Consolidated Financial Statements
The Associated Press and Subsidiaries

Years ended December 31, 2005 and 2004

with Report of Independent Auditors

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contents

Report of Audit Committee

Dear Mr. Osborne:

Members of the Audit Committee of The Associated Press (the "Company") met March 7, 2006 at the Company's headquarters in New York City. The Committee members received consolidated financial statements reported upon by Ernst & Young LLP and reviewed them in detail. The report covered The Associated Press and its domestic and foreign subsidiaries.

The scope of procedures used by Ernst & Young LLP in reviewing the results of operations at certain Company locations, including bureaus both in this country and abroad, was discussed. All questions raised by committee members in regard to the assets, liabilities, revenue and expenses shown in the financial statements were addressed and answered satisfactorily by Ernst & Young LLP or Company management. Based on these discussions and the representations of management, the Audit Commitee recommended that the audited consolidated financial statements be included in the Company's 2005 annual report.

The Committee thanks the representatives of The Associated Press and Ernst & Young LLP for their assistance and cooperation.

Respectfully submitted,

The Audit Committee

Michael E. Reed
Liberty Group Publishing,Inc
The Corning(N.Y.) Leader

Mary Junck
Lee Enterprises, Inc.
Quad City Times
Davenport, Iowa

Walter E. Hussman Jr.
Arkansas Democrat-
Gazettte
Little Rock, Ark.

George B. Irish
Hearst Newspapers
Beaumont (Texas)
Enterprise

David Lord (18)
Pioneer Newspapers, Inc.
Bozeman (Mont.) Daily
Chronicle

Report of Independent Auditors

Audit Committee and Members of The Associated Press

We have audited the accompanying consolidated balance sheets of The Associated Press and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of operations, members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Associated Press and subsidiaries at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

February 27, 2006

The Associated Press and Subsidiaries Consolidated Balance Sheets

December 31 (In Thousands)	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	**$ 61,371**	$ 51,057
Advances to bureaus	**10,234**	10,497
Accounts receivable, net of allowance for doubtful accounts (2005—$9,068; 2004—$10,438)	**56,763**	57,168
Deferred income taxes	**9,122**	14,067
Prepaid expenses and other current assets	**9,292**	7,263
Total current assets	**146,782**	140,052
Fixed assets, net	**157,238**	161,240
Other non-current assets:		
Goodwill	**48,385**	48,385
Other intangible assets, net	**2,722**	4,447
Pension-related assets	**16,164**	15,052
Deferred income taxes	**87,104**	73,502
Gramling Awards fund	**968**	1,042
Investment in joint ventures	**5,178**	992
Other assets	**2,450**	1,438
Total other non-current assets	**162,971**	144,858
Total assets	**$466,991**	$ 446,150
Liabilities and members' equity		
Current liabilities:		
Current portion of long-term debt and capital leases	**$ 1,982**	$ 1,139
Accounts payable	**20,071**	25,482
Accrued payroll expense	**25,397**	26,940
Accrued coverage-related liabilities	**19,788**	19,942
Other accrued liabilities	**39,511**	38,149
Taxes payable	**7,485**	7,702
Deferred revenue	**16,564**	17,555
Total current liabilities	**130,798**	136,909
Non-current liabilities:		
Long-term debt, net of current portion	**58,937**	58,827
Postretirement and other employee benefits	**198,860**	180,245
Deferred revenue	**3,750**	3,500
Other non-current liabilities	**16,528**	13,139
Debenture bonds	**779**	779
Gramling Awards liability	**968**	1,042
Total non-current liabilities	**279,822**	257,532
Members' equity:		
Operating account	**103,870**	85,342
Accumulated other comprehensive loss	**(47,499)**	(33,633)
Total members' equity	**56,371**	51,709
Total liabilities and members' equity	**$ 466,991**	$ 446,150

See notes to consolidated financial statements.

The Associated Press and Subsidiaries Consolidated Statements of Operations

Year ended December 31 (In Thousands)	2005	2004
Revenue	**$ 654,186**	$ 630,116
Operating Expenses		
Salaries and labor-related	**358,314**	350,688
Assignment and coverage-related	**89,030**	88,098
Communications	**38,334**	42,000
Depreciation and amortization	**35,855**	37,009
Rent and utilities	**37,219**	38,088
Supplies and maintenance	**21,023**	20,581
Asset impairment	**1,053**	5,038
Other general and administrative	**55,399**	53,698
Total operating expense	**636,227**	635,200
Operating income (loss)	**17,959**	(5,084)
Other income (expense)		
Equity in income of joint ventures	**6,821**	4,535
Gain on sale of securities	**2,858**	–
Interest income	**1,457**	448
Interest expense	**(3,215)**	(1,944)
Total other income	**7,921**	3,039
Income (loss) before income taxes	**25,880**	(2,045)
Income tax expense (benefit)		
Current	**8,572**	6,041
Deferred	**(1,220)**	(7,358)
	7,352	(1,317)
Net income (loss)	**$ 18,528**	$ (728)

The Associated Press and Subsidiaries Consolidated Statements of Members' Equity

(In Thousands)	Operating Account	Accumulated Other Comprehensive Loss	Members' Equity
Balance at December 31, 2003	$ 65,808	$ (4,428)	$ 61,380
Net loss	(728)	–	(728)
Minimum pension liability adjustment, net of $5,743 in taxes	20,262	(29,155)	(8,893)
Foreign currency translation adjustment	–	(50)	(50)
Comprehensive loss			(9,671)
Balance at December 31, 2004	85,342	(33,633)	51,709
Net income	18,528	–	18,528
Minimum pension liability adjustment, net of $7,418 in taxes	–	(11,185)	(11,185)
Foreign currency translation adjustment	–	(2,681)	(2,681)
Comprehensive income			4,662
Balance at December 31, 2005	**$ 103,870**	**$ (47,499)**	**$ 56,371**

See notes to consolidated financial statements.

The Associated Press and Subsidiaries Consolidated Statements of Cash Flows

Year ended December 31 (In Thousands)	2005	2004
Operating activities		
Net income (loss)	$ 18,528	$ (728)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	35,855	37,009
Asset impairment	1,053	5,038
Gain on sale of securities	(2,858)	–
Undistributed equity income	(1,672)	–
Provision for doubtful accounts	(1,233)	252
Deferred income taxes	(1,220)	(7,358)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Advances to bureaus	(113)	(2,007)
Accounts receivable	759	(7,897)
Prepaid expenses and other assets	(2,191)	(306)
Other long-term assets	(993)	(528)
Pension-related assets	(1,112)	(2,750)
(Decrease) increase in liabilities:		
Deferred revenue and accounts payable	(5,742)	1,870
Taxes payable, coverage-related and other accrued liabilities	5,461	22,301
Accrued payroll expense and postretirement and other employee benefits	(3,756)	16,791
Net cash provided by operating activities	40,766	61,687
Investing activities		
Proceeds from sale of securities	2,858	–
Investment in joint venture	(517)	–
Fixed asset additions	(31,494)	(105,090)
W. 33rd St. tenant reimbursement, net	–	(1,223)
Net cash used in investing activities	(29,153)	(106,313)
Financing activities		
Capital lease repayments	(1,094)	(1,139)
Proceeds from Notes	–	50,000
Borrowings on Credit Agreement	–	25,000
Repayments on Credit Agreement	–	(25,000)
Debenture bond borrowings	–	2
Net cash (used in) provided by financing activities	(1,094)	48,863
Effect of exchange rate changes on cash and cash equivalents	(205)	272
Increase in cash and cash equivalents	10,314	4,509
Cash and cash equivalents at beginning of year	51,057	46,548
Cash and cash equivalents at end of year	$ 61,371	$ 51,057
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	$ 2,376	$ 1,247
Income taxes	$ 6,869	$ 2,818

See notes to consolidated financial statements.

The Associated Press and Subsidiaries Notes to Consolidated Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

The Associated Press ("AP" or the "Company") is a New York not-for-profit corporation with a regular membership comprised of daily newspapers and an associate membership comprised of broadcasters and non-daily newspapers. Founded in 1846, AP is the oldest and one of the largest news agencies in the world, serving as a source of news, photos, graphics, audio and video for more than one billion people daily. In the United States alone, AP serves approximately 1,500 newspapers and 5,000 radio and television stations, many of which are members. AP also has approximately 8,500 newspaper, radio and television subscribers in 121 countries overseas.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported therein. Estimates made are based on management's best assessment of the current business environment. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Investments in 50% owned joint ventures are accounted for under the equity method of accounting. All significant intercompany transactions have been eliminated in consolidation.

Certain of the Company's foreign subsidiaries are consolidated with a fiscal year end of November 30. There were no events in the intervening time period which would materially affect the Company's consolidated financial position or results of operations as of December 31, 2005 and 2004.

Related Parties

The Company is a membership cooperative whose members are not entitled to dividends or similar distributions. There were no individual members that could exercise influence on the Company to an extent that would warrant separate disclosure under Statement of Financial Accounting Standards ("SFAS") No. 57, *Related Party Disclosures.*

Foreign Currency Translation

The U.S. dollar is the functional currency for the majority of the Company's international operations. The local currency is the functional currency for certain international subsidiaries.

For U.S. dollar functional currency locations, foreign currency assets and liabilities are remeasured into U.S. dollars at end-of-period exchange rates, except for nonmonetary balance sheet accounts, which are recorded at historical exchange rates. Revenue and expenses are recorded at average exchange rates in effect during each period. Gains or losses from foreign currency remeasurement are included in net earnings.

For local currency functional locations, assets and liabilities are translated at end-of-period rates, while revenues and expenses are translated at average rates in effect during the period. Equity is translated at historical rates and the resulting cumulative translation adjustments are included as a component of accumulated other comprehensive income.

The consolidated statements of operations reflect foreign exchange transaction losses of $1,086,000 in 2005 and $620,000 in 2004 from settling assets and liabilities denominated in foreign currencies.

From time to time the Company enters into short-term foreign currency forward contracts as a hedge against sterling denominated payroll and rent costs. In 2005 and 2004, the Company realized a loss of $78,000 and a gain of $448,000, respectively, on these forward contracts. No forward contracts were open as of December 31, 2005 or 2004.

Revenue and Expense Recognition

The Company's primary source of revenue is from subscription contracts with newspapers, radio, and television stations, the majority of which are members.

The revenue for these services is recognized when all of the following criteria are satisfied: (i) persuasive evidence of an arrangement exists; (ii) the price is fixed and determinable; (iii) collectibility is reasonably assured; and (iv) services have been performed.

Revenue on non-cancelable multi-year service arrangements is recorded on the straight-line basis over the contract term.

Revenue collected in advance is deferred, and recognized when earned.

Expenses are recorded on the accrual basis.

Cash, Cash Equivalents and Investments

AP invests surplus cash in money market funds. AP considers investments with maturities of three months or less when acquired to be cash equivalents. The carrying amount reported in the consolidated balance sheets for cash and cash equivalents approximates its fair value.

The Company has applied SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* in classifying its investment in and subsequent sale of certain securities as available-for-sale securities.

Advances to Bureaus

Advances to bureaus consist principally of foreign bureaus' cash on hand and on deposit with banks and assignment advances to bureau employees.

Fixed Assets

Fixed assets are stated at cost. Depreciation and amortization, including amortization under capital leases, are computed on the straight-line method based on estimated useful lives ranging from 3 to 15 years or the shorter of the useful life or lease-term for leasehold improvements.

AP records fixed asset impairment losses, if any, on assets used in operations when indicators of impairment are present and the fair values based upon undiscounted cash flows estimated to be generated from those assets are less than the assets' carrying amounts.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill and Other Intangible Assets

Goodwill represents the excess of acquisition costs over the fair value of the net assets acquired. The purchase price of acquisitions is allocated to the assets acquired and liabilities assumed based on the fair value as of the acquisition date.

Under SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill and other intangible assets deemed to have indefinite lives are not amortized but are subject to an annual impairment test or more frequent testing if circumstances indicate that the carrying amount of the operating unit to which the goodwill pertains is greater than its fair value. Other intangible assets with finite lives are amortized over their estimated useful lives, which range from four to ten years.

AP records impairment losses, if any, on intangible assets with finite lives when indicators of impairment are present and the discounted cash flows estimated to be derived from those assets are less than the assets' carrying amounts.

Gramling Awards Fund

Oliver Gramling, a former AP newsman who launched the AP broadcast news wire in 1941, bequeathed his estate to AP to create an annual awards program for AP staffers. The Gramling Awards began in 1994 and recognize outstanding AP staffers each year. Awards are financed by a portion of the investment income earned on the fund's principal.

Income Taxes

AP is considered a C corporation for federal tax purposes. Income taxes are provided under the liability method, whereby deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. The financial effect of changes in tax laws or rates is accounted for in the period of enactment.

Foreign Severance Indemnities

AP provides for foreign severance indemnities in accordance with SFAS No. 112, *Employers' Accounting for Postemployment Benefits*, as required by the statutes of, or the customary practice in, the respective jurisdictions. Net accrued foreign severance liabilities included in postretirement and other employee benefits were $6.9 million and $6.7 million at December 31, 2005 and 2004, respectively.

Comprehensive Income

SFAS No. 130, *Reporting Comprehensive Income*, requires, among other items, that foreign currency translation adjustments and minimum pension liability adjustments to be included in comprehensive income (loss).

Accumulated balances related to each component of accumulated other comprehensive loss were as follows:

December 31 (In Thousands)	2005	2004
Foreign currency translation adjustment	$ (5,123)	$ (2,442)
Minimum pension liability adjustment	(42,376)	(31,191)
Accumulated balance	$ (47,499)	$ (33,633)

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

B. GOODWILL AND OTHER INTANGIBLE ASSETS

The change in the carrying amount of goodwill and other intangible assets is as follows:

(In Thousands)	Goodwill	Other Intangible Assets	Pension Intangible Assets
Balance at December 31, 2003	$ 48,558	$ 6,461	$ 12,300
Impairment loss	(173)	(180)	–
Amortization expense	–	(1,834)	(2,361)
Other	–	–	5,113
Balance at December 31, 2004	48,385	4,447	15,052
Amortization expense	–	(1,725)	(2,300)
Other	–	–	3,412
Balance at December 31, 2005	**$ 48,385**	**$ 2,722**	**$ 16,164**

During 2005 and 2004, AP completed its annual assessments for impairment. In 2005, AP determined that no impairments existed; however, in 2004 AP determined that the carrying amount of the goodwill relating to AP's ad-processing businesses exceeded its fair value. As a result, AP recognized a goodwill impairment loss of $173,000 in 2004. The fair value was determined using a discounted cash flow approach, consisting of a study of variables, such as revenue and expense projections, projected capital spending, and discount rates.

The Other amounts in the Pension Intangible Assets represent the net changing resulting from the increase in discount rate, return on investments, plan contributions and actual liability experience.

B. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

In 2005, AP sold the assets of CapitolWire subject to an earn-out arrangement. The Company did not record any gain or loss in relation to the sale. In 2004, AP wrote off $180,000 of intangibles related to CapitolWire in anticipation of the sale or closure in 2005.

Other intangible assets that are subject to amortization had a gross carrying value and accumulated amortization of $8.1 million and $5.4 million, respectively, at December 31, 2005, and $8.1 million and $3.7 million at December 31, 2004.

Estimated annual amortization expense for the next three years related to intangible assets is (in thousands): 2006—$1,725; 2007—$867; and 2008—$130.

C. FIXED ASSETS

The following table summarizes the components of the Company's fixed assets:

December 31 (In Thousands)	**2005**	**2004**
Furniture and fixtures	**$ 20,188**	$ 23,670
Leasehold improvements	**93,391**	97,314
Software	**48,880**	43,394
Computers	**47,168**	43,662
Capital leases	**11,548**	11,548
Equipment	**87,069**	79,492
	308,244	299,080
Accumulated depreciation	**(151,006)**	(137,840)
Net	**$157,238**	$161,240

At December 31, 2005 and 2004, the Company had $1.2 million and $2.2 million, respectively, of capitalized software development costs related to projects in progress.

In 2005 and 2004, AP recognized impairment losses of $1.6 million and $4.7 million, respectively, from premature obsolescence and changes in technology needs for certain fixed assets.

D. JOINT VENTURES

In August 2005, the AP contributed $517,000 in cash and signed a 5-year promissory note payable of $2.25 million in exchange for a 50% interest in a joint venture, STATS LLC, with News America Incorporated. STATS LLC provides sports information and statistical sports data.

AP also has 50% equity interest in Sports News Television, which provides global sports news video services. Sports News Television Management Limited was established by the partners to manage the joint venture.

During 2005 and 2004, AP recorded equity in the income of the joint ventures of $6.8 million and $4.5 million, respectively.

Summary financial information for the joint ventures is as follows:

December 31 (In Thousands)	**2005**	**2004**
Current assets	**$ 9,724**	$ 3,419
Long-term assets	**1,563**	–
Total assets	**11,287**	3,419
Current liabilities	**(3,871)**	(1,435)
Total liabilities	**(3,871)**	(1,435)
Net assets	**$ 7,416**	$ 1,984

Year ended December 31 (In Thousands)	**2005**	**2004**
Total revenue	**$27,498**	$15,856
Total expense	**(13,856)**	(6,786)
Joint venture income	**$13,642**	$ 9,070

E. INCOME TAXES

The provision (benefit) for income taxes consists of:

Year ended December 31 (In Thousands)	**2005**	**2004**
Current:		
Federal	**$ –**	$ (934)
State and local	**655**	476
Foreign	**7,917**	6,499
Total current	**8,572**	6,041
Deferred:		
Federal	**(1,345)**	(6,512)
State and local	**118**	(857)
Foreign	**7**	11
Total deferred	**(1,220)**	(7,358)
Total	**$ 7,352**	$ (1,317)

The differences between AP's statutory and effective income tax rates are as follows:

Year ended December 31	**2005**	**2004**
Statutory federal income tax rate	**35.0%**	35.0%
State and local income taxes, net of federal benefit	**2.5**	11.2
Meals and entertainment limitation	**1.7**	(20.9)
Extraterritorial income exclusion (ETI benefit)	**(9.7)**	64.0
Deferred tax asset write off	–	(46.8)
Other, net	**(1.1)**	21.9
Effective income tax rate	**28.4%**	64.4%

Deferred income taxes reflect the net tax effects of tax credits and temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes.

E. INCOME TAXES (CONTINUED)

Significant components of deferred taxes are as follows:

December 31 (In Thousands)	2005	2004
Other pension and employee retirement benefits	$ 42,358	$ 40,477
Pension expense	17,136	15,989
Bad debt reserve	3,457	4,083
Deferred compensation and other compensation-related accruals	16,678	11,983
Other	16,597	15,037
Net deferred tax assets	$ 96,226	$ 87,569

At December 31, 2005, U.S. federal tax carryforwards consisted of approximately $4.2 million of foreign tax credits, $500,000 of research and development credits, and $56,000 of child care credits. The utilization of carryforwards is subject to limitations under U.S. federal tax laws. The foreign tax credit carryforward expires in varying amounts from 2014 to 2015; the research and development credit, and child care credit carryforwards expire in varying amounts from 2023 to 2025.

F. LONG-TERM DEBT

On January 25, 2005, AP entered into a 3-year, $75 million syndicated revolving credit agreement ("Facility") with Bank of America, Citibank, and a number of other banks. The Company incurred and capitalized fees and costs of $496,000 related to the Facility. The terms of the Facility include certain covenants and limitations on indebtedness and require commitment fees to be paid on the unused portion of the Facility.

In 2005, AP signed a 5-year promissory note of $2.25 million related to the STATS LLC joint venture (the "STATS Note"). The note is discounted at 6.25%.

In July 2004, AP issued and sold 8-year, $50 million Floating Rate Senior Notes ("Notes") to Allstate Life Insurance Company and Metropolitan Life Insurance Company and capitalized $611,000 of Note issuance costs. The Notes bear interest, payable quarterly, based on the 3-month LIBOR rate for each three-month period following the date when the Notes were sold plus ninety-five basis points. The interest rate for the three-month period that included December 31, 2005 was 5.11%. The Notes are required to be repaid in four equal annual installments in years 2009 through 2012. Optional prepayments may be made at any time after July 2006. At December 31, 2005 and 2004, AP was in compliance with the covenants of the Notes, which include, among other things, a requirement to maintain certain financial ratios and limitations on indebtedness.

In January 2004, AP entered into a 364-day, $75 million syndicated revolving credit agreement (the "Credit Agreement") with JP Morgan Chase Bank, The Bank of New York, and a number of other banks. The Company incurred and capitalized fees and costs of $356,000 related to the Credit Agreement. As of December 31, 2004, AP had no outstanding debt under the Credit Agreement. The Credit Agreement was replaced in January 2005 with a new three-year facility.

Debt of $740,000 and $694,000 at December 31, 2005 and 2004, respectively, represents the present value of a liability, discounted at 6.5%, to a third-party that was assumed in a prior-year acquisition. The non-interest bearing note payable in the amount of $1,079,000 is due in June 2013.

The components of debt at December 31, 2005 and 2004 are as follows:

December 31 (In Thousands)	2005	2004
Facility	$ –	$ –
Notes	50,000	50,000
Credit Agreement	–	–
STATS Note	2,047	–
Capital leases	8,132	9,272
Other debt	740	694
Total long-term debt	60,919	59,966
Less current portion	(1,982)	(1,139)
Long-term debt, net of current portion	$58,937	$58,827

AP amortizes capitalized costs related to financing activities using the straight-line method over the term of the agreement and includes such amortization within interest expense in the accompanying consolidated statements of operations. Amortization of capitalized fees and issuance costs related to each of the debt vehicles is as follows:

December 31 (In Thousands)	2005	2004
Facility	$151	$ –
Notes	77	35
Credit Agreement	31	325
Total	$259	$360

G. PENSION PLANS

U.S. Plans —

In December 2005 the Company and the union collective bargaining unit agreed to a 50% reduction in force to be effective in early 2006. In accordance with SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, the Company recognized a net curtailment loss of $3.6 million in 2005 and recorded increases to the pension and postretirement medical liabilities.

Defined Benefit Plans

AP has several noncontributory defined benefit pension plans covering certain eligible U.S. employees. Plans covering union employees generally provide pension benefits as a percentage of their basic wages for each year of credited service. AP sponsors a non-qualified Senior Executive Retirement Plan ("SERP") which primarily provides targeted benefits to designated senior executives. AP's policy is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974 and meets the funding requirements defined in the Internal Revenue Code.

The primary investment objectives for the pension plans' assets are to achieve maximum rates of return commensurate with safety of principal, credit quality, diversification, and adequate liquidity.

The plans' investment policy includes the following asset allocation guidelines:

Policy Target	
Equity securities	60.0%
Debt securities	30.0
Real estate and other	10.0
Total	100.0%

G. PENSION PLANS (CONTINUED)

The asset allocation policy links the investment program with the financial goals and objectives of the pension plan and its underlying liability structure. The portfolio is monitored quarterly to ensure the allocations do not deviate significantly from the target.

The pension plans' weighted-average asset allocations by asset category are as follows:

December 31	2005	2004
Equity securities	62.1%	63.2%
Debt securities	27.1	26.4
Real estate and other	10.8	10.4
Total	100.0%	100.0%

The components of net periodic pension cost are as follows:

Year ended December 31 (In Thousands)	2005	2004
Service cost	$10,022	$ 8,812
Interest cost	19,874	18,366
Expected return on plans' assets	(18,174)	(17,522)
Amortization of transition asset	(381)	(381)
Amortization of prior service cost	2,300	2,361
Recognized actuarial loss	1,343	474
FASB 88 curtailment charge	196	–
Net periodic pension cost	$15,180	$12,110

Administrative expenses, including investment fees, paid by the plans were approximately $1.5 million and $1.2 million, respectively, in 2005 and 2004, respectively. Expenses are reflected in the actual loss on plans' assets.

The following table sets forth the status of the funded plans and the amounts recognized in the consolidated balance sheets:

December 31 (In Thousands)	2005	2004
Change in benefit obligation		
Benefit obligation at beginning of year	$288,631	$266,151
Service cost	9,499	8,438
Interest cost	17,954	16,763
Actuarial loss	39,455	6,858
Benefits paid	(10,426)	(9,695)
Plan amendments	–	116
Curtailment gain	(1,215)	–
Benefit obligation at end of year	$343,898	$288,631
Change in plans' assets		
Fair value of plans' assets at beginning of year	$225,497	$209,125
Actual gain on plans' assets	25,354	18,158
Contributions	25,503	7,909
Benefits paid	(10,426)	(9,695)
Fair value of plans' assets at end of year	$265,928	$225,497
Projected benefit obligation less plans' assets	$ 77,970	$ 63,134
Unrecognized net actuarial loss	(62,219)	(31,749)
Unrecognized transition asset	996	1,422
Unamortized prior service cost	(5,989)	(7,428)
Accrued pension cost	$ 10,758	$ 25,379

Accrued pension cost was recognized in the consolidated balance sheets as follows:

December 31 (In Thousands)	2005	2004
Included in pension-related assets:		
Prepaid pension cost	$ (4,070)	$ (4,379)
Intangible assets	(5,793)	(3,458)
Included in postretirement and other employee benefits:		
Accrued pension cost	44,824	40,085
Included in accumulated other comprehensive loss:		
Minimum pension liability adjustment	(24,203)	(6,869)
Net accrued pension cost	$10,758	$25,379

The accumulated benefit obligation for the funded pension plans was $310.6 million and $262.0 million at December 31, 2005 and 2004, respectively.

AP expects to contribute between $18.0 million and $22.0 million to the funded plans in 2006.

Information for pension plans with an accumulated benefit obligation in excess of plan assets is as follows:

December 31 (In Thousands)	2005	2004
Projected benefit obligation	$306,330	$254,657
Accumulated benefit obligation	274,270	230,206
Fair value of plan assets	229,446	190,121

The following table sets forth the status of the unfunded plans and the amounts recognized in the consolidated balance sheets:

December 31 (In Thousands)	2005	2004
Change in benefit obligation		
Benefit obligation at beginning of year	$26,420	$20,240
Service cost	523	374
Interest cost	1,920	1,603
Actuarial loss	7,928	2,169
Benefits paid	(1,594)	(1,492)
Plan amendments	281	3,526
Benefit obligation at end of year	$35,478	$ 26,420
Projected benefit obligation	$35,478	$ 26,420
Unrecognized net actuarial loss	(12,769)	(5,605)
Unrecognized transition obligation	(135)	(180)
Unamortized prior service cost	(5,593)	(6,369)
Accrued pension cost	$16,981	$ 14,266

G. PENSION PLANS (CONTINUED)

Accrued pension cost was recognized in the consolidated balance sheets as follows:

December 31 (In Thousands)	2005	2004
Included in pension-related assets:		
Intangible assets	$ (5,728)	$ (6,549)
Included in postretirement and other employee benefits:		
Accrued pension cost	28,432	22,829
Included in accumulated other comprehensive loss:		
Minimum pension liability adjustment	(5,723)	(2,014)
Net accrued pension cost	$ 16,981	$14,266

The accumulated benefit obligation for the unfunded pension plans was $28.4 million and $22.8 million at December 31, 2005 and 2004, respectively. AP expects to pay benefits of $1.7 million under the unfunded plans in 2006.

Weighted-average assumptions used to determine benefit obligations are as follows:

December 31	2005	2004
Discount rate	5.50%	6.25%
Rate of compensation increase	3%-4.50%	3%-4.50%

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

December 31	2005	2004
Discount rate	6.25%	6.50%
Expected long-term rate of return on plan assets	8.00%	8.50%
Rate of compensation increase	3%-4.50%	3%-4.50%

To develop the expected long-term rate of return on assets assumption, AP considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The estimated minimum future payments for the U.S. pension plans (including qualified and nonqualified programs) are as follows (in thousands):

As of December 31 (In Thousands)	
2006	$ 14,280
2007	15,166
2008	16,406
2009	17,415
2010	17,921
2011 through 2015	109,898

Defined Contribution Plan (3%)

AP has a defined contribution plan covering all of its domestic administrative employees hired on or after January 15, 2005. After one year of service, AP contributes 3% of the employees' qualified earnings into the plan.

Defined Contribution Plan (401(k) Plan)

AP has a defined contribution plan (401(k) Plan) covering substantially all of its domestic employees. AP matches a portion of the employees' contributions. Charges to operations for AP's contributions amounted to $4.8 million in 2005 and $4.8 million in 2004.

U.K. Plans —

AP sponsors two defined benefit pension plans covering employees in the U.K.: The Associated Press Limited Pension and Life Assurance Fund ("APL") and the Worldwide Television News Pension and Death Scheme ("WTN"), together the "U.K. plans".

The plans' weighted-average asset allocations by asset category are as follows:

APL December 31	2005	2004
Equity securities	81.7%	79.4%
Debt securities	8.2	9.3
Real estate and other	10.1	11.3
Total	100.0%	100.0%

WTN December 31	2005	2004
Equity securities	80.5%	81.7%
Debt securities	10.7	11.4
Real estate and other	8.8	6.9
Total	100.0%	100.0%

The trustees of the plans use investment managers who have discretion over asset allocation decisions.

The components of the net periodic pension cost for the U.K. plans were as follows:

Year ended December 31 (In Thousands)	2005	2004
Service cost—benefits earned during the period	$ 3,395	$2,569
Interest cost on projected benefit obligation	3,844	3,191
Expected return on plans' assets	(4,205)	(3,611)
Recognized actuarial loss	1,641	1,513
Net periodic pension cost	$ 4,675	$3,662

G. PENSION PLANS (CONTINUED)

The following table sets forth the status of the U.K. plans and the amounts recognized in the consolidated balance sheets:

December 31 (In Thousands)	2005	2004
Change in benefit obligation		
Benefit obligation at beginning of year	$77,293	$57,255
Service cost	3,395	2,569
Interest cost	3,844	3,191
Employee contributions	941	917
Actuarial loss	10,269	9,306
Benefits paid	(1,583)	(1,354)
Exchange rate adjustment	(7,837)	5,409
Benefit obligation at end of year	$86,322	$77,293
Change in plans' assets		
Fair value of plans' assets at beginning of year	$ 61,445	$ 49,639
Actual gain on plans' assets	12,470	5,699
Employer contributions	3,166	2,133
Employee contributions	941	917
Benefits paid	(1,583)	(1,354)
Exchange rate adjustment	(6,307)	4,411
Fair value of plans' assets at end of year	$ 70,132	$ 61,445
Projected benefit obligation less plans' assets	$ 16,190	$ 15,848
Unrecognized net actuarial loss	(33,194)	(36,129)
Prepaid pension cost	$(17,004)	$(20,281)

Prepaid pension cost for the U.K. plans was recognized in the consolidated balance sheets as follows:

December 31 (In Thousands)	2005	2004
Included in postretirement and other employee benefits:		
Accrued pension cost	$ 12,314	$ 11,526
Accumulated other comprehensive income	(29,318)	(31,807)
Net prepaid pension cost	$(17,004)	$ (20,281)

At December 31, 2005 and 2004, the accumulated benefit obligation for the U.K. plans was $82.5 million and $72.9 million, respectively.

In 2006, AP expects to contribute approximately $2.8 million to the U.K. plans.

Information for the U.K. pension plans with an accumulated benefit obligation in excess of plan assets is as follows:

December 31 (In Thousands)	2005	2004
Projected benefit obligation	$86,322	$77,293
Accumulated benefit obligation	82,447	72,971
Fair value of plans' assets	70,132	61,445

Weighted-average assumptions used to determine benefit obligations for the U.K. plans are as follows:

December 31	2005	2004
Discount rate	4.75%	5.25%
Rate of compensation increase	3.75%	3.75%

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

December 31	2005	2004
Discount rate	4.75%	5.50%
Expected long-term rate of return on plan assets	6.75%	7.00%
Rate of compensation increase	3.75%	3.50%

The discount rate and expected long-term rate of return used for the U.K. plans are based on U.K. economic indicators.

The estimated minimum future payments for the U.K. pension plans are as follows:

As of December 31 (In Thousands)	
2006	$ 1,246
2007	1,278
2008	1,405
2009	1,955
2010	2,484
2011 through 2015	14,213

H. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

AP has several plans that provide for postretirement health care and life insurance benefits to eligible employees. Healthcare benefits include hospitalization and major medical coverage with deductible and coinsurance provisions which integrate with Medicare on a coordination of benefit basis after age 65. Employees retiring after a specific date are required to make contributions which are used to pay a portion of current premiums. The plans are not funded and AP pays all benefits on a current basis.

In May 2004, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, in response to a new law regarding prescription drug benefits under Medicare as well as a federal subsidy ("Part D Subsidy") to sponsors of retiree healthcare benefit plans.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 is reflected in accumulated postretirement medical benefit obligations assuming that the Company will continue to provide a prescription drug benefit to retirees that is at least actuarially equivalent to Medicare Part D and the Company will receive the federal subsidy.

The net periodic postretirement benefit cost was reduced by $1.8 million and $2.5 million in 2005 and 2004, respectively, due to the effect of the Part D Subsidy.

Periodic postretirement benefit cost includes the following components:

Year ended December 31 (In Thousands)	2005	2004
Service cost – benefits earned during the period	$ 1,671	$ 1,825
Interest cost on projected benefit obligation	6,108	6,478
Net amortization	127	116
Curtailment loss	3,431	–
Actuarial loss	2	134
Periodic postretirement benefit cost	$ 11,339	$ 8,553

H. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

The following table sets forth the status of the plans and amounts recognized in the consolidated balance sheets:

December 31 (In Thousands)	2005	2004
Change in benefit obligation		
Benefit obligation at beginning of year	**$104,139**	$129,904
Service cost	**1,671**	1,825
Interest cost	**6,108**	6,478
Actuarial loss (gain)	**8,521**	(30,597)
Curtailment loss	**3,431**	–
Benefits paid	**(3,907)**	(3,471)
Benefit obligation at end of year	**119,963**	104,139
Unrecognized net actuarial loss	**(13,251)**	(4,731)
Unamortized prior service cost	**(485)**	(612)
Accrued benefit cost	**$106,227**	$ 98,796

The discount rates used in determining the accumulated postretirement benefit obligations were 5.50% and 6.25% at December 31, 2005 and 2004, respectively. The discount rates used in determining the net periodic postretirement benefit costs were 6.25% and 6.50% in 2005 and 2004, respectively.

AP expects to pay postretirement benefits of between $3.7 million and $4.2 million in 2006.

The rates of increase in medical costs are assumed to be 9.5% in 2006, declining to 5% by 2015.

The health care cost trend rate assumption has a significant effect on the amounts reported. A one percent increase (decrease) in the assumed trend rate would change the accumulated postretirement benefit obligation at December 31, 2005, by $19.9 million and $(15.9) million, respectively, and would change the 2005 total service and interest cost by $1.5 million and $(1.2) million, respectively.

As of December 31, 2005, the estimated future payments for the U.S. postretirement medical plans, including the impact of the Part D Subsidy, are as follows:

(In Thousands)	Prior to Part D Subsidy	Reduction due to Part D Subsidy
2006	$ 4,305	$ 468
2007	4,685	518
2008	5,110	581
2009	5,528	639
2010	5,983	702
2011 through 2015	36,892	4,315

I. CONTINGENCIES, COMMITMENTS AND OTHER MATTERS

Various legal actions, which have arisen in the ordinary course of business, remain pending against AP. Management, with advice of counsel, believes that these actions will not have a material adverse effect on AP's financial position or results of operations.

In connection with the 2001 acquisition of the Newspaper Industry Communication Center, renamed AP AdVantage, the purchase agreement provides for contingent consideration based upon future profits, as defined, up to a ceiling of $10 million. Based on current information, AP does not anticipate having to pay additional consideration.

At December 31, 2005, AP had three letters of credit issued and outstanding totaling $2.1 million.

AP has commitments under non-cancelable operating leases covering office space, equipment and maintenance, automobiles, and certain satellite contracts. Where leases contain material escalation clauses or other concessions, the impact of such adjustments is recognized on a straight-line basis over the minimum lease period. Minimum rentals under such leases are (in thousands): 2006—$33,444; 2007—$27,501; 2008—$24,023; 2009—$22,213; 2010—$20,208; and thereafter—$107,366.

Rent expense was $29.6 million in 2005 and $31.7 million in 2004.

Included in fixed assets on the consolidated balance sheets is approximately $11.5 million of equipment held under long-term capital leases. Future payments under such leases are (in thousands): 2006—$1,762; 2007—$1,766; 2008—$1,476; 2009—$1,380; 2010—$1,380; and thereafter—$2,300, including interest of $1,932.

J. MOVE-RELATED COSTS

In 2004, AP completed its move from 50 Rockefeller Plaza to its new headquarters at 450 W. 33rd Street and incurred one-time move costs of $6.0 million.

AP received $8.0 million in headquarters lease incentives from the landlord. In accordance with SFAS No. 13, *Accounting for Leases (as amended and interpreted)*, the headquarters incentives are recorded as deferred rent and are amortized as a reduction of rent expense over the life of the lease. During 2005 and 2004, AP recorded amortization of $533,000 and $267,000, respectively, related to the lease incentives on the new headquarters.

K. SUBSEQUENT EVENT (UNAUDITED)

Approximately 67% of the Company's domestic staff is covered under collective bargaining agreements that expired in December 2005. On February 9, 2006, a new three-year agreement was ratified by the members of the collective bargaining units. The renewed agreement expires November 30, 2008.

As a result of the negotiation, there is a planned reduction in the CWA workforce which will take effect in 2006. The Company has recognized the impact of this planned work-force reduction on its pension and postretirement medical plans in the 2005 consolidated financial statements.

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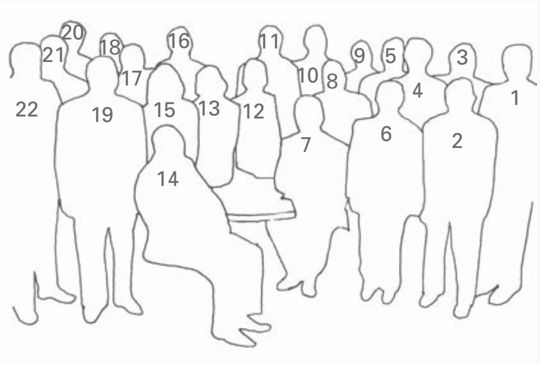

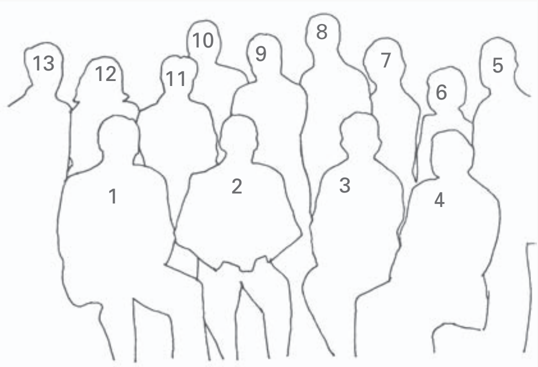

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AP Membership

As of March 1, 2006
Regular Members: 1,386
Associate Members: 4,627

For a directory of members, contact:
Tom Slaughter
AP Newspaper & New Media Markets
The Associated Press
450 West 33rd Street
New York, New York 10001

Note: Previous counts of regular members included all conventional daily newspapers served; the current count reflects conventional daily newspapers that meet the requirements of regular membership in the AP.

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