sadat and Menachem Begin at their Saturday airport meeting, but also carried a color photograph of Sadat's visit to the Al Aksa Mosque on Sunday. This issue was on sale at many U.S. newsstands on Monday—the next day.

Newsweek's new ROP capability permits art and advertising deadlines to close days later than they have in the past and makes it technically and economically possible to use more color pages in each issue. In 1976 the average issue contained 2 pages of editorial color, versus the current average of 12 color pages.

Newsweek's editorial achievements were honored by 31 journalism awards for 1977, including the University of Missouri's prestigious Honor Medal for Distinguished Service to Journalism. Under the leadership of Editor Edward Kosner, Newsweek compiled such special cover stories as "Inauguration Special: Guide to the New Government," "How to Save Energy," and "Carter Up Close." In-depth reports gave prominent coverage to domestic developments: February 21 "What TV Does to Kids," February 28 "The Graying of America," April 11 "Rocky KO's Hollywood," July 4 "Everybody's Search for Roots," July 25 "Blackout," November 7 "Is America Turning Right?" and December 12 "Texas! The Superstate."

Exclusive news-making interviews with Jordan's King Hussein,



French President Valery Giscard d'Estaing, and South Korean businessman Tongsun Park added to 1977 highlights.

Yet another production innovation marked the close of a very successful year. The year-end issue, "Pictures of '77," became the first in Newsweek's history to be produced completely in offset. Newsweek is at the forefront of this trend toward a speedier, more economical production process which provides better quality reproduction than traditional letterpress.

Newsweek International's revenues climbed 23.8%, totaling \$26.2 million in its most profitable year. International advertising pages reached 1,873, up 310 pages or 20% over 1976. Both sales areas—Atlantic and Pacific—showed coincident gains for the first time in five years. The Atlantic edition established another first, running more advertising pages than Time, and net paid circulation reached a record high of 427,000.

Newsweek International celebrated its sixth year of publication as a separate magazine designed for an international readership. It produced 28 special cover projects in 1977, including the April 18 "Heroin Invades Europe," June 13 "The Queen's Jubilee," and October 31 "The War on Terrorism." Additionally, the magazine continued its quarterly international economic forecast, "WEFA," compiled jointly by Newsweek International and the Wharton Econometric Forecasting Association.

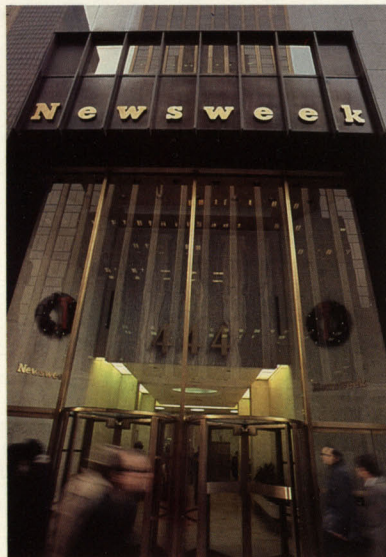
In October, Richard Smith, formerly regional international editor for Asia and Hong Kong bureau chief, became managing editor of Newsweek International.

The successful "New Products and Processes Newsletter" was expanded to include a Spanish language edition.

Newsweek Books reported a second consecutive year of operating profit.

Newsweek Broadcasting's "Feature Service" provides weekly news-oriented segments to 60 television stations throughout the country. The "Today's Woman" series focuses on women and their lifestyles, new roles and needs. Broadcasting also syndicated "Update—Where are They Now?" to several radio stations in 1977.





Above left From content to color, Editor Ed Kosner and his senior staff coordinate efforts to meet Newsweek's weekly deadline.

Right Newsweek International, on sale here in Paris and throughout the world, celebrated 29 years of publication with a record year in 1977.

Bottom Based in New York City, Newsweek maintains 10 domestic and 11 foreign news bureaus throughout the world.



WFSB-TV 3

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The Broadcasting Division

On the set of "Marlo and the Magic Movie Machine"—fun and learning for kids from 6 to 12. Produced at WFSB-TV for nationwide syndication, this outstanding educational series received the National PTA's first commendation.

Post-Newsweek Stations, Inc., your broadcast division, achieved another year of records in 1977. At year end, the stations had attained revenues, operating income, and audiences surpassing their unprecedented year in 1976. Revenues increased by 3.9% to reach \$55.4 million despite an inconsistent national marketplace. An 11.4% improvement in operating income from \$15.8 million to \$17.6 million demonstrated the effectiveness of our continuing emphasis on productivity and the benefits of the ongoing investment in the new broadcast technology to support the first-class journalists and producers at each of our stations.

The PNS devotion to quality programming was recognized once again with numerous awards and excellent ratings.

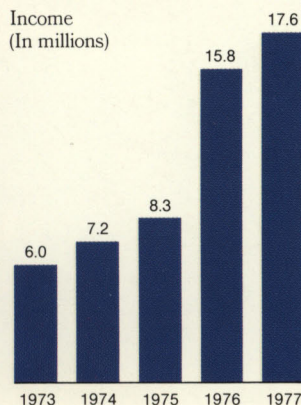
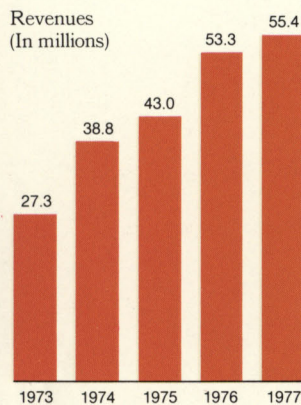
"**Nobody Ever Asked Me**" was the best single example of that commitment to innovation and quality. Each of our stations devoted an entire evening of prime time to the spontaneous discussion of community priorities by civic leaders, ordinary citizens and individual station staff members. The programs explained the FCC-mandated ascertainment process in which broadcasters must survey their communities of license in order to determine the most pressing needs and priorities of the people. Each of our stations reviewed its list of these surveyed needs with the audience and then invited open discussion by all concerned, both in the studio and at home. According to all accounts, the largest and most stimulating "Town Meetings" possible emerged—realized by television's unique ability to bring diverse people with conflicting priorities together. Evidence of the industry's attitude toward this unique PNS accomplishment were the invitations by both the largest trade associations (the National Association of Broadcasters and the National Association of Television Program Executives) to explain and demonstrate the programs before each of their annual conventions in 1978.

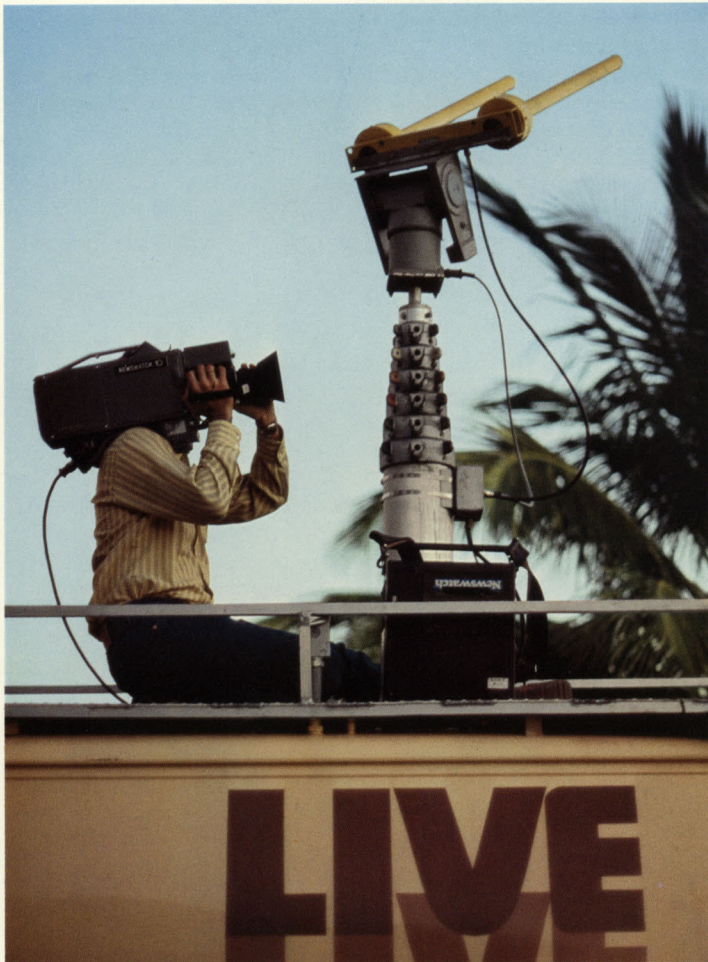
WFSB-TV in Hartford became a national production center in 1977 as the home site for "Marlo and the Magic Movie Machine," a weekly educational and information series for children, ages 6 to 12. Broadcast in more than seventy cities throughout the United States, the program was the first to be commended by the National Parent-Teachers Association: "The series represents the finest of children's programming . . . Outstanding." It is produced at our station by the Corporation for Entertainment and Learning in association with Post-Newsweek Stations.

During 1977 WFSB-TV programs received a number of broadcasting industry awards including two Ohio State Awards and two Emmys from the New England Chapter of the Academy of Television Arts and Sciences. A two-part series tracing modern Connecticut history concluded with "Abe Ribicoff and the American Dream," part one, "Ray Baldwin's Century," was produced in 1976.

WPLG in Miami received the Edward R. Murrow Documentary Award for "Why Johnny Don't Know," a program on public education previously honored by the National Association of Television Program Executives and the South Florida Chapter of the National Academy of Television Arts and Sciences.

The station's news efforts won the Florida Associated Press Award for best television news and the South Florida Emmy for the best local news. Bill Urbizu became the first Cuban reporter based





Top In "Nobody Ever Asked Me," Post-Newsweek Stations pioneered a full evening of open, on-the-air discussion focused on conflicting community priorities.

Left Electronic mini-cameras assist each of our stations in bringing award-winning local news programming to area viewers.

Far right The nerve center of a television station is the control room, as pictured here at WTOP-TV.

Bottom right Florida courtrooms opened to television and still cameras in 1977, aided by the efforts of WJXT in Jacksonville and WPLG in Miami.





in this country to return to his homeland and produce a series of reports for the U.S. audience. WPLG aired "Cuba: An Exile Returns" as a ten-part series in June, 1977 and won a South Florida Emmy for the best locally produced Spanish program of the year, "Twenty Sons of May."

WJXT in Jacksonville continued its three-decade history of local news programming bringing area residents in-depth reports in prime time on such varied subjects as child abuse, the changing face of Jacksonville's black leadership, the reasons behind electric power rates and other complex and important public issues.

On July 5, 1977, Florida courtrooms were opened to television and still cameras for the first time in their history, as a result of a Post-Newsweek Stations' petition by WJXT in Jacksonville and WPLG in Miami. At this writing the predominant reaction from most parties has been very favorable. The new technology which assures silent operation and eliminates the need for special lighting was cited by our stations in their petition to the Florida Supreme Court. The resulting coverage has enabled Florida citizens to be more aware of the actual judicial process.


WTOP-TV in Washington upheld the tradition of Post-Newsweek leadership in the nation's capital, winning five local Emmys, including awards for "Harambee: The Last of the Scottsboro Boys," and "Sneakers," the local children's program. WTOP-TV also won the Broadcast Media Award for "Genesis, Juba and Other Jewels," a dance program tracing the history of black dance in America.

As a result of community response to "Nobody Ever Asked Me," the news and program departments combined efforts in December with nine days of concentration on the critical issues of unemployment. The station used a variety of time periods and techniques to reach the largest possible audience—special announcements, a five-part news series, special prime time programs, segments in other regular local programs and a series of editorial comments. WTOP-TV's "Everywoman" continued its coverage of important human issues, including powerful programs on "Breast Cancer" and "Pregnancy Disability for Women." And Anchor/Reporter J. C. Hayward traveled to Africa to prepare special reports on Idi Amin and the plight of the Ugandan refugees.

In November the company announced the sale of WTOP (AM), Washington, in order to focus our broadcast activities on television. Subsequently, in December the trade of WTOP-TV in Washington for WWJ-TV in Detroit was announced. This unique business opportunity will relieve the company of the uncertainties resulting from lengthy and continuing cross-ownership litigation. Both transactions will require FCC approval.



The Newspaper Division



Pressmen at the capital's only morning daily constantly monitor quality during the pressrun.

The Washington Post celebrated its hundredth birthday on December 6, 1977 and entered its second century with a momentum that belies its age. Its 100th year was characterized by new highs in advertising linage and revenue, daily and Sunday circulation, circulation revenue, and operating profits. By the time the year was over, several editorial innovations had taken place and far-reaching decisions on future technology had been made.

Advertising linage at The Post surged to a record 89.8 million lines for the year. This represented more than 69% of all Washington daily newspaper linage and produced revenues of \$145.4 million.

The Washington Post's circulation continued to grow throughout 1977 despite a home-delivered price increase of over 20% in February. For the six-month period ending March 31, The Post led the industry by showing the largest daily circulation gain of any newspaper in the United States and Canada. For five consecutive Sundays in the fall, Post circulation topped 800,000 net paid, a figure never before attained.

In September, a decision in the U.S. Court for the District of Columbia upheld the legality of The Post's agency distribution system. Introduced in 1975 to improve circulation distribution, it now covers all but a handful of Post distributors.

Editorial improvements at the newspaper included the addition of a section and the expansion of two others. The newest section of the paper is "Weekend," a tabloid published on Friday which informs Washingtonians on the when, how, where and what to do on the weekend. It covers such diverse topics as art and sports, theatre and eating, home repair and auto care, local travel, children's events and more.

"Potomac" magazine added new features and changed faces to become "The Washington Post Magazine." The tragic and untimely death of the magazine's editor, Marion Clark, muted excitement over these changes. It was her extraordinary verve and spirit that guided the magazine to its new dynamism.

Four new staff members and almost a full additional page of daily type augment the Business and Finance section of the newspaper. This expansion represents a major commitment by the editors to the business of business.

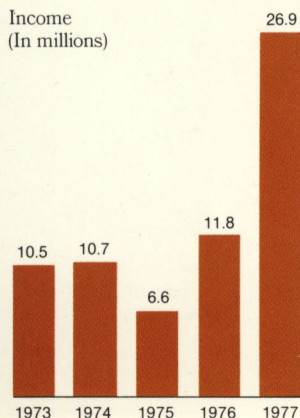
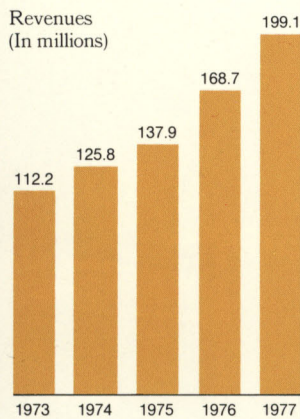
From a news standpoint, the year began with the inauguration of a new president, Jimmy Carter, and ended with the startling peace initiative by Egyptian President Anwar Sadat.

In between, the weather consistently made the front pages. Fierce country-wide winter storms, complicated by fuel shortages, were followed by a spring and summer of drought.

Post reporters continued to reveal the influence-peddling strategy and tactics of the South Koreans in Washington. Dominating the headlines, this major story strained the relations between the two countries and put Congress under scrutiny as well.

Seven thousand miles away, Leon Dash spent seven months on hazardous assignment with a guerilla force in Angola. He trekked 2,100 miles through battle-torn areas for his remarkable first-hand report to Post readers.

A major local story of 1977 was the seizure of 149 hostages at three city locations by 12 Hanafi Muslims. Terrorism continued to be an international problem. Nine South Moluccan gunmen held



hostage 55 train passengers for 18 days in Holland.

The story of Roger Meyers awakened readers' sensitivities to the lives of the mentally retarded. In perhaps the most compelling series the paper has run in years, Bob Meyers related the marriage of his retarded brother to a retarded woman. Rosalynn Carter summarized many reactions when she told a New Orleans audience "... I am still deeply moved."

Production performance and processes achieved new levels of efficiency this year, aided by the introduction of a number of new concepts and systems. The Post implemented plans to convert the entire newsroom to electronic writing and editing. The electronic newsroom system, consisting of more than 200 video display terminals in the newsroom and Post bureaus, will be operational in early 1979. Other steps, including the purchase of an ad make-up composition system from Raytheon, were taken to convert all composition from hot-metal to cold-type.

Three high-speed Sheridan 72P inserting machines were installed in the mailroom to handle an ever-increasing preprint volume. Post advertisers can now take advantage of a machine-inserted preprint capability throughout the week.

Donald E. Graham, executive vice president and general manager of The Post, assumed full control of the business operations of the newspaper when former newspaper division president, Mark J. Meagher, was elected president of the company. Donald S. Rice became vice president for manufacturing and Roger Parkinson vice president for administration. Edward R. Padilla was appointed vice president in charge of acquisitions.

The Trenton Times made financial gains in its third year as part of The Washington Post Company. Moderate increases in revenue combined with containment of costs to produce a respectable increase in net operating income. The Times carried 65% of all advertising linage in Trenton newspapers and showed gains in all categories of local advertising.

Technical changes designed to increase productivity at Trenton included installation of video display terminals in the news department and a new photographic laboratory.

During 1977, the Times won 24 awards for reporting, editing, photography, and community service.

In May, Maurice Sparby, formerly director of sales for the Memphis Publishing Company, was named publisher of the Trenton Times.

The Washington Post Writers Group, which directs column and editorial cartoon syndication in addition to book publishing for the division, increased its client count to 250 in 1977, a 34% gain. Two new writers have joined the group: The Washington Post's William Raspberry who contributes a column of national commentary and Joan Ryan who writes a weekly sports column. George Will was awarded a Pulitzer Prize for commentary and The Post's Book World Editor William McPherson received the first Pulitzer Prize ever awarded for book review.

The Robinson Terminal Warehouse Corporation acquired 156,000 square feet of additional newsprint storage facilities. Three





Top Newly-installed video display terminals in the Trenton Times' newsroom enable journalists and editors to write and edit copy in one fast computerized operation.

Left Thirty additional columns a week allow Post Business and Finance editors to broaden local and national business coverage.

Right Three new high-speed Sheridan 72P inserting machines in The Post mailroom handle burgeoning preprint volume.

new rail sidings will materially assist in handling newsprint received by rail and ship at the company's own warehousing operation.

Affiliated operations continued to contribute profits to the company.

Bowater Mersey Paper Company Limited, our newsprint manufacturing affiliate, reported substantially higher net income. Although 1976 operations had been adversely affected by a strike which ended in February of that year, the mill operated at close to capacity in 1977. The rate of exchange for the Canadian dollar declined from 99¢ U.S. at the beginning of 1977 to 91¢ U.S. at the end. This currency fluctuation had a favorable effect on Bowater Mersey's operating results.

The International Herald Tribune had an eventful year. Advertising and circulation volume both increased and a facsimile printing operation was started in Zürich in September. This is the second such move aimed at providing faster delivery to readers. The newspaper also has announced a relocation of its facilities from rue de Berri to Neuilly in Paris. This will involve a complete conversion to computerized photocomposition and electronic editing. The printing not done by facsimile will be sub-contracted to a Parisian area firm.

The Los Angeles Times/Washington Post News Service moved its headquarters from the West Coast to Washington during the year. In late 1977 a computerized transmission system was installed to accommodate the service's 400 newspaper clients around the world.



Management's Discussion and Analysis of Consolidated Statements of Income*



Above left Robinson Terminal Warehouse received 229,000 tons of newsprint by ship and rail in 1977.

Right The new computerized transmission system at the Los Angeles Times/Washington Post News Service will speed copy at 1200 words a minute to subscribers' computers.

Bottom Woodchips are converted into newsprint through both thermo-mechanical and sulfite pulping processes at Bowater Mersey Paper Company.

1977 compared to 1976. The substantial increase in net income from \$24,490,000 for 1976 to \$35,469,000 for 1977 was attributable mainly to increased advertising and circulation revenues combined with improved operating margins at each of the company's three operating divisions, particularly newspaper publishing. The receipt of a nonrecurring insurance payment in 1977 increased net income for that year by about \$500,000. Results for 1976, which were adversely affected by strikes in the first quarter of that year at The Washington Post and at the company's newsprint manufacturing affiliate, included a nonrecurring after-tax gain of approximately \$1,800,000 from the sale of a radio station.

Advertising revenues increased by \$41,497,000, or 15.1% over 1976, reflecting both increased volume and higher rates in the newspaper and magazine divisions and increased sales of television advertising. The strike at The Washington Post reduced newspaper advertising revenues in 1976 by an estimated \$2,000,000.

Circulation revenues increased by \$17,591,000, or 18.5% over 1976. This was due primarily to higher rate structures.

Other operating revenues increased by \$1,285,000, or 22.1%. This was due to increased volume at the company's newsprint warehousing facility, which was adversely affected in the first quarter of 1976 by strikes at Canadian newsprint mills, and to increases in sales of sundry publications and services.

Costs and expenses for 1977 rose by \$38,344,000, or 11.7%, due to increased sales volume and higher costs of wages, materials and services.

The substantial increase in operating income from \$49,045,000 for 1976 to \$71,074,000 for 1977, a change of 44.9%, reflected substantially higher profit margins at The Washington Post and improved profits at the other two operating divisions. The strike at The Washington Post reduced operating income by an estimated \$1,300,000 in 1976.

Interest income for the year increased by \$842,000 to \$2,408,000 due to increased amounts of, and higher yield on, temporary investments of cash. Other income for the year decreased by \$2,858,000 to \$168,000; in February 1976 the company realized a pre-tax gain of approximately \$2,900,000 from the sale of a radio station and the gain was included in "Other income."

Equity in earnings of affiliates increased by \$1,144,000 to \$2,537,000. The increase is attributable mainly to operations at Bowater Mersey Paper Company Limited. A strike there halted manufacturing from October 31, 1975 to February 10, 1976, so there was greater production in 1977. A decline in the exchange rate for Canadian currency relative to United States currency had a favorable effect on Mersey's operating results for 1977.

Interest expense for the year decreased by \$737,000 to \$2,329,000 because of repayments of indebtedness.

Income taxes as a percentage of pre-tax income did not change significantly from 1976.

The average number of common shares and common share equivalents decreased in 1977 by 6% (543,000 shares), reflecting the company's repurchase of 742,000 shares of Class B common stock in 1977.

*Consolidated Statements of Income appear on page 21.

**Management's Discussion and Analysis
of Consolidated Statements of Income***

1976 Compared to 1975. The substantial increase in net income in 1976 was primarily attributable to higher advertising revenues resulting from improved economic conditions and increased circulation revenues coupled with improved operating margins at the company's three principal divisions, and to the fact that strikes at The Washington Post and at a Canadian newsprint manufacturing affiliate had less effect on operations in 1976 than in 1975. In addition, 1976 net income reflected a nonrecurring gain on the sale of a radio station.

Advertising revenues increased by \$49,132,000, or 21.8%, over 1975, reflecting increased newspaper advertising linage and magazine advertising pages, higher rates charged for newspaper and magazine advertising and increased sales of television advertising. The strike at The Washington Post which began on October 1, 1975, and ended in mid-February 1976, reduced newspaper advertising revenues by an estimated \$2,000,000 in 1976.

Circulation revenues increased by \$16,715,000, or 21.3%, over 1975. Magazine circulation revenues increased by \$10,894,000, or 23.2%, principally due to higher subscription and newstand rates, which more than offset a \$2,910,000 decline in revenues from sales of Newsweek Books. Newspaper division circulation revenue increased by \$8,731,000, primarily as the result of a change made in the latter part of 1975 from a wholesale to a retail pricing structure for a substantial part of the circulation at The Washington Post.

Costs and expenses in 1976 increased by \$44,173,000, or 15.6%, due to increased sales volume, to higher costs of wages, materials and services (including additional service costs equal to the additional revenues resulting from the change in circulation pricing at The Washington Post noted in the preceding paragraph) and to an increased level of magazine subscription promotion. Increased depreciation and amortization of facilities reflected additions to plant.

Operating income in 1976 rose by \$22,221,000, an increase of 82.8% over 1975, due principally to much-improved profit margins in the magazine and broadcasting divisions and moderate improvement in the newspaper division. The strike at The Washington Post reduced operating income by an estimated \$1,300,000 in 1976.

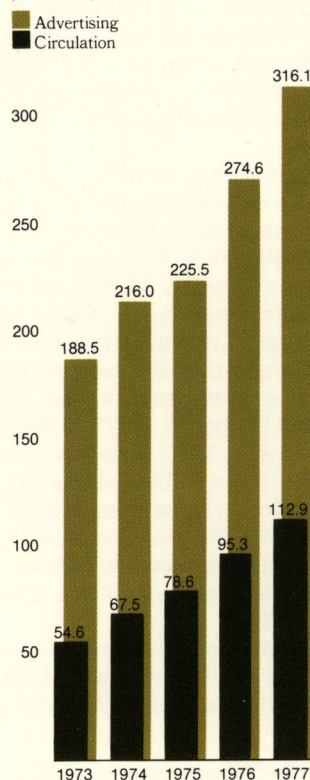
Other income increased over 1975 by \$3,582,000, of which approximately \$2,900,000 consisted of the nonrecurring pre-tax gain on the sale of a radio station in the first quarter of 1976 and the balance reflected increased interest income earned on larger amounts of cash available for temporary investment. Other deductions were \$482,000 less than in 1975 as interest payments were reduced upon the repayment of indebtedness.

Equity in earnings of affiliates decreased by \$491,000 in 1976. Such reduction was due to a decline in earnings at Bowater Mersey, the company's Canadian newsprint manufacturing affiliate, resulting from a strike (which halted production from October 31, 1975 to February 10, 1976) and higher manufacturing costs, and to currency exchange rates that were less favorable in 1976 than in 1975.

Income taxes as a percentage of pre-tax income did not change significantly from 1975.

The average number of common shares and common share equivalents decreased in 1976 by 4.6% (431,000 shares), reflecting the company's repurchase of 834,000 shares of Class B common stock in 1976.

Operating Revenues
(In millions)



*Consolidated Statements of Income appear on page 21.

Lines of Business

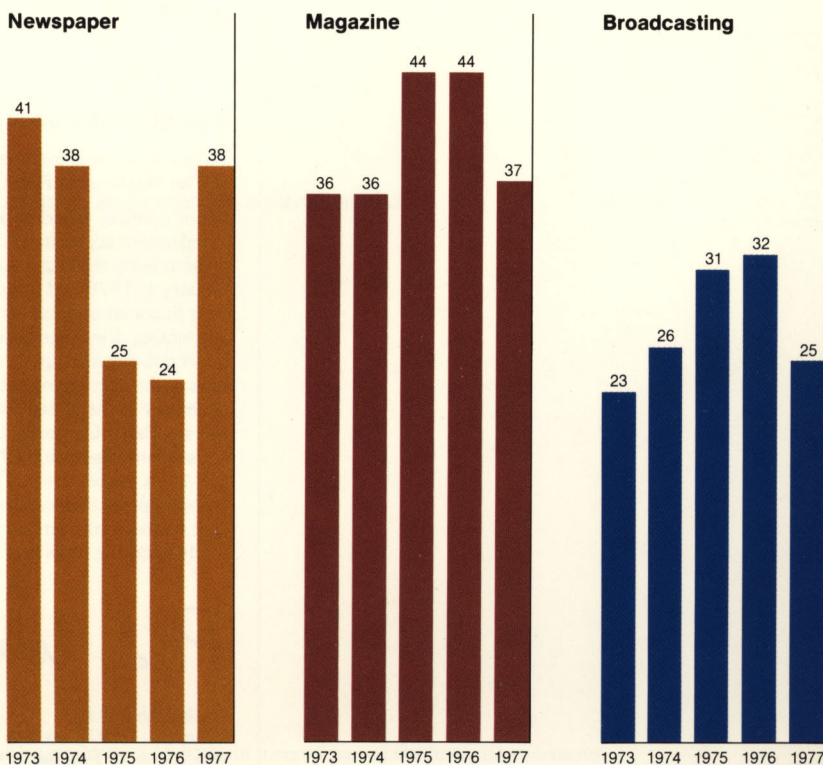
The Washington Post Company and its subsidiaries are principally engaged in publishing newspapers (The Washington Post; the Trenton Times and Sunday Times-Advertiser), magazines and books (Newsweek magazine and Newsweek Books) and operation of television and radio broadcasting stations.

Operating revenues and operating profit of each of the three business segments of the company are shown below. As at January 1, 1978, identifiable assets by segment were: newspaper publishing \$98 million; magazine and book publishing \$42 million; broadcasting \$74 million. For further information relating to 1977 operations see Note L on page 31.

(In thousands)	1977	1976	1975	1974	1973
Revenues					
Newspaper publishing	\$199,123	\$168,739	\$137,886	\$125,849	\$112,210
Magazines and books	181,797	154,052	128,594	123,122	107,617
Broadcasting	55,389	53,286	43,005	38,776	27,347
Intersegment sales	(207)	(348)	(150)	(168)	(225)
Total	\$436,102	\$375,729	\$309,335	\$287,579	\$246,949
Income from Operations					
Newspaper publishing	\$ 26,869	\$ 11,836	\$ 6,596	\$ 10,746	\$ 10,535
Magazines and books	26,573	21,444	11,946	10,202	9,161
Broadcasting	17,632	15,765	8,282	7,192	5,996
Total	\$ 71,074	\$ 49,045	\$ 26,824	\$ 28,140	\$ 25,692

Composition of Operating Income

(In percents)



Common Stock Prices and Dividends

The Class A common stock of the company is not publicly traded. The Class B common stock is listed on the American Stock Exchange, where the high and low sales prices during the last two years were as follows (all information in the table and the succeeding paragraphs has been adjusted to reflect the two-for-one stock split on December 15, 1976):

Quarter	1977		1976	
	High	Low	High	Low
January-March	\$25½	\$21½	\$16¼	\$10¾
April-June	25¾	21¾	17¾	15
July-September	31¾	25¾	20¾	16¾
October-December	36	28¾	25¼	19

During 1977 and 1976 the company repurchased outstanding shares of Class B common stock in unsolicited transactions at prices no higher than the last sale price on the American Stock Exchange. In 1977, 742,380 shares were repurchased, of which 270,500 shares were included in trading volume reported on the American Stock Exchange in that year and accounted for 59% of such volume; 834,200 shares were repurchased in 1976, of which 395,200 shares were included in trading volume reported on the American Stock Exchange in that year and accounted for 33% of such volume.

Both classes of common stock participate equally as to dividends. Quarterly dividends were paid at the rate of 9 cents per share in 1977 and 6.25 cents per share in 1976.

At the end of 1977 there were approximately 2,000 shareholders of record.

Report of Independent Accountants

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

In our opinion, based upon our examinations and the reports mentioned below of other independent accountants, the financial statements appearing on pages 21 through 25 present fairly the financial position of The Washington Post Company and its subsidiaries at January 1, 1978 and January 2, 1977, and the results of their operations and the changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Bowater Mersey Paper Company Limited, a 49% owned affiliate which represents 5% of consolidated assets for 1977 and 1976 and 6% and 4% of consolidated net income for 1977 and 1976, respectively. These statements were examined by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Bowater Mersey Paper Company Limited, is based solely upon the reports of the other independent accountants.

Price Waterhouse Co.

Washington, D.C.
February 7, 1978, except as to Note K
which is as of February 14, 1978.

Consolidated Statements of Income

(In thousands, except share amounts)	Fiscal Year Ended	<u>January 1, 1978</u>	<u>January 2, 1977</u>
Operating Revenues			
Advertising		\$316,129	\$274,632
Circulation		112,872	95,281
Other		7,101	5,816
		<u>436,102</u>	<u>375,729</u>
Costs and Expenses			
Operating		275,362	242,411
Selling, general and administrative		83,187	77,926
Depreciation and amortization of plant facilities		5,526	5,394
Amortization of goodwill and other intangibles		953	953
		<u>365,028</u>	<u>326,684</u>
Income from Operations		71,074	49,045
Other Income (Deductions)			
Other income (including interest of \$2,408 and \$1,566)		2,576	4,592
Other deductions (including interest of \$2,329 and \$3,066)		(2,628)	(3,644)
Equity in earnings of affiliates		2,537	1,393
		<u>73,559</u>	<u>51,386</u>
Income Before Income Taxes		73,559	51,386
Income Taxes			
Current		34,473	24,732
Deferred		3,617	2,164
		<u>38,090</u>	<u>26,896</u>
Net Income		\$ 35,469	\$ 24,490
Earnings per common and common equivalent share		<u><u>\$4.18</u></u>	<u><u>\$2.72</u></u>

The information on pages 26 through 31 is an integral part of the financial statements.

Consolidated Statements of Changes in Financial Position

(In thousands)	Fiscal Year Ended	January 1, 1978	January 2, 1977
Sources of Working Capital			
Net income		\$35,469	\$24,490
Add charges to income not requiring working capital			
Depreciation and amortization of plant facilities		5,526	5,394
Amortization of television film costs		3,480	2,898
Amortization of goodwill and other intangibles		953	953
Income tax timing differences		3,482	2,379
Undistributed earnings of affiliates		(1,175)	(513)
Other		1,044	1,884
Total provided by operations		48,779	37,485
Increase in deferred subscription income		8,384	8,022
Proceeds from exercise of Class B common stock options		1,481	3,870
Increase in liabilities for cost of contracted television film rights		1,970	426
Other		2,356	2,268
Total provided		<u>62,970</u>	<u>52,071</u>
Uses of Working Capital			
Purchases of plant assets		10,937	6,366
Purchases of television film rights		5,787	2,410
Reduction of long-term debt		7,250	10,384
Increase in deferred magazine subscription procurement costs		4,514	4,277
Dividends on common stock		3,009	2,222
Acquisition of non-operating real estate		—	979
Increase in note receivable		—	1,400
Repurchase of Class B common stock		17,836	13,426
Other		351	908
Total used		<u>49,684</u>	<u>42,372</u>
Net increase in working capital		<u>\$13,286</u>	<u>\$ 9,699</u>
Changes in Composition of Working Capital			
Cash and time deposits		\$ (4,829)	\$14,411
Commercial promissory notes and other marketable securities		11,299	11,370
Accounts receivable		4,741	2,389
Inventories		1,210	(27)
Prepaid expenses and other		1,149	(43)
Increase in current assets		<u>13,570</u>	<u>28,100</u>
Accounts payable and accrued expenses		(7,073)	(4,961)
Federal and state income taxes		4,501	(12,831)
Contributions due to employee benefit trust funds		(112)	(3,143)
Current portion of long-term debt		2,400	2,534
(Increase) in current liabilities		<u>(284)</u>	<u>(18,401)</u>
Net increase in working capital		<u>\$13,286</u>	<u>\$ 9,699</u>

Consolidated Statements of Changes in Shareholders' Equity

(In thousands, except share amounts)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock
Balance December 28, 1975	\$ 763	\$4,304	\$10,423	\$102,015	\$(7,351)
Net income for the year				24,490	
Dividends—\$.25 per share				(2,222)	
Issuance of 301,200 shares of Class B common stock upon exercise of options			(530)		4,400
Repurchase of 834,200 shares of Class B common stock					(13,426)
Accounting for two-for-one stock split, including retirement of 134,960 shares of Treasury stock	764	4,169	(5,068)	(2,440)	2,575
Other			526		
Balance January 2, 1977	<u>\$1,527</u>	<u>\$8,473</u>	<u>\$ 5,351</u>	<u>\$121,843</u>	<u>\$(13,802)</u>
Net income for the year				35,469	
Dividends—\$.36 per share				(3,009)	
Issuance of 114,988 shares of Class B common stock upon exercise of options			(1,240)		2,721
Repurchase of 742,380 shares of Class B common stock					(17,836)
Other			880		
Balance January 1, 1978	<u><u>\$1,527</u></u>	<u><u>\$8,473</u></u>	<u><u>\$ 4,991</u></u>	<u><u>\$154,303</u></u>	<u><u>\$(28,917)</u></u>

The information on pages 26 through 31 is an integral part of the financial statements.

Consolidated Balance Sheets

(In thousands, except share amounts)

	<u>January 1, 1978</u>	<u>January 2, 1977</u>
Assets		
Current Assets		
Cash and time deposits	\$ 11,659	\$ 16,488
Commercial promissory notes and other marketable securities at cost which approximates market value	41,255	29,956
Accounts receivable, less estimated returns, doubtful accounts and allowances of \$6,378 and \$5,176	47,626	42,885
Inventories at lower of cost or market	8,410	7,200
Prepaid expenses and other	5,539	4,390
	<u>114,489</u>	<u>100,919</u>
Investments in Affiliates		
Bowater Mersey Paper Company Limited	13,793	12,605
Other	1,737	1,726
	<u>15,530</u>	<u>14,331</u>
Plant Assets, at Cost		
Buildings	41,205	39,244
Machinery, equipment and fixtures	54,814	50,801
Leasehold improvements	3,433	2,964
	<u>99,452</u>	<u>93,009</u>
Less accumulated depreciation and amortization	<u>(47,554)</u>	<u>(43,457)</u>
	51,898	49,552
Land	9,175	7,303
Construction in progress	2,403	1,898
	<u>63,476</u>	<u>58,753</u>
Goodwill and Other Intangibles		
Less accumulated amortization	73,124	74,077
Deferred Charges and Other Assets		
	11,955	10,920
	<u>\$278,574</u>	<u>\$259,000</u>

(In thousands, except share amounts)

	January 1, 1978	January 2, 1977
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses	\$ 38,381	\$ 31,308
Federal and state income taxes	11,186	15,687
Contributions due to employee benefit trust funds	4,358	4,246
Current portion of long-term debt	2,450	4,850
	<u>56,375</u>	<u>56,091</u>
Other Liabilities	12,999	10,858
Long-Term Debt	22,300	29,550
Deferred Subscription Income		
Less related magazine subscription procurement costs of \$27,485 and \$22,971	25,920	22,050
Deferred Income Taxes	19,994	16,513
Minority Interest in Subsidiary Company	609	546
Shareholders' Equity		
Preferred stock, \$1 par value, authorized 1,000,000 shares	—	—
Common stock		
Class A common stock, \$1 par value, authorized 2,000,000 shares; 1,526,880 shares issued and outstanding	1,527	1,527
Class B common stock, \$1 par value, authorized 10,000,000 shares; 8,473,120 shares issued; 6,639,544 and 7,266,936 shares outstanding	8,473	8,473
Capital in excess of par value	4,991	5,351
Retained earnings	154,303	121,843
Less cost of 1,833,576 and 1,206,184 shares of Class B common stock held in Treasury	(28,917)	(13,802)
Total shareholders' equity	<u>140,377</u>	<u>123,392</u>
Commitments and Contingencies		
	<u>\$278,574</u>	<u>\$259,000</u>

The information on pages 26 through 31 is an integral part of the financial statements.

Notes to Consolidated Financial Statements

A. Summary of Significant Accounting Policies

Principles of Consolidation. The accompanying financial statements include the accounts of all subsidiaries; significant intercompany transactions have been eliminated. The company reports on a 52-53 week fiscal year ending on the Sunday nearest December 31. All except one of the subsidiaries, however, report on the calendar year.

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

Plant Assets and Depreciation. Plant assets are depreciated at annual rates based upon the estimated service lives of assets, using both accelerated and straight-line methods for calculating depreciation for assets acquired prior to 1971. For all plant assets acquired in 1971 and subsequent years the company has adopted the straight-line method of calculating depreciation for financial reporting purposes. Useful lives of 3 to 11 years are used for machinery and equipment, 20 to 50 years for buildings and 5 to 20 years for land improvements. Leasehold improvements are amortized over the lesser of their useful lives or the terms of the leases.

Expenditures for maintenance, repairs and renewals are charged against income. Betterments are capitalized. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts in the year of disposal, and any losses or gains that result are reflected in the income statement.

Deferred Film Costs. The broadcasting subsidiaries are parties to agreements which entitle them to show motion pictures and syndicated programs on television. The costs of these rights and the liabilities for future payments under these agreements are reflected in the consolidated balance sheets and are charged to expense using accelerated amortization rates for motion pictures and straight-line and accelerated amortization rates for syndicated programs.

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

Deferred Income and Magazine Subscription Procurement Costs. Amounts received from subscribers in advance of deliveries are deferred and recorded as income when deliveries are made. The company amortizes magazine subscription procurement costs over the lives of the related subscriptions.

Goodwill and Other Intangibles represent the unamortized excess of the cost of acquiring subsidiary and affiliated companies over the fair values of such companies' tangible assets at the dates of acquisition. Goodwill and other intangibles acquired prior to October 31, 1970, the effective date of Opinion 17 of the Accounting Principles Board of the American Institute of Certified Public Accountants, are not

being amortized because in the opinion of the company there has been no diminution in the value of such assets. Goodwill and other intangibles acquired subsequently are being amortized by use of the straight-line method over 40 years in accordance with the aforementioned Opinion 17, although in the opinion of the company, there has been no diminution in the value of such assets.

Translation of Foreign Currencies. For balance sheet purposes foreign currency assets and liabilities have been translated into U.S. dollars at market rates of exchange in effect at year-end, except for plant assets which are translated at exchange rates in effect at dates acquired. Income statement amounts, other than depreciation, are translated at annual average market rates of exchange. Gains and losses from currency adjustments which are not material in amount are included in costs and expenses on a current basis.

Retirement Plans. The company and its subsidiaries contribute to various pension, incentive savings and profit sharing plans which cover employees who have prescribed periods of service. Newspaper agents and dealers who have prescribed periods of service participate in an unfunded Circulation Dealers Profit Incentive Plan, the accrued costs of which are charged to current expense. Liability under such plan, amounting to \$5,655,000 at January 1, 1978, and \$5,067,000 at January 2, 1977, is included in "Other Liabilities" in the consolidated balance sheets.

In addition, the company guarantees minimum retirement income benefits that require supplemental payments, which are not material in amount to certain participants in the company's Profit Sharing and Circulation Dealers Profit Incentive Plans.

Total expense under the plans described above was \$6,879,000 for 1977 and \$6,751,000 for 1976 which includes, as to certain of the plans, amortization of prior service costs generally over periods not exceeding 20 years.

B. Inventories

The inventories used in determining operating costs and expenses for the periods presented were as follows:

	January 1, 1978	January 2, 1977	December 28, 1975
Newsprint	\$1,078,000	\$1,771,000	\$1,239,000
Magazine paper	5,889,000	4,089,000	3,623,000
Books	335,000	470,000	1,389,000
Other materials	1,108,000	870,000	976,000
	<u>\$8,410,000</u>	<u>\$7,200,000</u>	<u>\$7,227,000</u>

Operating costs and expenses include \$26,725,000 in 1977 and \$22,829,000 in 1976 of cost of newsprint supplied by Bowater Mersey Paper Company Limited.

C. Investments in Affiliates

Bowater Mersey Paper Company Limited. The investment in Bowater Mersey Paper Company Limited consists of 49% of the common shares. Dividends received from Bowater Mersey were \$1,157,000 in 1977 and \$880,000 in 1976. Condensed statements of financial position and income of that company for 1977 and 1976, stated in Canadian dollars are set forth below [At December 31, 1977 (1976) the quoted rates of exchange for \$1 Canadian were \$.91 U.S. (\$.99 U.S.) and the average rates of exchange during the calendar year 1977 (1976) were \$.94 U.S. (\$1.01 U.S.)]:

Condensed Statements of Financial Position (\$ Can.)

	December 31,	
	1977	1976
Current assets	\$20,237,000	\$19,850,000
Less current liabilities	(8,896,000)	(13,238,000)
Working capital	11,341,000	6,612,000
Fixed assets, net	28,475,000	29,137,000
Other assets	121,000	132,000
Other liabilities	(7,172,000)	(6,715,000)
Shareholders' equity		
Preferred	2,245,000	2,417,000
Common	30,520,000	26,749,000
Total	\$32,765,000	\$29,166,000

Condensed Statements of Income (\$ Can.)

Sales	\$58,118,000	\$43,784,000
Costs and expenses	47,895,000	40,222,000
Income before income taxes	10,223,000	3,562,000
Income taxes	4,279,000	1,589,000
Net income	5,944,000	1,973,000
Preferred dividend requirements	127,000	141,000
Net income applicable to common shares	\$ 5,817,000	\$ 1,832,000

The investment is reflected in the consolidated balance sheets as follows:

	January 1, 1978	January 2, 1977
Cost of investment	\$ 8,354,000	\$ 8,354,000
Less amount included in consolidated goodwill	912,000	912,000
Equity in net assets at date of acquisition	7,442,000	7,442,000
Increase in equity since date of acquisition	6,351,000	5,163,000
	\$13,793,000	\$12,605,000

Other Investments. The company has a 30% interest in a French corporation which publishes the International Herald

Tribune in Paris and a 50% interest in a joint venture which operates the Los Angeles Times/Washington Post News Service.

D. Income Taxes and Tax Timing Differences

Income tax expense consisted of the following components:

	Current	Deferred
1977		
U.S. Federal	\$28,515,000	\$2,824,000
Foreign	184,000	171,000
State and Local	5,774,000	622,000
	<u>\$34,473,000</u>	<u>\$3,617,000</u>
1976		
U.S. Federal	\$19,971,000	\$ 1,685,000
Foreign	136,000	35,000
State and Local	4,625,000	444,000
	<u>\$24,732,000</u>	<u>\$ 2,164,000</u>

"Deferred" or "prepaid" tax expense results from timing differences (1) in the recognition of revenue and expense for tax and financial reporting purposes, (2) in the recognition of income tax to be withheld at source on distribution of earnings of foreign affiliates and (3) on the recognition of investment tax credits which for financial reporting purposes are applied as a reduction of income tax expense over the depreciable lives of the related assets. The sources and effect of these differences were as follows:

	1977	1976
Excess of tax over financial depreciation	\$ 774,000	\$ 690,000
Magazine subscription procurement and book promotion costs deducted when incurred for tax reporting and deferred and amortized for financial reporting	2,593,000	2,097,000
Investment tax credit, net	225,000	110,000
Other	25,000	(733,000)
	<u>\$ 3,617,000</u>	<u>\$ 2,164,000</u>

Total income tax expense exceeded 48% of income before taxes by \$2,782,000 in 1977 and \$2,231,000 in 1976. The reasons for the differences were as follows:

	1977	1976
State and local taxes on income, net of federal income tax benefit	\$ 3,326,000	\$ 2,636,000
Amortization of goodwill, expensed for financial reporting and not deductible for tax reporting	456,000	456,000
Foreign income taxes netted in equity in earnings of affiliates	(890,000)	(331,000)
Other	(110,000)	(530,000)
	<u>\$ 2,782,000</u>	<u>\$ 2,231,000</u>

Notes to Consolidated Financial Statements

E. Long-Term Debt and Restrictions on Dividends

Long-term debt consists of unsecured promissory notes which require payments each year to maturity.

The composition of long-term debt, including the amounts due within one year, \$2,450,000 at January 1, 1978, and \$4,850,000 at January 2, 1977, is:

Interest Rate	Final Maturity	Outstanding at	
		January 1, 1978	January 2, 1977
6.95%	1987	\$24,250,000	\$26,500,000
8.50%			7,200,000
5.00%	1980	500,000	700,000
		<u>\$24,750,000</u>	<u>\$34,400,000</u>

The agreement relating to the 6.95% promissory notes contains restrictive provisions which pertain principally to the payment of dividends and the redemption or purchase of the company's capital stock. At the end of 1977 and 1976 retained earnings unrestricted by these provisions were \$54,443,000 and \$49,546,000. Principal repayments on the 6.95% promissory notes are due as follows: \$2,250,000 in each of the years 1978 to 1986, and \$4,000,000 in 1987.

The note bearing interest at 8.5% had been payable in quarterly installments of \$600,000 until October 1979. The remaining balance of \$4,800,000 was prepaid in October 1977.

At January 1, 1978, maturities of long-term debt scheduled during each of the succeeding five years were as follows: 1978 and 1979, \$2,450,000; 1980, \$2,350,000; 1981 and 1982, \$2,250,000.

The company has lines of credit totaling \$9,500,000. As of January 1, 1978, no borrowing had been made under lines of credit.

F. Capital Stock, Stock Split and Stock Options

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% 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.

On December 15, 1976, the company amended its Certificate of Incorporation to increase the authorized Class A common stock from 1,000,000 shares to 2,000,000 shares and to effect a two-for-one stock split by reclassifying each share of Class A and Class B common stock outstanding or held in Treasury into two such shares. To account for these changes, the Class A common stock account was increased by \$764,000 and the Class B common stock account was increased by \$4,304,000 and capital in excess of par value was reduced by \$5,068,000. In connection with the stock

split, 134,960 shares of Class B common stock held in Treasury were retired. To account for the retirement, the Class B common stock account was reduced by \$135,000, retained earnings were reduced by \$2,440,000, and the cost of Treasury stock was reduced by \$2,575,000.

The increase in authorized capital and the two-for-one stock split have been given retroactive effect in the financial statements.

In 1971 the company adopted a Stock Option Plan and reserved 700,000 shares of Class B common stock for options to be granted under the plan. The purchase price of the shares covered by an option must be equal to their fair market value on the granting date. Options may be granted for a term of up to ten years.

At January 1, 1978, there were 252,462 shares reserved for issuance under the Stock Option Plan. Of this number, 183,862 shares were subject to options outstanding and 68,600 shares were available for future grants. Changes in the options outstanding for the two fiscal years ended January 1, 1978 and January 2, 1977 were as follows:

	1977		1976	
	Number of Shares	Average Option Price	Number of Shares	Average Option Price
Beginning of year	310,100	\$13.62	591,600	\$12.88
Options				
Granted	20,000	31.63	31,000	20.44
Exercised	(114,988)	12.88	(301,200)	12.85
Cancelled	(31,250)	17.21	(11,300)	14.10
End of year	<u>183,862</u>	<u>15.44</u>	<u>310,100</u>	<u>13.62</u>

The following table presents certain additional information with respect to options that became exercisable and options that were exercised during the two fiscal years ended January 1, 1978 and January 2, 1977:

Options that became exercisable	Option Price			Fair Value When Options Became Exercisable	
	Shares	Total	Ave. Per Share	Total	Ave. Per Share
1977	28,500	\$ 361,000	\$12.65	\$ 762,000	\$26.75
1976	36,000	\$ 449,000	\$12.47	\$ 623,000	\$17.30

Options exercised	Option Price			Fair Value When Options Exercised	
	Shares	Total	Ave. Per Share	Total	Ave. Per Share
1977	114,988	\$1,481,000	\$12.88	\$3,066,000	\$26.66
1976	301,200	\$3,870,000	\$12.85	\$5,278,000	\$17.52

Of the shares covered by options outstanding at the end of 1977, 142,362 were then exercisable; 12,250 will become exercisable in 1978; 9,000 in 1979; 11,500 in 1980; and 8,750 in 1981.

Per share data are based upon the weighted average number of shares of common stock and common stock equivalents outstanding during the periods, 8,476,000 in 1977 and 9,019,000 in 1976. Shares issuable under stock options are considered common stock equivalents if the fair value of the shares was more than the option price during the period. The number of such equivalents is then reduced by the number of shares which could have been purchased with the proceeds from the sale of the optioned shares had the options been exercised.

G. Commitments and Contingencies

The company is contingently liable for payments under employment contracts and for claims and lawsuits arising in the ordinary course of business. The company is a party to various civil lawsuits arising in the ordinary course of business including libel actions. In the opinion of management the company carries adequate insurance against liability in such libel actions, and the company is not a party to any other material litigation. The company has commitments to purchase plant equipment in the ordinary course of business.

Leases. Total rental expense included in operations was \$4,140,000 for fiscal year 1977 and \$3,883,000 for fiscal year 1976. As at January 1, 1978, minimum annual rental commitments under non-cancelable leases were: \$1,920,000 for 1978; a lesser amount in each succeeding year to a total of \$1,244,000 for 1982; \$5,611,000 for the five-year period 1983-1987; and less than \$65,000 in each of the succeeding five-year periods thereafter, excluding a lease for approximately \$946,000 per year which expires in 1979 but which may be renewed for two successive 15-year periods at the option of the company (the company has exercised its first option) at amounts to be negotiated or arbitrated. All of these commitments were for real estate except for \$128,000 in 1978, decreasing to \$10,000 in 1982, which relate to equipment.

H. Broadcast Properties

In December 1977 the company agreed to exchange its Washington, D.C. television station, WTOP-TV, and \$2,000,000 in cash for Detroit, Michigan, television station, WWJ-TV. The exchange of stations, which is expected to take place in 1978, is subject to the approval of the Federal Communications Commission (FCC).

In November 1977 the company agreed to sell its Washington, D.C. radio station for \$6,675,000, of which \$2,000,000 is receivable at the time of the sale and the remaining \$4,675,000 is receivable with interest over the next

five years. The sale, which is subject to the approval of the FCC, is expected to take place in 1978, and will result in an after tax gain of approximately \$3,000,000.

The sale of the radio station and the exchange of the television station are not expected to have a material effect on either the operating revenues or operating income of the broadcasting division.

Effective February 8, 1976, the company sold a radio station for \$3,500,000. The gain on the sale, approximately \$2,900,000 before giving effect to taxes on income of approximately \$1,100,000, is included in "Other Income" for that fiscal year.

I. Summary of Quarterly Financial Results (Unaudited)

Quarterly operating results, which are unaudited, for the fiscal years ended January 1, 1978 and January 2, 1977 were as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1977				
Operating revenues . . .	\$94,559,000	\$112,957,000	\$101,928,000	\$126,658,000
Income from operations . . .	\$10,109,000	\$22,148,000	\$13,277,000	\$25,540,000
Net income . . .	\$5,019,000	\$10,824,000	\$6,611,000	\$13,015,000
Earnings per share	\$.57	\$1.28	\$.79	\$1.57
Average number of shares of common stock and common stock equivalents	8,876,000	8,442,000	8,317,000	8,264,000
1976				
Operating revenues . . .	\$79,960,000	\$99,048,000	\$85,840,000	\$110,881,000
Income from operations . . .	\$5,567,000	\$16,911,000	\$6,751,000	\$19,816,000
Net income . . .	\$3,812,000	\$7,716,000	\$3,524,000	\$9,438,000
Earnings per share	\$.42	\$.86	\$.39	\$1.05
Average number of shares of common stock and common stock equivalents	9,092,000	9,005,000	9,006,000	8,972,000

J. Replacement Cost Information (Unaudited)

In compliance with the rules of the Securities and Exchange Commission, the company has estimated certain replacement cost information. The data in this note should not be interpreted to indicate that the company has present plans to replace inventories or plant assets or that future replacement would take place in the form and manner assumed in developing these calculations. The replacement cost data presented are not necessarily the current market values of existing plant assets and inventories; rather, they are the company's estimate of the cost of replacement that would be incurred if such assets were replaced at the ends of 1977 and 1976. The difference between historical and replacement cost does not represent additional book value of the company's common stock. Furthermore, it must be recognized that, by their nature, the replacement cost data are not precise but are broad estimates predicated upon hypotheses and subjective judgments.

Estimates of the replacement cost of inventories and the plant assets of the company as of January 1, 1978, and January 2, 1977, together with estimates of the effect on "Operating costs" and "Depreciation and amortization of plant facilities" for the years then ended, are summarized below.

"Operating costs and expenses" for the fiscal years 1977 and 1976, if calculated on the basis of estimated inventory replacement costs, would have increased by approximately \$1,027,000 and \$400,000 over the \$275,362,000 and \$242,411,000 calculated on an historical cost basis.

"Depreciation and amortization of plant facilities" for the fiscal years 1977 and 1976, if based on estimated average replacement cost, would have been approximately \$10,000,000 and \$9,000,000. Depreciation and amortization calculated on an historical cost basis were \$5,526,000 and \$5,394,000.

Replacement cost data for inventories were calculated by reference to supplier prices at the end of the fiscal year and at periodic times during the year.

Replacement cost data for plant assets were calculated using a combination of techniques: price level indices were applied to the historical cost of the assets, or current suppliers' prices and costs of construction were utilized. These techniques were applied to the assets in use or were applied to assets which the company believes have a present likelihood of being substituted for items currently used.

Accumulated depreciation at the end of the year and the provision for depreciation for the year related to the replacement cost of plant assets were calculated using straight-line depreciation rates based on the service lives used for financial accounting purposes.

In compiling replacement cost data no assessments were made of any related effects on labor costs, repairs and maintenance, energy costs and other indirect costs as a result of the assumed replacement of plant assets, the relationship of cost changes and changes in selling prices or the difficulty and related costs (such as those relating to regulatory requirements) which might be experienced in replacing plant assets.

Replacement Cost Information:

	January 1, 1978		January 2, 1977	
	Amounts per Consolidated Balance Sheet	Estimated Replacement Cost	Amounts per Consolidated Balance Sheet	Estimated Replacement Cost
Inventories				
Newsprint, magazine paper, books and other material	\$ 8,410,000	\$ 9,000,000	\$ 7,000,000	\$ 7,300,000
Items which would not be replaced			200,000	
	<u>\$ 8,410,000</u>		<u>\$ 7,200,000</u>	
Plant Assets				
Buildings	\$41,205,000	\$ 62,000,000	\$ 39,244,000	\$ 56,000,000
Machinery, equipment and fixtures	54,814,000	117,000,000	50,801,000	105,000,000
Leasehold improvements	3,433,000	5,000,000	2,964,000	5,000,000
	<u>99,452,000</u>	<u>184,000,000</u>	<u>93,009,000</u>	<u>166,000,000</u>
Less accumulated depreciation and amortization	<u>(47,554,000)</u>	<u>(89,000,000)</u>	<u>(43,457,000)</u>	<u>(80,000,000)</u>
	<u>\$ 51,898,000</u>	<u>\$ 95,000,000</u>	<u>\$ 49,552,000</u>	<u>\$ 86,000,000</u>
Amounts for which replacement cost data are not required:				
Land	9,175,000		7,303,000	
Construction in progress	2,403,000		1,898,000	
	<u>\$ 63,476,000</u>		<u>\$ 58,753,000</u>	

K. Newspaper Acquisition

The outstanding stock of The Daily Herald Company, publisher of the Everett, Washington, Herald was acquired for cash by the company on February 14, 1978. The purchase price was less than 10% of the total of company assets as at January 1, 1978. The transaction is not expected to have a material effect on the company's operations for 1978.

L. Business Segments—1977

The company operates in three areas of the communications industry: newspaper publishing, magazine and book publishing, and broadcasting. Newspaper operations primarily involve the publication of newspapers in Washington, D.C. and Trenton, N.J.; they also include a newsprint warehousing facility which accounts for less than 1% of consolidated revenues. Magazine and book publishing consists primarily of the publication of a weekly news magazine, Newsweek, which has one domestic and two international editions. Sales of books, which are less than 1% of consolidated revenues, are included within the magazine publishing segment. The television and radio broadcasting operations are conducted through four VHF television stations and one AM radio station. All stations are network affiliated with revenues derived primarily from sales of advertising time. Revenues from newspaper and magazine publishing are derived primarily from advertising, and to a lesser extent, from circulation. Revenues from international operations and

export sales are less than 10% of consolidated revenues.

Total revenues by business segments include both sales to unaffiliated customers, as reported in the company's consolidated statements of income, and intersegment sales which are recorded at market price.

Income from operations is the difference between total operating revenues less operating expenses. In computing income from operations, the effects of interest expense, equity in earnings of affiliates, other income, other deductions, and income taxes have been neither added nor deducted, but all corporate operating expenses are allocated to segment operations.

Identifiable assets by segment are those assets used in the company's operations in each business segment. Corporate assets are principally cash and marketable securities.

Equity in earnings of affiliates and assets invested in unconsolidated enterprises include a 49% interest in a newsprint manufacturer located in Nova Scotia, Canada, and a 30% interest in a newspaper headquartered in Paris, France, which is distributed mainly in Europe. In 1977 the newsprint manufacturer sold half of its newsprint production to the company for use in its newspapers. The company also has a 50% interest in a news service which is headquartered in the United States. The income and assets of this venture constitute only a minor portion of the company's income from and investment in affiliates.

Business Segments Data—1977:

	Newspaper Publishing	Magazine and Book Publishing	Broadcasting	Adjustments and Eliminations	Consolidated
Sales to unaffiliated customers	\$199,010,000	\$181,797,000	\$55,295,000		\$436,102,000
Intersegment sales	113,000		94,000	\$ (207,000)	
Total operating revenues	<u>199,123,000</u>	<u>181,797,000</u>	<u>55,389,000</u>	<u>(207,000)</u>	<u>436,102,000</u>
Income from operations	<u>26,869,000</u>	<u>26,573,000</u>	<u>17,632,000</u>		71,074,000
Equity in earnings of affiliates					2,537,000
Interest expense					(2,329,000)
Other income (deductions) net					2,277,000
Income before income taxes					<u>73,559,000</u>
Identifiable assets	98,275,000	42,178,000	73,885,000	(793,000)	213,545,000
Investments in affiliates					15,530,000
Corporate assets					49,499,000
Total assets					<u>278,574,000</u>
Depreciation and amortization of plant facilities	3,003,000	784,000	1,739,000		5,526,000
Amortization of goodwill and other intangibles	330,000		623,000		953,000
Capital expenditures	7,416,000	1,029,000	2,492,000		10,937,000

Five-Year Summary of Financial Highlights

In February 1976 the company realized a nonrecurring gain from the sale of a radio station. This increased "Other income" by approximately \$2,900,000, the "Provision for income taxes" by approximately \$1,100,000, "Net income" by approximately \$1,800,000 and "Earnings per share" by \$.20.

The company uses the equity method of accounting for its investments in Bowater Mersey Paper Company Limited and in International Herald Tribune, S. A. Dividends received from these corporations during the five years ended January 1, 1978 totalled \$1,363,000 in 1977; \$880,000 in 1976; \$874,000 in 1975; \$521,000 in 1974; and \$293,000 in 1973.

Per share amounts are based upon the weighted average number of shares of common stock and common stock equivalents outstanding during the periods. Amounts per share and share data for 1975 and prior periods have been restated to give effect to a two-for-one stock split made on December 15, 1976.

(Amounts in thousands, except share amounts)	Fiscal Year	1977	1976	1975	1974	1973
Year-end Financial Condition						
Current assets		\$114,489	\$100,919	\$ 72,819	\$ 70,009	\$ 78,283
Working capital		58,114	44,828	35,129	31,108	47,740
Plant assets		63,476	58,753	58,594	57,125	48,898
Total assets		278,574	259,000	230,599	226,397	184,704
Long-term debt		22,300	29,550	39,934	47,318	33,702
Deferred subscription income		53,405	45,021	36,999	29,797	26,097
Less related subscription procurement costs		(27,485)	(22,971)	(18,694)	(12,119)	(13,082)
Net deferred subscription income		25,920	22,050	18,305	17,678	13,015
Shareholders' equity		140,377	123,392	110,154	102,745	90,605
Revenues and Income						
Operating revenues		436,102	375,729	309,335	287,579	246,949
Costs and expenses		365,028	326,684	282,511	259,439	221,257
Income from operations		71,074	49,045	26,824	28,140	25,692
Other income		2,576	4,592	1,010	2,005	2,661
Other deductions, primarily interest		(2,628)	(3,644)	(4,126)	(3,942)	(2,822)
Equity in earnings of affiliates		2,537	1,393	1,884	2,571	1,022
Income before income taxes		73,559	51,386	25,592	28,774	26,553
Provision for income taxes						
Current		34,473	24,732	9,189	13,664	10,562
Deferred		3,617	2,164	4,361	669	2,657
		38,090	26,896	13,550	14,333	13,219
Net income		\$ 35,469	\$ 24,490	\$ 12,042	\$ 14,441	\$ 13,334
Amounts per Share						
Earnings per common and common equivalent share		\$4.18	\$2.72	\$1.27	\$1.52	\$1.40
Cash dividends		\$.36	\$.25	\$.25	\$.25	\$.20
Average number of shares of common stock and common stock equivalents outstanding (in thousands)		8,476	9,019	9,450	9,501	9,509

Corporate Directory

Stock Trading

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

Stock Transfer Agents and Registrars

Morgan Guaranty Trust Company
Stock Transfer Department
30 West Broadway
New York, New York 10015

American Security Bank, N.A.
Corporate Trust Department
730 Fifteenth Street, N.W.
Washington, D.C. 20013

Shareholder Inquiries

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

Form 10-K

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

Board of Directors and Executive Officers

Katharine Graham, Director and Chairman of the Board
Publisher of The Washington Post (2,3,4)

Mark J. Meagher, Director and President (2,3)

Warren E. Buffett, Director
Chairman, Berkshire Hathaway, Inc.
(textiles, insurance, banking) (1,3,4)

Robert D. Campbell, Director and Vice President
Chairman and President of Newsweek, Inc.

Joel Chaseman, Director and Vice President
President of Post-Newsweek Stations, Inc.

George J. Gillespie III, Director
Attorney; Member of Cravath, Swaine & Moore (1)

Donald E. Graham, Director
Executive Vice President and General Manager
The Washington Post (3)

Nicholas deB. Katzenbach, Director
Vice President, IBM Corporation
(information-handling systems) (2,4)

Dr. Eugene Meyer III, Director
Physician; Professor, The Johns Hopkins Hospital

Arjay Miller, Director
Dean, Stanford University Graduate School of Business (1,2)

Richard M. Paget, Director
President of Cresap, McCormick and Paget, Inc.
(management consultants) (2)

John W. Sweeterman, Director
Retired; former Vice Chairman of the Board and
Publisher of The Washington Post (4)

Martin Cohen, Vice President-Finance and Treasurer

Alan R. Finberg, Vice President, General Counsel and Secretary

Committees of the Board of Directors

- (1) Member of Audit Committee
- (2) Member of Compensation Committee
- (3) Member of Finance Committee
- (4) Member of Stock Option Committee

