Westinghouse Annual Report

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Westinghouse Electric Corporation is a diversified, global, technology-based corporation whose goal is to increase the value of shareholders' investment through effective financial management, revenue growth, improved operating profit and efficient asset utilization.

The principal business arenas of Westinghouse are television and radio broadcasting, defense electronics, financial services and the industrial, construction and electric utility markets.

Complementing these core businesses are operations serving selected "niche" markets such as vehicle transport refrigeration equipment, community development and beverage bottling.

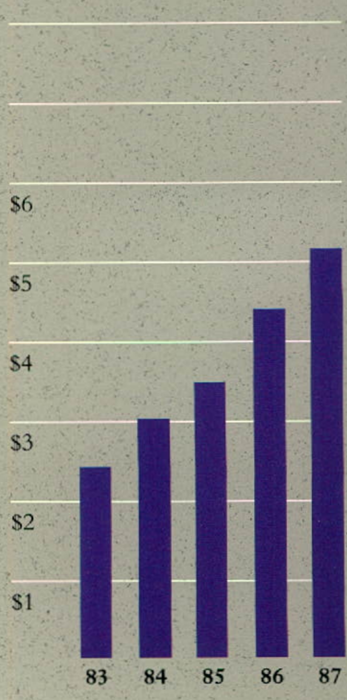
Contents

Financial Highlights

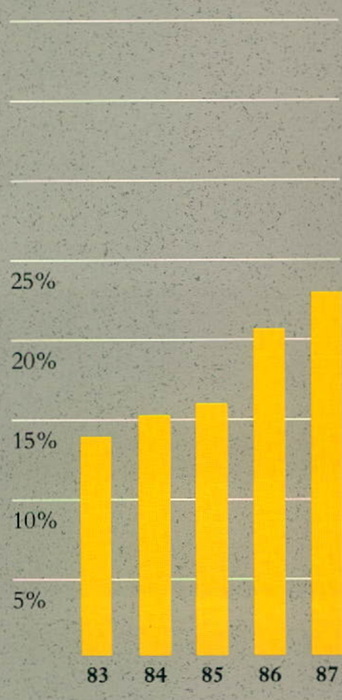
(in millions except common share data)

	1987	1986	1985	1984	1983
Sales and operating revenues	**$10,679.0**	$10,731.0	$10,700.2	$10,264.5	$9,532.6
Net income	**$ 738.9**	$ 670.8	$ 605.3	$ 535.9	$ 449.0
Common share data:					
Primary earnings per share	**$ 5.12**	$ 4.42	$ 3.52	$ 3.04	$ 2.54
Dividends	**$ 1.64**	$ 1.35	$ 1.15	$ .975	$ .90
Book value at end of year	**$ 24.92**	$ 21.13	$ 21.03	$ 21.40	$ 19.48
Market price at end of year	**$ 49¾**	$ 55¾	$ 44½	$ 26⅛	$ 27⅜
Shares outstanding at end of year	**143.5**	142.5	153.8	174.8	175.0
Capital expenditures	**$ 419.0**	$ 440.0	$ 568.0	$ 662.0	$ 716.0
Depreciation and amortization	**$ 318.0**	$ 371.0	$ 449.0	$ 426.0	$ 383.0

Earnings Per Share

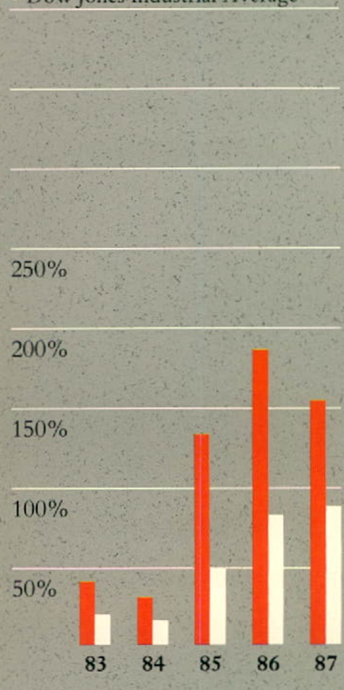


Return on Average Equity



Increase in Year-End Stock Price Compared to 1982

● Westinghouse
● Dow Jones Industrial Average



Price Range Per Share

John C. Marous
Chairman and
Chief Executive Officer

Paul E. Lego
President and
Chief Operating Officer

Westinghouse achieved another year of strong improvement in 1987, establishing new records in net income, earnings per share, operating profit margin and return on average equity.

Diligently pursuing the strategy of increasing shareholder value, the Corporation posted these results:

- Net income reached $738.9 million, a 10.2 percent increase over the previous year's record high of $670.8 million.
- Earnings per share rose to $5.12, or 15.8 percent higher than the 1986 figure of $4.42.
- Operating profit margin improved to 8.8 percent from 8.1 percent the previous year.
- Return on average equity was 22.9 percent, up from 20.7 percent in 1986.

Total sales and revenues for the year were $10.679 billion, compared to $10.731 billion for 1986. For continuing businesses, total 1987 sales were higher than 1986.

Our balance sheet remains strong, giving us the financial flexibility to take advantage of strategic opportunities as they might arise. We entered 1988 with backlogs higher than a year earlier.

Group Financial Performance. Westinghouse Financial Services, Inc., posted record net income of $115 million — the eighth consecutive year the financial services subsidiary has reported increased earnings.

The Industries Group improved operating profit by more than 15 percent over 1986 on slightly higher sales.

The Energy and Advanced Technology Group's operating profit improved more than 7 percent on a slight decline in overall sales.

The Commercial Group, buoyed by a strong performance by Thermo King, increased operating profit by almost 26 percent on a sales increase of 10.4 percent.

Broadcasting sales were higher in 1987 and operating profit was about even with 1986, excluding the effect of the divested cable television business.

A Stronger Westinghouse. To serve its markets more effectively, Westinghouse in January of 1988 reorganized into seven groups: Broadcasting, Defense Electronics, Financial Services, Industries, Commercial, Energy and Utility Systems, and International. Each of these groups has a base of solid, profitable businesses and is pursuing strategies to take advantage of value-creating growth opportunities for the future.

Organizational changes have been made also to increase our responsiveness to customer requirements. For instance, field sales forces that served several important market areas have been redeployed within appropriate business units to focus on specific customer groups. Increased emphasis has been placed on distributor channels to help reach customers more efficiently.

Your Corporation enters 1988 stronger than at any time in recent history. The list of accomplishments of the past year — the development of new businesses, the addition of sound acquisitions, consolidations of manufacturing operations, installation of highly productive manufacturing facilities and the elimination of unprofitable operations — are part of the success story of the Corporation.

Equally important is the steady evolution of a corporate culture based on employee commitment to total quality, customer satisfaction and global competitiveness.

The Challenge of Value. The improvement of shareholder value is the one mission that continually guides all corporate decisions and actions. We are convinced that value results from achieving three interrelated goals:

- Meeting corporate financial commitments and expectations;
- Making Westinghouse totally customer driven and globally oriented;
- And stimulating each employee to create value for the Corporation.

To meet future growth goals, we intend that most of the increases in our

Westinghouse achieved . . . records in net income, earnings per share, operating profit margin and return on average equity.

year-to-year revenue and earnings will come from our continuing businesses. The balance will come from selective acquisitions and from internal development of new businesses, such as equipment and services to serve the waste-to-energy market created by the increasingly severe problem of dealing with our cities' solid waste.

To meet the goal of total customer satisfaction, we are committed to making Westinghouse a corporation that customers prefer above all other providers. Many operations within Westinghouse today consistently attain this goal. We will continue to press to have all business units become the suppliers of choice within their markets.

To foster value enhancement among employees, we are striving to create an environment that promotes a personal commitment to our value mission. Our people are the fundamental creators of value — for the shareholder, for the customer and, ultimately, for themselves.

Our steady progress in recent years is testimony to the creative and aggressive leadership of Douglas D. Danforth, who retired as chairman and chief executive at the end of 1987, and of the Management Committee that guided your Corporation so effectively. We pay special tribute to The Danforth Years on page 48 of this report. We also express our deep appreciation for the invaluable contributions of the other members of the Management Committee who retired during 1987: Thomas J. Murrin, Daniel L. Ritchie, Douglas D. Stark and Leo W. Yochum.

As we work toward further progress in the years ahead, the Corporation's resources are dedicated to achieving excellence by living up to the promise of the motto, "You can be sure . . . if it's Westinghouse."

John C. Marous

John C. Marous
Chairman and
Chief Executive Officer

Paul E. Lego

Paul E. Lego
President and
Chief Operating Officer

January 29, 1988

Westinghouse At A Glance

Market Areas

Broadcasting

- Commercial Television Broadcasting
- Commercial Radio Broadcasting
- Television Production
- Satellite Communications

Defense Electronics

- Airborne and Ground-based Military Radar Systems
- Space Electronics Systems
- Electronic Countermeasures Systems
- Military Command, Control and Communications Systems
- Military Logistics and Support Services
- Missile Launch and Handling Equipment
- Air Traffic Control Radar Systems
- Marine Propulsion
- Naval Underseas Electronics Systems
- Advanced Defense Technology Programs
- Aircraft Electrical Systems

Financial Services

- Commercial and Residential Real Estate Financing
- Corporate Financing
- Capital Equipment Leasing
- Commercial Receivables Financing
- Fixed Asset Financing

Industrial and Construction

- Vehicle Transport Refrigeration
- Electrical Distribution and Control Products
- Advanced Industrial Systems
- Electrical Wholesaling and Distribution
- Toxic and Hazardous Materials Management
- Industrial Materials

Diversified Markets

- Beverage Bottling and Distribution
- Community Land Development
- Elevators and Escalators
- Commercial Furniture Systems
- Urban Transportation Systems
- Longines-Wittnauer Watch Company

Energy and Utility Systems

- Electric Utility Power Generation Systems
- Nuclear Fuel
- Electrical Transmission and Distribution Products and Systems
- Utility Power Systems Services
- Government Facilities Management
- Municipal Waste-to-Energy Systems
- Space Systems

International Structure

- Europe, Africa and Middle East
- Westinghouse Canada, Inc.
- Latin America
- Northeast Asia
- Southeast Asia and Australasia

A Dedication To Value

Westinghouse is organized and managed to create value — for shareholders, for customers, for employees. We are convinced that value results from:

Meeting corporate financial commitments and expectations . . .

Making Westinghouse totally customer driven and globally oriented . . .

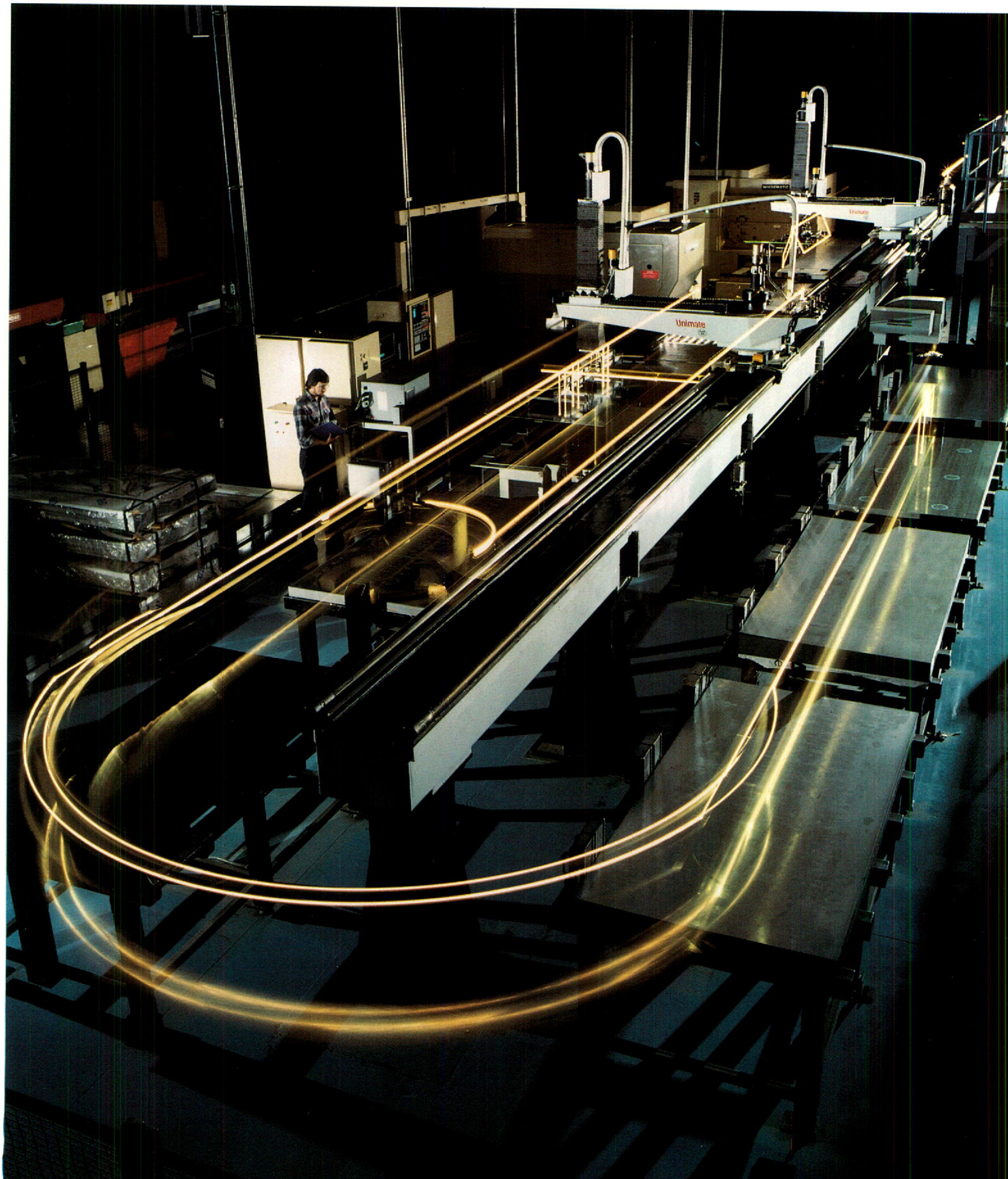
And stimulating each employee to create value for the Corporation.

• **WBZ-TV research director Janet Patterson finds out what is on the minds of young people by conducting a focus group on the set of *Rap-Around*, the Boston station's talk show for teens. Across the nation, Group W broadcasting stations use such groups to listen to their viewers, and develop news, entertainment and public service programming responsive to their interests and needs.**

The Westinghouse radars in F-16 aircraft have set records for improved reliability. More than 3,000 aircraft in the U.S. and 18 allied nations are equipped with the F-16 type of radar. The value of expected orders for an additional 1,400 systems exceeds $1.3 billion. Westinghouse technological leadership in the F-16 radar helped make it the winner of the radar competition for both industry teams competing to develop the Advanced Tactical Fighter.

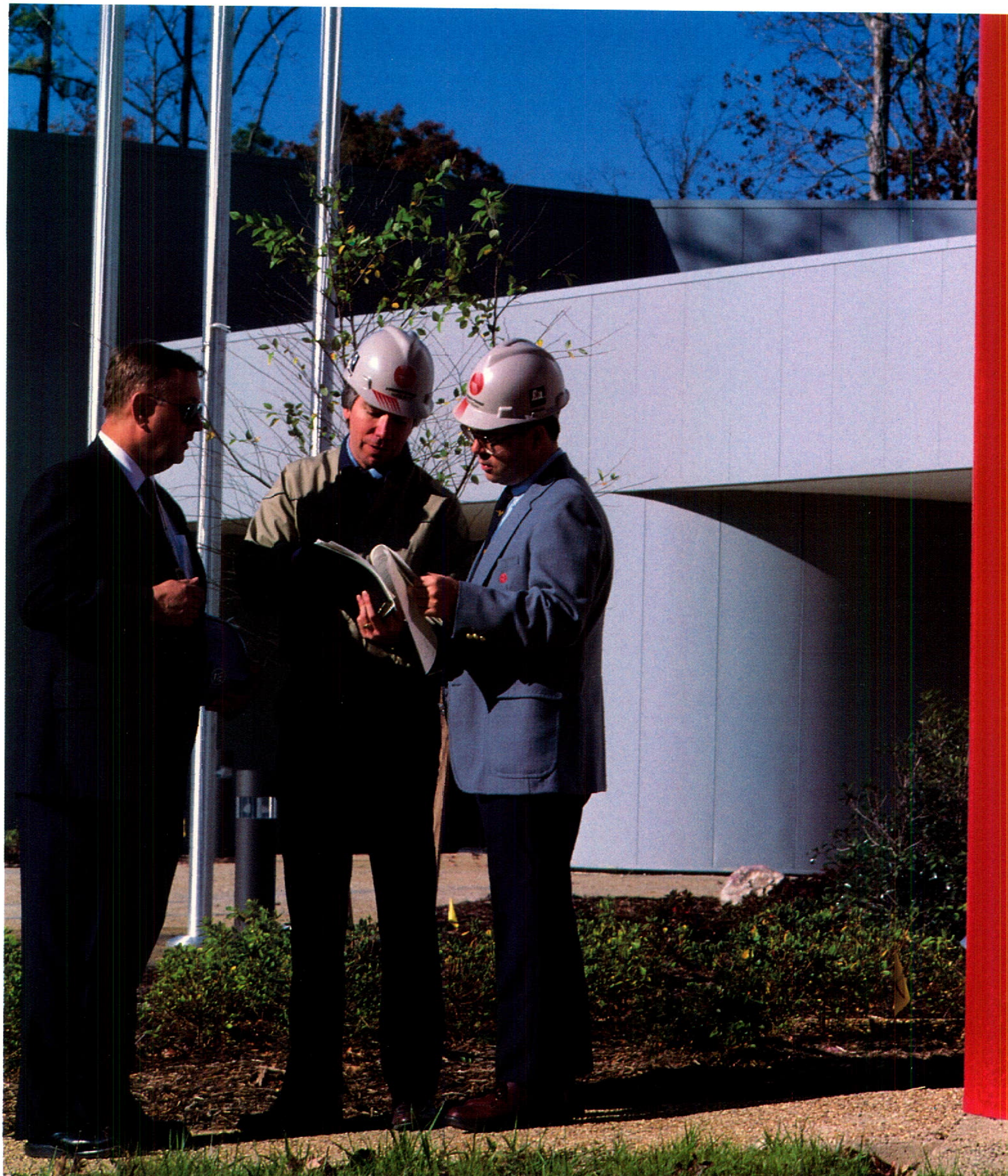
• Westinghouse Credit provided financing to The Beacon Companies for the expansion of the Guest Quarters hotel chain. At the developer's headquarters at Rowes Wharf in Boston, Linda Neaman and Alan Cohen (right), both of Westinghouse Credit, meet with Beacon Senior Vice President Robert Perriello (center).

This flexible manufacturing system at the Westinghouse plant in Sumter, S.C., produces sheet metal components for panelboard and switchboard enclosures while dramatically reducing work-in-process, storeroom inventories and production cycle time for these parts. The system was developed by the Corporation's Productivity and Quality Center and the Westinghouse automation division.



• "Isn't it cool in pink" . . . A division of the Westinghouse Beverage Group, Seven-Up Bottling Company of Puerto Rico, successfully introduced Cherry 7UP in May 1987. The popular campaign slogan was translated to "Que Suave . . . Sabe Cherry 7UP" for the Spanish-speaking consumers. Here, teenagers enjoy the refreshing taste of the new pink soft drink at a popular San Juan spot for youths.

• Jack Headden (left), Westinghouse site service manager at Virginia Power's Surry Nuclear Power Station, is one of more than 30 site service managers located at utility generation facilities throughout the world. Providing technical support and liaison with customers, these experts report to utility management and personify "Partnership in Performance" — the shared dedication to safe, economic, reliable plant performance. Here, Virginia Power's Jack Bailey (center), superintendent of operations at Surry, and Dave Benson (right), Surry station manager, along with Mr. Headden, discuss the innovative maintenance agreement which supports the outstanding relationship between Westinghouse and Virginia Power.



Business Review

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Westinghouse Businesses:

- Broadcasting
- Defense Electronics
- Financial Services
- Industries
- Commercial
- Energy and Utility Systems
- International

Group W Television achieved record levels in sales and profit in 1987. While facing increased competition from a wide range of entertainment media, Westinghouse, at each of its five television stations in Baltimore, Boston, Philadelphia, Pittsburgh and San Francisco, maintained strong market share and operating profit. Local news operations continue to be an important strength. In Baltimore and Pittsburgh, for instance, WJZ-TV and KDKA-TV attracted more viewers at 6 p.m. than all network-affiliate competitors combined.

For Kids' Sake, Group W's campaign on issues of importance to young people, was carried by more than 100 stations, making it the most successful television public service effort in history. WBZ-TV in Boston won the Alfred I. duPont-Columbia University Award for outstanding work in news and public affairs, and KPIX in San Francisco won the coveted Peabody Award for *AIDS Lifeline*.

Westinghouse continued its expansion of Group W Radio by acquiring the top-rated KFBK and KAER-FM in Sacramento, Calif. Westinghouse also reached an agreement to acquire WMAQ, Chicago, from NBC, subject to Federal Communications Commission approval. The station will be converted to an all-news format, which Group W pioneered in 1965 and with which the company now competes successfully in New York (WINS), Los Angeles (KFWB) and Philadelphia (KYW).

Group W Radio achieved record sales levels, although the radio industry experienced only nominal growth in national advertising revenues during the year. It maintained its strong ratings position, with WINS in New York reaching record audience levels during the year and remaining the most-listened-to radio station in America. In Los Angeles, KFWB was acclaimed for playing a leading role in communicating emergency information during the city's major earthquake.

Group W Radio was recognized with the Gabriel Award and The Radio/Television News Directors National Award for news coverage and special programming.

Group W Productions remained a leader in the intensely competitive field of program production and syndication. *Hour Magazine* entered its eighth season with a strong line-up of 132 stations reaching 90 percent of the nation.

At year-end, Group W Productions announced the sale to CBS of a national made-for-television motion picture, *Fatal Dosage*.

Group W Productions premiered Filmation's animated *BraveStarr* on stations covering 80 percent of the nation.

Group W Satellite Communications (GWSC) maintained its position as the nation's largest satellite distributor of video programming, transmitting more than 4,000 hours a week of network and cable programming.

The Nashville Network, the cable service marketed by GWSC, had profitable growth through higher revenues and audience levels. In this and other ventures, GWSC continued its successful expansion into cable programming.

For Kids' Sake, Group W's campaign on issues of importance to young people, . . . the most successful television public service effort in history.

• Children gather at the Moon Township Public Library near Pittsburgh to hear KDKA-TV's Liz Miles, along with meteorologist Brian Sussman and musician Joe Negri, read stories at a ***For Kids' Sake*** **"Storybreak."**

• **Group W Radio's top-rated Sacramento station, KFBK, acquired in 1987 with KAER-FM, is part of the continuing growth of the Radio Group. Located in California's capital city and in one of the fastest-growing regions in the state, KFBK has earned a strong reputation as the city's local news authority.**

Westinghouse defense electronics operations set new records in sales and profit in 1987.

The company's technological depth and innovative research and development have played an integral role in the success of this business. Those strengths resulted in recent contracts for the Advanced Tactical Fighter (ATF) radar, anti-submarine warfare systems and key electronic countermeasures equipment.

The Corporation swept the field in the competition to provide radar systems for the ATF. It won contracts from both industry teams vying to develop the fighter aircraft that will serve the U.S. Air Force into the 21st century. This and other contracts for electrical generators and integrated electronic countermeasures for the ATF are expected to produce billions of dollars in sales for Westinghouse in the future.

Production continued on established contracts, such as the F-16 fighter aircraft radar — with sales to date of $3 billion, it is the largest defense program in Westinghouse history. More than 3,000 aircraft in 19 countries are equipped with this type of radar. Westinghouse also equips the F-16 with power generators and electronic systems that help shield the aircraft from attack.

The Airborne Self Protection Jammer, a new, highly advanced electronic countermeasures system was demonstrated and successfully flight-tested on Air Force F-16 and Navy F-18 aircraft, resulting in a $376 million production verification contract for Westinghouse and its joint venture partner, ITT. Numerous other aircraft are also candidates to use this system.

The radar production line for the Airborne Warning and Control System (AWACS) was restarted to fill new international orders for the United Kingdom and France, which could stimulate additional sales from overseas.

Department of Defense policies to encourage cost competition among contractors — along with unique applications of existing radar technology — opened new growth opportunities for the Defense Electronics Group. The Navy selected Westinghouse as a second supplier for Mark-50 lightweight torpedoes and for surface ship anti-submarine systems. Radar developed for the F-16 fighter is being applied aboard older military aircraft, Coast Guard planes and Customs Service drug enforcement aircraft and aerostats.

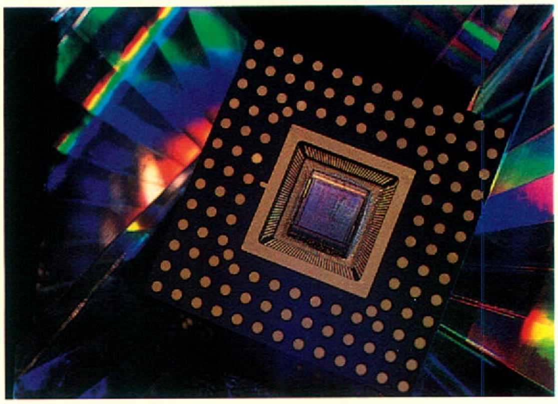
The Air Force chose Westinghouse to supply a radar network in Caribbean countries to monitor aircraft traffic and to thwart international drug smuggling. The Navy awarded Westinghouse a $58 million contract to supply new-design submarine propulsion equipment.

The Corporation began delivery to the Federal Aviation Administration of 109 ASR-9 airport air traffic control radars — the first of this advanced type to simultaneously display both weather conditions and aircraft. This, plus the ARSR-3 enroute radars in service throughout the FAA system, make Westinghouse the most advanced air traffic control radar supplier in the world.

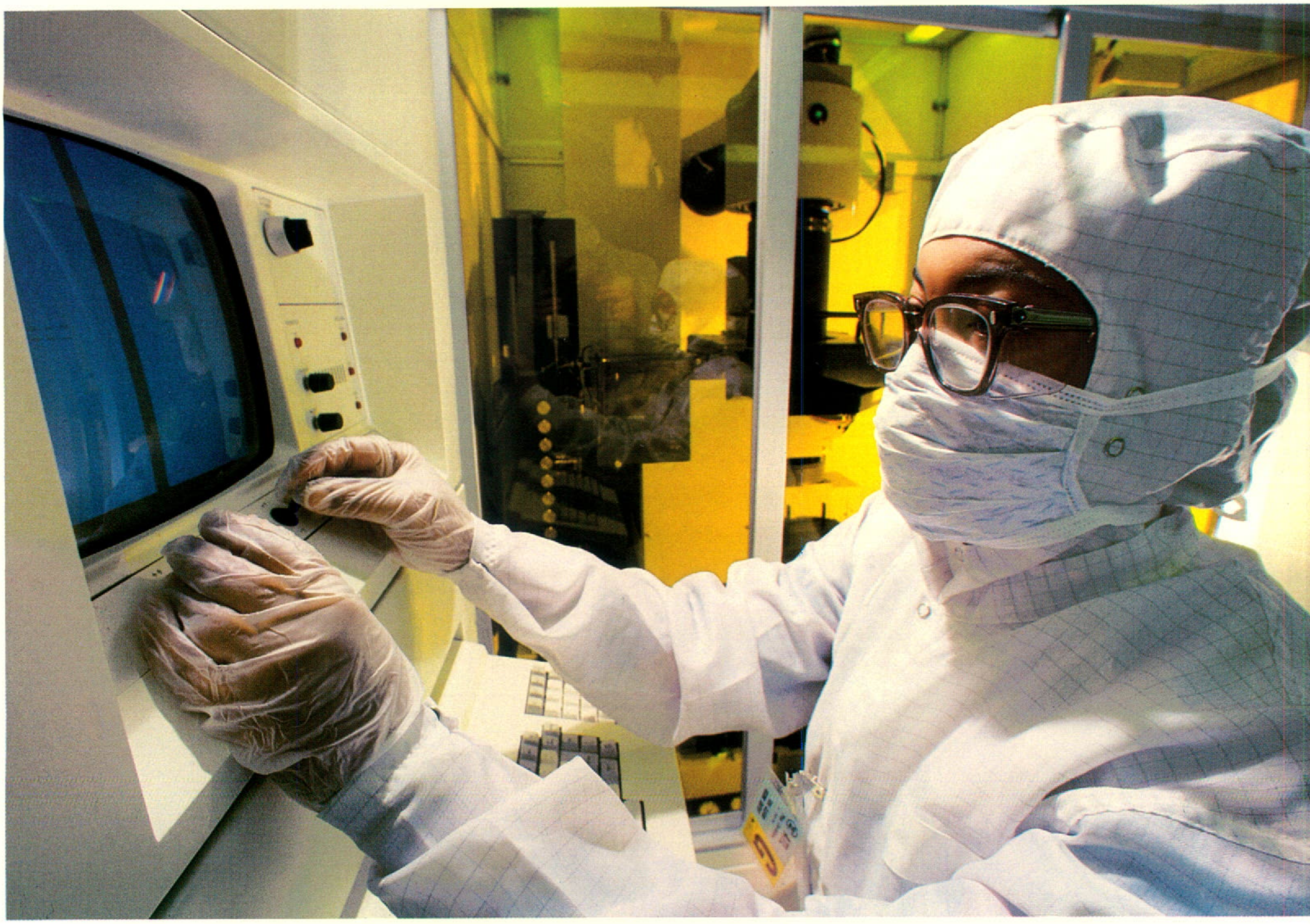
Production and support services for these programs will continue for decades. Westinghouse has one of the defense industry's largest customer service organizations, with more than 1,000 integrated logistics support personnel in 39 countries worldwide.

• Westinghouse scientists are developing microelectronics with vastly higher speeds, power and reliability at lower costs. Mary Choates, laboratory aide, uses lithographic programs to develop microcircuits.

Westinghouse defense electronics operations set new records in sales and profit in 1987.



• **More of these very-high-speed integrated circuits from Westinghouse are being used in military applications than those of any other maker.**



Income after taxes for the financial services subsidiary has grown at a compounded annual rate of 20 percent during the past 10 years, . . .

Westinghouse Financial Services, Inc., with its principal subsidiary, Westinghouse Credit Corporation, continues to make a significant and growing contribution to corporate earnings. In 1987, the subsidiary earned $115 million, or 16 percent of the net income of Westinghouse Electric Corporation. Income after taxes for the financial services subsidiary has grown at a compounded annual rate of 20 percent during the past 10 years, as the organization has altered its mix of businesses to capitalize on the fundamental changes in the nation's financial services market. Thirty-seven percent of its net income derives from services developed during the past 10 years.

Today the subsidiary's principal activities consist of lending to businesses for expansion, acquisition and other capital needs, lending to commercial and residential real estate developers, and leasing capital equipment, such as commercial aircraft and power-generation facilities.

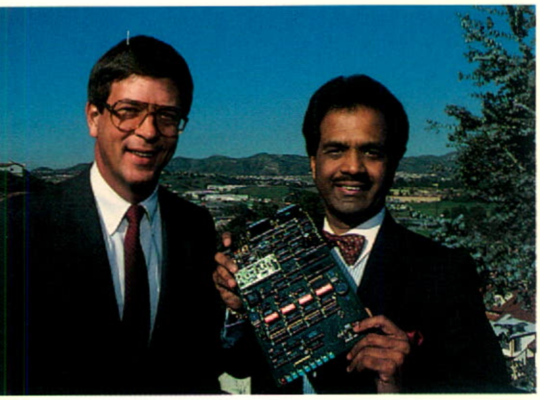
Management's strategies focus exclusively on the U.S. business finance market and emphasize skill-based, value-added financing services. Management has increased the emphasis on businesses that have more potential for earnings growth than traditional commercial lending. In implementing this strategy, the company has divested high overhead, narrow profit-margin businesses.

As a result of this strategic focus, productivity has increased sharply. Income after taxes per employee was $159,000 for 1987, significantly higher than at other major diversified finance companies.

Management expects further growth in Westinghouse Financial's principal lines of business. Management also expects additional growth from equity investments in businesses that complement the company's expertise in commercial financing and real estate lending.

• With financing by Westinghouse, Transtream, Inc., is developing a device to increase telephone data transmission speed. James Murray (left), of First Westinghouse Ventures Corporation, a financial subsidiary, structured the financing package with Transtream's president, P. K. Padhi.

• Phar-Mor, a drug and variety store chain, will use financing from Westinghouse Credit for nationwide expansion. William Harper (left) and David Heilman (right), both of Westinghouse Credit, join Phar-Mor's chief executive officer, David Shapira (second from left) and president, Michael Monus, in front of a new store.



• Westinghouse Credit arranged lease financing for a multi-million-dollar energy project in Colorado. Westinghouse representative Brian Conn (left) and Carl Peterson, managing director of Bonneville Pacific, the developer, look over tomatoes grown with heat from the project.

Thermo King, which has been the world leader in transport refrigeration since the founding of the business 50 years ago, recorded another outstanding year in 1987 as a result of continued dedication to technological innovation, customer service and quality.

Thermo King substantially improved sales levels over a strong 1986. Worldwide operating results for 1987 reflected increased volume, an extensive quality program and improved asset management. Strong demand in all market segments, new product introductions and increased international market penetration contributed to the unit's performance.

The Industries Group completed several important acquisitions and joint ventures in strategic growth areas.

Aptus, a joint venture with National Electric, Inc., expands the Corporation's capability in the treatment and disposal of hazardous waste. The acquisition of S&ME, an environmental services firm based in North Carolina, complements innovative waste detection and destruction technologies currently under development. Westinghouse now is in a position to become a major participant in selected segments of the environmental services and hazardous waste disposal markets, which are projected to exceed $10 billion annually in the 1990s.

The Corporation's broad line of electrical and electronic products for industrial, commercial and construction markets was augmented by the acquisition of Challenger Electrical Equipment Corporation, a manufacturer of electrical distribution equipment and circuit protection devices.

International business was strengthened by the formation of a number of joint ventures with non-U.S. partners.

One, with Goldstar Industrial Systems Company of South Korea, will manufacture vacuum interrupters for the Korean market. Another joint venture, with TECO of Taiwan, enables the Corporation to compete more effectively in the world market for large motors.

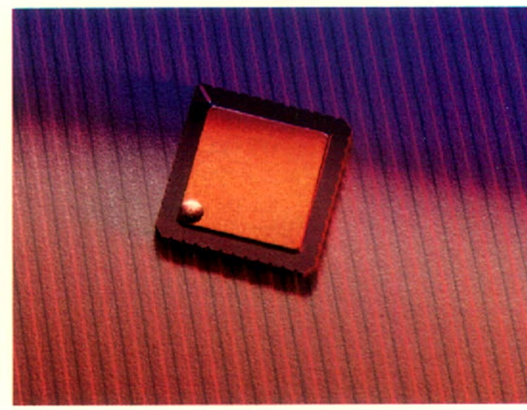
Restructuring improved the Corporation's efficiency and competitiveness in key industrial and utility markets. An example was the consolidation and reorganization of Westinghouse automation activities, which reduced operating costs significantly and provide an efficient base for future growth.

The Corporation improved its position as a leader in the supply of copper-clad materials for use in printed circuit boards for the electronics industry, achieving significant volume growth.

• Aptus, a partnership formed by Westinghouse and National Electric, Inc., of Lakeville, Minn., concentrates on the collection, treatment and disposal of hazardous wastes. Its first facility, in Coffeyville, Kan., is designed to handle a wide range of industrial wastes, including the destruction of materials containing polychlorinated biphenyls (PCBs).

• At Westinghouse's Maihak plant in Hamburg, West Germany, Manfred Krebs, precision mechanic, adjusts infrared photometer of microprocessor-based water pollution monitoring system in the plant's clean room.

• Specially developed at the Westinghouse Research and Development Center to provide low-cost communications for a cross section of company products, the INCOM chip is used for remote monitoring and control of electrical distribution components and is also used in Westinghouse lighting control and energy management systems.



• Thermo King employee Nathan Salhus enters data to speed a shipment from a new multi-million-dollar automated service parts distribution center in Minneapolis. The center enables Thermo King, a Westinghouse subsidiary with a worldwide reputation as its industry leader, to provide even faster and more reliable service to its customers.

The Industries Group completed several important acquisitions and joint ventures in strategic growth areas.

Westinghouse holds a strong position in a variety of attractive specialized markets through the growing, profitable business units of the Commercial Group.

Beverage. Profit of the Westinghouse Beverage Group improved substantially, reflecting the successful introduction of four new products — Cherry 7UP, A&W Cream, Sparkling Hawaiian Punch and Schweppes Flavored Seltzers.

In Southern California, Cherry 7UP was the catalyst for improved market share.

Westinghouse acquired the 7UP/RC Bottling Company of Fresno, Calif., in the fast-growing central California market, and also enjoyed significant revenue gains and profit improvement in Puerto Rico.

Distribution rights were acquired for Corona Malta, a soft drink popular with Puerto Rico's burgeoning young population.

Westinghouse continues in the forefront of production innovation in the beverage bottling industry with the completion of new high-technology improvements at its facilities.

Communities. Westinghouse Communities, Inc., recorded another year of excellent profit performance.

Residential and commercial sales continued to grow at a record pace at the showcase Westinghouse communities of Coral Springs, Fla., and Pelican Bay on the west coast of Florida.

The first sales were made in Gateway, a new planned Westinghouse development near Fort Myers, Fla., which offers a variety of residential properties.

Westinghouse formed a joint venture with Cottonwood Properties, Inc., to acquire and develop some 5,000 acres of residential property in the northern suburbs of Tucson, Ariz.

Elevator. The Westinghouse Elevator Company improved operating performance in 1987 in a declining construction market. Revenues from the company's broad service business continued to grow. Service activities, restructuring and new product introductions all contributed to the unit's progress.

Sales growth was achieved in the microprocessor-controlled hydraulic elevator product line first introduced in 1986.

The first new escalator units produced by the Westinghouse joint venture with Hyundai Group of South Korea were installed in the U.S.

A new pre-engineered, cost-improved geared elevator for mid-rise buildings was introduced in 1987.

Furniture Systems. Westinghouse continued to improve financial performance in its furniture systems business. Improvement was due, in large part, to an intensive quality leadership effort.

In recognition of the success of this effort, the International Customer Service Association presented to Westinghouse its 1987 Manufacturer's Award of Excellence.

Longines-Wittnauer. The Longines-Wittnauer Watch Company posted record sales and operating profit in 1987. Continued emphasis on quality, innovative styling and marketing have contributed to the success of the "jeweler's watch company."

Longines was designated the official timekeeper of the 1988 Winter Olympics in Calgary, Canada, and the Summer Olympics in Seoul, South Korea.

Transportation. In transportation systems and equipment, Westinghouse set a record for new orders. This included four major contracts for new people mover systems, among them the Changi Airport in Singapore and the Stansted Airport near London.

Westinghouse also is supplying advanced technology A.C. propulsion equipment to power 236 trolleybuses in Seattle — the transit industry's first A.C. drive application in North America.

Westinghouse holds a strong position in a variety of attractive specialized markets . . .

• Glenn Ogburn, electrical assembler at Westinghouse Elevator Company's Gettysburg, Pa., manufacturing facility, assembles the new microprocessor-based hydraulic elevator control which relies on a sophisticated network comprised of custom-designed large-scale integrated circuit chips developed at the Westinghouse Research and Development Center to provide improved performance and reliability.

• Marking its 25th year, Coral Springs, Fla., developed by Westinghouse Communities, Inc., with a population of 70,000, has the highest median family income in the southeastern United States.

Westinghouse supplies a full line of electrical generation, transmission, and distribution systems and services on a global basis. Customers include electric utilities, and industrial and commercial power producers. The Corporation also serves municipalities through design, construction and operation of resource energy plants fueled by municipal solid waste.

Westinghouse is concentrating on providing smaller power plants and services to meet a variety of customers' needs. It is participating in a consortium to build clean-coal power plant facilities for Texas-New Mexico Power Company. It also developed, arranged financing for, constructed and is operating a wood-chip-fueled power plant in New Hampshire.

In the waste-to-energy market, Westinghouse's first major facility to burn municipal solid waste to generate steam and electrical power went on line in Bay County, Fla. Westinghouse and Bay County received the Distinguished Service in Environmental Planning Award from the Industrial Development Research Council for their commitment to environmental planning and preservation in the design, construction and operation of the facility. Two other projects are under way in Pennsylvania.

Providing products and services to support the efficient operation of existing utility power plants continues as a major Westinghouse business. Offerings include advanced monitoring and diagnostic techniques and programs for cost-effective modernization and life extension for older generation plants.

Responding to changes in the power plant service environment, Westinghouse has undertaken innovative approaches in providing multiple services under long-term, performance-based contracts with electric utilities.

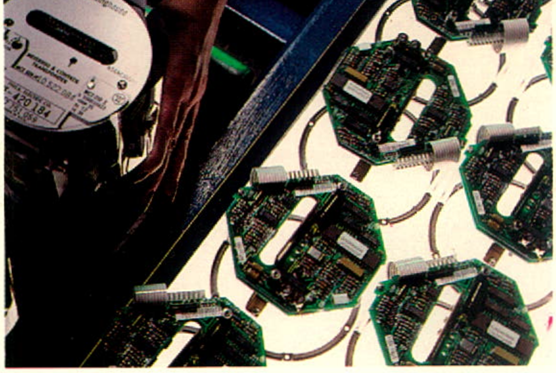
For the nuclear fuel market, Westinghouse has developed and is offering nuclear fuel that benefits customers by extending the energy that the fuel provides, thereby reducing fuel costs.

Rapid technological change and customer responsiveness characterize Westinghouse's activities in the electrical transmission and distribution equipment market. Orders during the year were strong in transmission equipment due in large part to Westinghouse's ability to offer customers a full range of power transformers, complemented by power circuit breakers supplied through a joint venture with 'Iitsubishi Electric of Japan.

As part of a joint utility industry research effort, Westinghouse supplied the world's largest amorphous metal core power transformer to Niagara Mohawk Power Corp. This new technology promises to provide utility customers with substantial savings by reducing energy consumed during the transformer's operation.

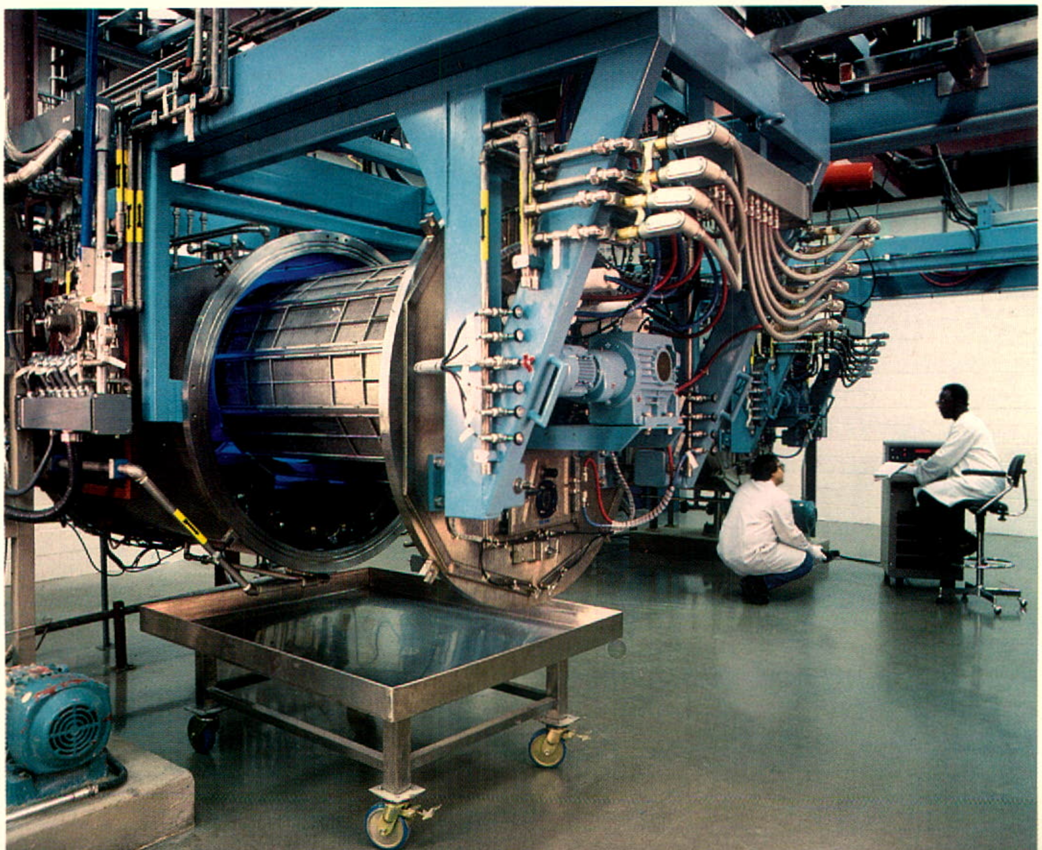
The technology of electrical distribution products is changing rapidly through the introduction of microprocessor and fiber-optic technologies in relaying and metering systems.

In a consolidation that the Department of Energy described as "nearly flawless," Westinghouse took over management of DOE's Hanford facility in the state of Washington. It also continued its record of successful operation of a number of other government-owned facilities.



• EMETCON™ automated distribution terminals are manufactured at the Westinghouse plant in Raleigh, N.C. This computer-based communication system allows electric utilities, such as Philadelphia Electric, Duke Power, and Carolina Power and Light, to perform remote meter reading and control loads, such as hot water heaters.

. . . Westinghouse has undertaken innovative approaches in providing multiple services under long-term, performance-based contracts with electric utilities.



• Newly installed equipment at the Westinghouse plant in Columbia, S.C., is used to coat nuclear fuel pellets. Investment in technological leadership by Westinghouse helps electric utility customers operate their power plants more efficiently.

Exports from the U.S. and sales of foreign subsidiaries combined to produce one of the best years in history.

A worldwide effort to improve quality and customer satisfaction resulted in increased sales and higher profitability internationally. In Brazil, for example, a remarkable turnaround was achieved by subsidiaries that manufacture electrical control and measurement devices.

Westinghouse Argentina began marketing world-class residential gas meters in the U.S., aiming ultimately to sell them around the world.

Sales abroad surged for the Westinghouse high-technology distributed process control system, WDPF. This advanced system has been sold to customers in such industries as textiles, chemicals, steel and water purification in Japan, Taiwan, People's Republic of China, Turkey, Korea and India.

Controlmatic, a German subsidiary that supplies software for WDPF, complements hardware manufactured by a Westinghouse division in the U.S., illustrating global linkage of high-tech systems that are marketed worldwide.

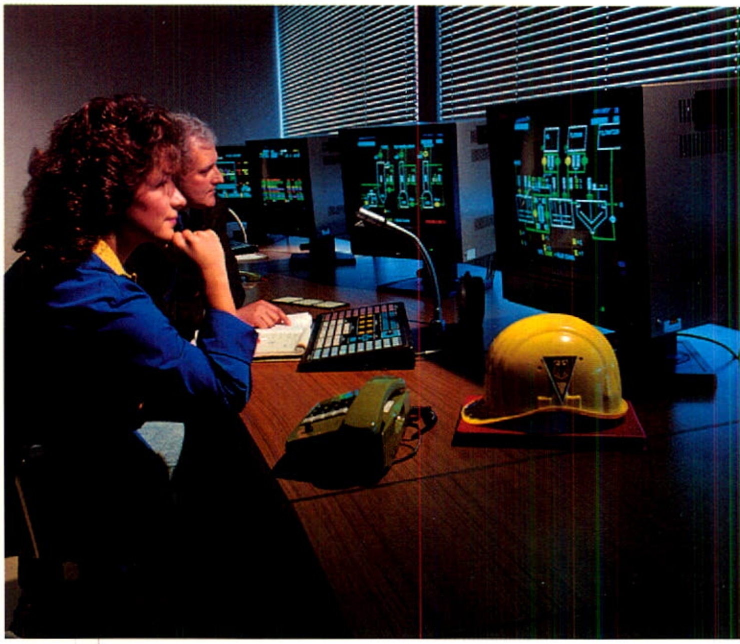
In Japan, Westinghouse formed a joint venture with fast-growing Horiba, Ltd., for the manufacture and sale of air emissions analyzers for combustion control and related applications, an expanding market. This venture completes the establishment of a trilateral growth strategy for analyzers — coupling U.S., German and Japanese bases of operation.

After an exhaustive review and extensive public inquiry, Great Britain selected the Westinghouse pressurized water reactor for four or five commercial nuclear power plants to be built before the end of the century. Westinghouse is supplying components for the first reactor, the 1150-megawatt Sizewell B plant near Suffolk. The Corporation also will profit from the projects through several British licensees.

And Westinghouse won a contract to develop a radar fire control system as part of the modernization of F-8 fighter aircraft for use by the People's Republic of China.

Westinghouse Canada completed a financial restructuring with the purchase of its minority shares and formation of a separate distribution subsidiary. The new entity offers improved growth prospects for industrial and construction products.

Canadian defense and industrial electronics systems continued to offer growth opportunities in new product areas.



• **Upper Photo: An operator at a chemical plant in West Germany monitors continuous process production controlled by WDPF, a system designed, installed and maintained by Westinghouse-Controlmatic, located in Frankfurt. Looking on is Gerold Resch, Controlmatic sales manager. Identical systems are planned for the same customer at two other plants.**

• **Bottom Photo: Linatrol optical line tracer systems developed and built by Westinghouse Canada guide machinery for cutting patterns in metal, wood and fabric. Westinghouse Canada is the world leader for such equipment. Technician Kal Singh adjusts a new Linatrol system.**

Financial Review

1987 Business Structure

Energy and Advanced Technology
- Defense
- Power Systems
- Nuclear Fuel
- Westinghouse Hanford Company
- Transportation

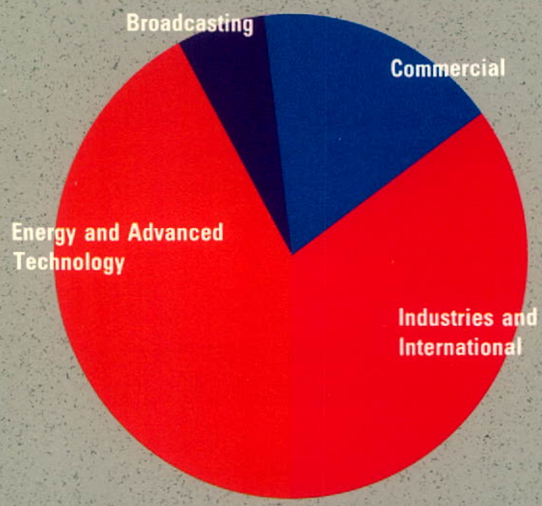
Industries and International
- Distribution and Control
- Utility Delivery Systems
- Advanced Industrial Systems
- Westinghouse Electric Supply Company
- Westinghouse Canada, Inc.
- Westinghouse Europe, Africa and Middle East
- Westinghouse Latin America
- Westinghouse Northeast Asia
- Westinghouse Southeast Asia and Australasia

Commercial
- Thermo King Corporation
- Westinghouse Beverage Group
- Westinghouse Communities, Inc.
- Westinghouse Elevator Company
- Materials Divisions
- Westinghouse Furniture Systems
- Longines-Wittnauer Watch Company

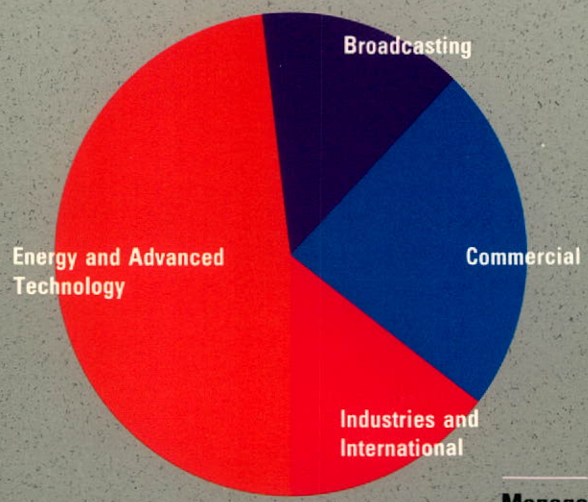
Broadcasting
- Group W Television
- Group W Radio
- Group W Productions, Inc.
- Group W Satellite Communications

Westinghouse Financial Services, Inc.
- Westinghouse Credit Corp.

Note: Reflects 1987 organization structure.



Sales and Operating Revenues



Segment Operating Profit

Management's Discussion And Analysis

Overview

Net income for 1987 reached a record $738.9 million, an increase of 10.2 percent over the 1986 net income of $670.8 million and an increase of 22.1 percent over 1985 net income of $605.3 million. Per-share earnings rose at a greater rate, from $3.52 in 1985 to $4.42 in 1986 to $5.12 in 1987, reflecting improvements of 15.8 percent over 1986 and 45.5 percent over 1985. A portion of the per-share earnings increases represents the reduction in the average number of shares outstanding.

In 1985, 1986 and 1987 *sales and operating revenues* have remained essentially unchanged because of the divestiture of a number of operating units, including Group W Cable and operations which were contributed to joint ventures. Excluding these operations, sales and operating revenues were up in 1986 and 1987.

In 1985 the Corporation announced a three-part program to enhance shareholder value. The program included the possible sale of the cable television business, the purchase of 25 million shares of Westinghouse common stock and a major business restructuring program.

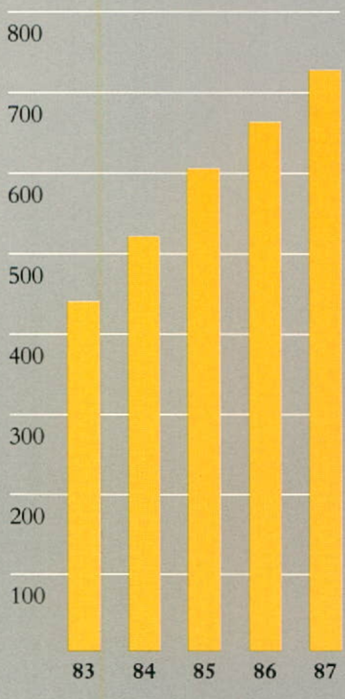
The sale of Group W Cable, the cable television business, was completed in June 1986. Proceeds of $1.7 billion resulted in a pre-tax gain of $651 million.

The initial stock repurchase program was completed in July 1986 with the purchase of 25 million shares at an average price of $43.15 per share. An additional 10 million shares were purchased during the second half of 1986 at an average per-share price of $56.60. The combined effect of these stock purchases was to reduce the number of shares outstanding by approximately 20 percent.

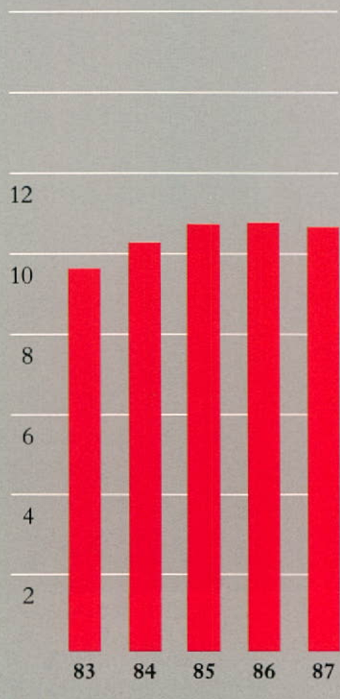
The major business restructuring program included a provision recorded in June 1986 totaling $790 million. The program covered product-line relocations to consolidate operations as well as the closedown or sale of other businesses and facilities. Various assets including inventories, plant and equipment, and goodwill were also written down to recognize the impairment of value resulting from the restructuring activities. At year-end 1987, $187.3 million of the restructuring provision remains. The program is expected to be essentially completed in late 1988.

At December 31, 1987 the Corporation's backlog was $10.0 billion, an increase of 2.3 percent from the prior year-end.

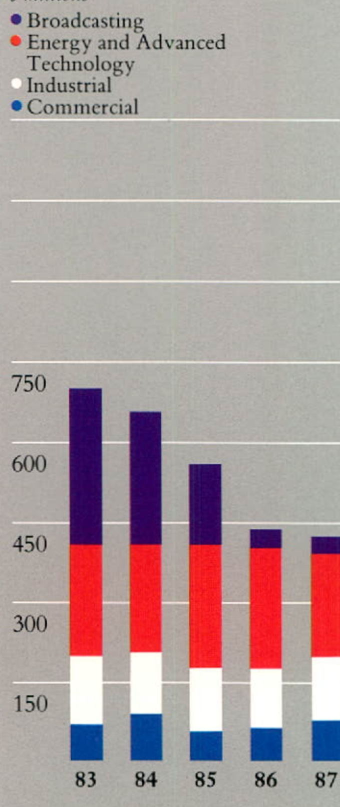
Net Income
$ millions



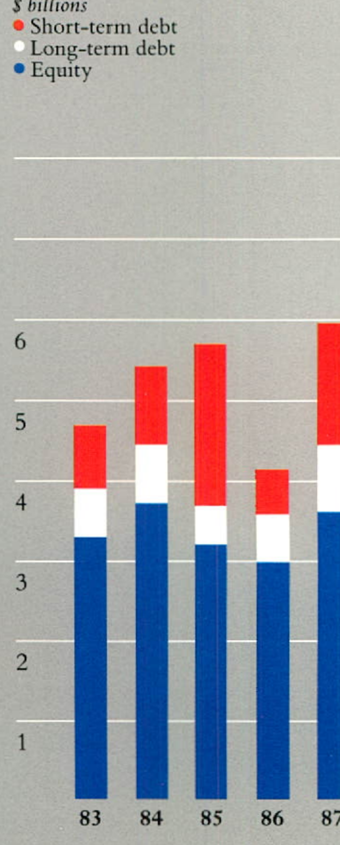
Sales and Operating Revenues
$ billions



Capital Expenditures by Segment
$ millions



Capital Structure
$ billions



The *Commercial* segment registered a sharp increase in operating profit for the second straight year, with improvements coming from almost all of its businesses. Segment sales recovered after a small decline in 1986. Thermo King significantly improved sales and operating profit this year because of favorable economic conditions in the trucking industry and a weaker U.S. dollar abroad. The improvement in the materials business sales and operating profit was attributable to a rise in demand for copper-clad products and to more favorable pricing of wire products. Continuing elevator business restructuring activities resulted in a substantial increase in operating profit and a decline in sales. The introduction of several new products enabled the beverage bottling unit to increase sales and operating profit. Westinghouse Communities sales were about even and operating profit declined. Westinghouse Furniture Systems and Longines-Wittnauer reported improved financial performance again in 1987. Segment operating profits do not include a provision for major business restructuring of $135 million that was recorded in 1986.

The *Energy and Advanced Technology* segment reported a 7 percent improvement in operating profit for 1987 following a 9 percent improvement the prior year. Segment sales declined this year compared to an increase of nearly 10 percent in 1986. A primary factor for the increased operating profit was the absence in 1987 of operating losses associated with the former Unimation business. Defense electronics continued its sales and operating profit increases although not as strong as the prior year. The power systems business unit is continuing to pursue its transition from predominantly new power plant equipment to service-related activities. The more price competitive service activities and lower shipments of new power plant equipment generally resulted in lowering sales and profit margins. The segment's backlog remains about the same as last year at $8.4 billion. Segment operating profits do not include a provision for major business restructuring of $215 million that was recorded in 1986.

The *Industrial* segment attained a 15 percent increase in operating profit which followed a sharper increase in 1986. The increases in operating profit are a result of aggressive cost reduction programs, product-line relocations and consolidations, the closedown of facilities and the disposal of excess capacity. The Industrial segment sales rose slightly in 1987 following a slight decline in 1986. For ongoing businesses, sales increased approximately 6 percent in both 1986 and 1987. Westinghouse Electric Supply Company (WESCO), which distributes electrical products, reported record sales in 1985, 1986 and 1987 and an increase in operating profit in 1987. During 1987, the segment backlog increased 13 percent and at December 31, 1987 totaled $1.0 billion. Segment operating profits do not include a provision for major business restructuring of $225 million that was recorded in 1986.

Westinghouse Broadcasting's revenues and operating profit, excluding those of Group W Cable and other divested units, were essentially unchanged from last year following increases in 1986. The strong performance of the television group in both years reflects its high market ratings. During the year, two radio stations were acquired and, in January 1988, agreement was reached to acquire one additional radio station. The satellite communications business continued to improve because of favorable markets for cable television programming and reductions in operating costs. Segment operating profits do not include a provision for major business restructuring of $75 million that was recorded in 1986.

Equity in income of the financial services subsidiary and other affiliates was $148.5 million in 1987, $111.1 million in 1986 and $120.8 million in 1985. The improvement in 1987 reflects the improved pre-tax income of the financial services subsidiary, which will be consolidated in 1988 (note 1). In 1986, pre-tax income declined for both the financial services subsidiary and for other affiliates.

The level of *other income* in 1987 exceeded the 1986 amount due to an increase in interest income and to gains from the disposition of sundry assets.

Interest expense declined 14 percent in 1987 and 21 percent in 1986. Average commercial paper borrowings have declined from the 1985 level of $1.4 billion to $1.0 billion in 1986 and 1987. The reduction in commercial paper borrowings was accompanied by lower weighted average interest rates which were 8.0 percent, 7.4 percent and 6.8 percent in 1985, 1986 and 1987. The Corporation's stock repurchase program in 1985 and 1986 was financed by commercial paper borrowings. At the completion of the sale of Group W Cable in June 1986 a portion of the proceeds was used to reduce the outstanding commercial paper. Average long-term debt for 1987 remained relatively unchanged from the two previous years while average long-term interest rates declined. At year-end 1987 long-term debt increased approximately $240 million because of two acquisitions made in December (note 17).

The Corporation's *provision for income taxes* for 1987 represented 31.1 percent of income before income taxes and minority interest compared to 16.1 percent in 1986 and 23.7 percent in 1985. For 1987 the statutory income tax rate was reduced to 40 percent by the Tax Reform Act of 1986. The 6 percent reduction in the statutory tax rate was offset by a decrease in the Puerto Rican tax benefit caused by the statutory tax rate reduction, the elimination of investment tax credit and a decrease in the amount of income eligible for the Foreign Sales Corporation tax benefit. In 1986 the 46 percent statutory income tax rate was reduced 14.6 percent because much of the gain from the sale of Group W Cable was taxed as a capital gain. The statutory rate was further reduced 3.2 percent for the effect of the tax rate reduction on the leveraged leases of the financial services subsidiary. As in prior years the Corporation received a significant benefit from the partial or total tax exemption for income of certain manufacturing operations in Puerto Rico. During 1985 the Corporation committed to permanently reinvest a foreign subsidiary's undistributed earnings on which tax had previously been provided, favorably affecting the tax rate for that year by 3.4 percent. See note 3 for discussion of Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes."

Liquidity And Capital Resources

Net cash flow from operating activities over the past year totaled $322 million compared to cash flow from operations of $1,026 million in 1986 and $781 million in 1985. The reduction in the cash flow from operations in 1987 primarily resulted from approximately $200 million of cash expenditures related to the restructuring provision and from changes in working capital and other noncurrent items. The 1986 increase in cash flow from operations was a result of higher net income and a reduction of customer receivables.

A substantial portion of the remaining $187.3 million provision for the major business restructuring program is expected to be satisfied by cash disbursements in 1988.

Capital expenditures totaled $419 million in 1987, $440 million in 1986 and $568 million in 1985. The reductions in expenditures are related to the sale of Group W Cable, which accounted for $27 million and $134 million of the capital expenditures in 1986 and 1985, respectively.

At December 31, 1987 short-term debt totaled $1,536 million, which represents an increase of $939 million from year-end 1986. The principal use of the additional short-term debt has been the investment in marketable securities which increased $772 million during the year. During 1987 the Corporation also issued $45 million of New Zealand dollar-linked notes, $35 million of Australian dollar notes and, in December 1987, $286 million of notes in conjunction with two acquisitions. In 1987, net debt increased approximately $413 million. Supporting the Corporation's commercial paper and other short-term borrowings were bank lines of credit totaling $956 million at December 31, 1987, of which $883 million were unused.

The Corporation's total debt comprised 40 percent of its total capital at December 31, 1987, compared to 27 percent at year-end 1986. Excluding the borrowings to finance the increase in marketable securities, the debt-to-capital ratio is 31 percent at December 31, 1987.

A shelf registration for $500 million of long-term debt securities and/or warrants was filed with the Securities and Exchange Commission in 1986. Approximately $420 million of this registration remains unused at December 31, 1987.

In January 1988 the Corporation signed an agreement in principle to acquire the naval torpedo business of Gould Electronics for approximately $100 million.

Funding for the Corporation's future capital requirements will be provided from operations, utilization of funds presently invested in marketable securities and the capital markets available to the Corporation. The final determination of the source of funds will depend on the impact of normal business variables to which the Corporation is subject.

In a lawsuit filed against the Corporation by the Equal Employment Opportunity Commission (EEOC), a U.S. District Court in Philadelphia ruled in March 1986 that the policy of denying severance pay to retirement-eligible employees who are laid off and have elected full retirement benefits constitutes a willful violation of the Age Discrimination in Employment Act of 1967. The Corporation has appealed that decision. In a related case, a U.S. District Court in New Jersey dismissed the EEOC's challenge to the Corporation's post-employment income policy on the ground that the Corporation had not acted in a willful manner and, therefore, the EEOC's action was untimely. The EEOC appealed the New Jersey decision and the Third Circuit consolidated that case with the Philadelphia case. Oral argument was presented in the appeal in October 1987. Discussions with the EEOC concerning a possible settlement of the Philadelphia litigation are continuing. While the Corporation believes that substantial grounds exist to warrant the reversal, in whole or in part, of the judgment entered in the EEOC's favor, the outcome of litigation is always uncertain.

Report Of Management

The Corporation has prepared the consolidated financial statements and related financial information included in this Annual Report. Management has the primary responsibility for the financial statements and other financial information and for ascertaining that the data fairly reflect the financial position and results of operations of the Corporation. The financial statements were prepared in accordance with generally accepted accounting principles appropriate in the circumstances, and necessarily include amounts that are based on best estimates and judgments with appropriate consideration given to materiality. Financial information included elsewhere in this Annual Report is presented on a basis consistent with the financial statements.

The Corporation maintains a system of internal accounting controls, supported by adequate documentation, to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation. Limitations exist in any system of internal accounting controls based upon the recognition that the cost of the system should not exceed the benefits derived. Westinghouse believes its system of internal accounting controls, augmented by its internal auditing function, appropriately balances the cost/benefit relationship.

The independent accountants provide an objective assessment of the degree to which management meets its responsibility for fairness of financial reporting. They regularly evaluate the system of internal accounting controls and perform such tests and other procedures as they deem necessary to express an opinion on the fairness of the financial statements.

The Board of Directors pursues its responsibility for the Corporation's financial statements through its Audit Review Committee which is composed solely of directors who are not officers or employees of the Corporation. The Audit Review Committee meets regularly with the independent accountants, management and the internal auditors. The independent accountants and the internal auditors have direct access to the Audit Review Committee, with and without the presence of management representatives, to discuss the scope and results of their audit work and their comments on the adequacy of internal accounting controls and the quality of financial reporting.

We believe that the Corporation's policies and procedures, including its system of internal accounting controls, provide reasonable assurance that the financial statements are prepared in accordance with the applicable securities laws and with a corresponding standard of business conduct.

Report Of Independent Accountants

To the Board of Directors and Stockholders of
Westinghouse Electric Corporation

In our opinion, the consolidated financial statements appearing on pages 32 through 44 of this Annual Report present fairly the financial position of Westinghouse Electric Corporation and its subsidiaries at December 31, 1987 and 1986, and the results of their operations, and their cash flows for each of the three years in the period ended December 31, 1987, 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.

Price Waterhouse

600 Grant Street
Pittsburgh, Pennsylvania 15219
January 26, 1988

Consolidated Statements Of Income And Retained Earnings

(in millions)

Statement of Income

Year Ended December 31	*1987*	*1986*	*1985*
Sales and operating revenues	**$10,679.0**	$10,731.0	$10,700.2
Cost of sales	**(7,820.9)**	(7,771.2)	(7,737.9)
Marketing, administration and general expenses	**(1,603.0)**	(1,718.0)	(1,771.2)
Depreciation and amortization	**(318.0)**	(371.0)	(449.0)
Gain from sale of Group W Cable (note 17)	—	651.2	—
Provision for major business restructuring and other unusual items (note 17)	—	(790.0)	—
Equity in income of financial services subsidiary and other affiliates	**148.5**	111.1	120.8
Other income, net	**112.5**	103.8	118.0
Interest expense	**(126.1)**	(145.9)	(185.0)
Income before income taxes and minority interest	**1,072.0**	801.0	795.9
Income taxes (note 3)	**(333.4)**	(129.0)	(188.6)
Minority interest	**.3**	(1.2)	(2.0)
Net income	**$ 738.9**	$ 670.8	$ 605.3
Net income per common share (note 14)			
Primary	**$ 5.12**	$ 4.42	$ 3.52
Fully diluted	**$ 5.03**	$ 4.31	$ 3.45

Statement of Retained Earnings

Year Ended December 31	*1987*	*1986*	*1985*
Retained earnings at beginning of year	**$ 3,937.3**	$ 3,470.7	$ 3,063.5
Net income	**738.9**	670.8	605.3
Dividends	**(234.6)**	(204.2)	(198.1)
Retained earnings at end of year	**$ 4,441.6**	$ 3,937.3	$ 3,470.7

The information on pages 31 through 44 is an integral part of these financial statements.

Consolidated Balance Sheet

(in millions)

At December 31	*1987*	*1986*
Assets		
Cash	**$ 228.7**	$ 163.1
Marketable securities at cost, which approximates market, including cash equivalents of $950.3 and $266.6	**1,206.1**	434.4
Customer receivables (note 4)	**1,947.9**	1,905.2
Inventories (note 5)	**1,237.5**	1,161.6
Costs of uncompleted contracts in excess of related billings (note 5)	**247.0**	229.8
Prepaid and other current assets (note 6)	**652.6**	741.2
Total current assets	**5,519.8**	4,635.3
Investments (note 7)	**1,059.1**	893.6
Plant and equipment (note 8)	**2,337.0**	2,188.7
Intangible and other noncurrent assets (note 9)	**1,037.2**	764.2
Total assets	**$9,953.1**	$8,481.8

Liabilities and Stockholders' Equity		
Short-term debt (note 10)	**$1,535.7**	$ 596.9
Accounts payable	**724.9**	646.1
Billings on uncompleted contracts in excess of inventoried costs (note 5)	**962.3**	1,129.5
Other current liabilities (note 11)	**1,647.6**	1,823.9
Total current liabilities	**4,870.5**	4,196.4
Long-term debt (note 12)	**830.2**	518.2
Other noncurrent liabilities (note 13)	**654.9**	734.0
Total liabilities	**6,355.6**	5,448.6
Minority interest	**20.9**	23.6
Common stock	**183.4**	183.1
Capital in excess of par value	**762.2**	745.6
Common stock held in treasury	**(1,780.1)**	(1,801.3)
Cumulative translation adjustments	**(30.5)**	(55.1)
Retained earnings	**4,441.6**	3,937.3
Total common stockholders' equity (note 14)	**3,576.6**	3,009.6
Total liabilities and stockholders' equity	**$9,953.1**	$8,481.8

The information on pages 31 through 44 is an integral part of these financial statements.

Consolidated Statement Of Cash Flows

(in millions)

Year Ended December 31	*1987*	*1986*	*1985*
Cash flows from operating activities			
Net income	**$ 738.9**	$ 670.8	$605.3
Adjustments for noncash items included in net income:			
Depreciation and amortization	**318.0**	371.0	449.0
Equity in income of financial services subsidiary and other affiliates	**(148.5)**	(111.1)	(120.8)
Income taxes deferred	**150.6**	(64.6)	56.7
Gain from sale of Group W Cable	**—**	(651.2)	—
Writedown of assets under major business restructuring program	**—**	251.3	—
(Decrease) increase in liability for major business restructuring program	**(297.0)**	484.3	—
(Increase) decrease in customer receivables, current and noncurrent	**(7.2)**	125.8	(212.0)
Increase in inventories and costs of uncompleted contracts net of progress billings	**(199.6)**	(147.2)	(163.0)
Increase in accounts payable	**56.1**	45.6	25.3
Decrease in uranium settlement items	**(12.0)**	(23.2)	(63.2)
Other changes in working capital	**(162.7)**	45.4	63.8
Other noncurrent items, net	**(114.6)**	28.6	139.7
Net cash flow from operating activities	**322.0**	1,025.5	780.8
Cash flows from investing activities			
Capital expenditures	**(419.0)**	(440.0)	(568.0)
Net investment in Challenger and S&ME	**(215.6)**	—	—
Proceeds from sale of Group W Cable	**—**	1,710.4	—
Proceeds from sale-leaseback of buildings	**—**	—	149.2
Other, net	**(17.0)**	(25.5)	(87.1)
Net cash flow from investing activities	**(651.6)**	1,244.9	(505.9)
Cash flows from financing activities			
Net increase (decrease) in short-term debt	**938.8**	(1,440.7)	924.1
Proceeds of long-term debt	**346.2**	309.3	11.4
Repayment of long-term debt	**(34.2)**	(316.4)	(53.4)
Common stock purchased for treasury	**(22.6)**	(806.6)	(975.1)
Common stock issued to employees	**43.8**	29.0	50.6
Dividends paid	**(234.6)**	(204.2)	(198.1)
Other, net	**41.5**	85.6	56.2
Net cash flow from financing activities	**1,078.9**	(2,344.0)	(184.3)
Increase (decrease) in cash and cash equivalents	**$ 749.3**	$ (73.6)	$ 90.6

Certain 1986 and 1985 amounts have been reclassified for comparative purposes and for the adoption of Statement of Financial Accounting Standards No. 95 "Statement of Cash Flows." For description of noncash investing and financing transactions see notes 12, 14 and 17.

The information on pages 31 through 44 is an integral part of these financial statements.

	1987	*1986*	*1985*
Supplemental disclosure of cash flow information:			
Interest paid	**$ 121.7**	$ 147.6	$185.8
Income taxes paid	**$ 203.6**	$ 128.6	$ 97.0

Notes To The Financial Statements

Note 1: Summary of Significant Accounting Policies

Consolidation

The financial statements include the consolidation of all wholly and majority owned subsidiaries except the financial services subsidiary, Westinghouse Financial Services, Inc., whose business activities are dissimilar to those of the consolidated group. The equity method of accounting is followed for this wholly owned subsidiary and for those affiliates owned 50 percent or less and in which the Corporation exercises significant management influence. Beginning in 1988 the Corporation will consolidate Westinghouse Financial Services, Inc., (see page 44) pursuant to Statement of Financial Accounting Standards No. 94, "Consolidation of All Majority Owned Subsidiaries." There will be no effect on consolidated net income. Total assets and total liabilities at December 31, 1987 will increase by approximately $5 billion. These changes in the consolidated financial statements will result in no violations of agreement covenants nor cause any changes in business practices.

Foreign Currency Translation

Gains and losses resulting from changes in foreign currency exchange rates used for translating financial statements denominated in foreign currencies are deferred as a separate component of stockholders' equity except for currencies of countries with highly inflationary economies. For operations in those countries, translation adjustments are included currently in net income.

Revenue Recognition

Sales are recorded primarily as products are shipped and services are rendered. The percentage-of-completion method of accounting is used for nuclear steam supply system orders with delivery schedules generally in excess of five years and for certain construction projects where this method of accounting is consistent with industry practices.

Pensions

In 1987 the Corporation adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" for its domestic plans. Accounting policies for pensions, including the effects of adopting the new standard, as well as policies for accounting for other retirement benefits, are discussed in note 2.

Investment Tax Credit

The investment tax credit was repealed retroactive to January 1, 1986, except for investment tax credit on certain property acquired under a contract that was binding on December 31, 1985. The investment tax credit on assets leased to others by the financial services subsidiary has been deferred and is amortized over the terms of the respective leases.

Inventories

A portion of the value of domestic inventories is determined on the LIFO method of inventory valuation. Inventories not on LIFO are valued at current standard cost which approximates actual or average cost. The elements of cost included in inventories are direct labor, direct material and certain overheads. Long-term contracts in process include costs incurred plus estimated profits on contracts accounted for according to the percentage-of-completion method.

Plant and Equipment

Plant and equipment assets are recorded at cost and depreciated generally under the straight-line method based on recognized useful lives. Expenditures for additions and improvements are capitalized, and costs for repairs, maintenance and shop tooling are charged to operations as incurred.

Amortization of Intangible Assets

Goodwill and other acquired intangible assets are amortized over their estimated lives, but not in excess of 40 years.

Note 2: Pensions and Other Postretirement Benefits

The parent and its domestic subsidiaries have defined benefit pension plans covering substantially all employees. Plan benefits are based on either years of service and compensation levels at the time of retirement or a formula based on career earnings. These pension benefits are paid from trusts, which are funded by contributions from employees and the Corporation. The Corporation's funding policy is consistent with the funding requirements of federal law and regulations.

Effective January 1, 1987, the Corporation adopted the provisions of Statement of Financial Accounting Standards No. 87 (SFAS No. 87), "Employers' Accounting for Pensions," which supersedes all previous standards for pension accounting.

In contrast to prior years when pension expense and benefit obligations were determined using the unit credit actuarial method, SFAS No. 87 requires that the projected unit credit actuarial method be used to determine pension cost and the projected benefit obligation. This latter method utilizes both the employee's future service and projected future compensation in the determination of projected benefits. The new standard further requires the calculation of a "transition obligation" at January 1, 1987, to reflect the excess of the plan's projected benefit obligation over the fair market value of plan assets. The transition obligation is being amortized over a period of 15 years. Plan amendments which increase benefits for service to date are amortized over the average remaining service lives of employees. Additionally, SFAS No. 87 requires that pension expense reported in prior years not be restated to reflect the retroactive application of the new standard.

The projected benefit obligation is the actuarial present value of that portion of the projected benefits that is attributable to employee service rendered to date. Service cost is the actuarial present value of that portion of the projected benefits that is attributable to employee service rendered for the year.

Net periodic pension cost for domestic plans was $112 million in 1987, $113 million in 1986, and $117 million in 1985. The 1987 amount included a reduction resulting from the adoption of SFAS No. 87, which was offset by an increase for plan benefit improvements for service rendered in prior years.

Net periodic pension cost for 1987 included the following components, in millions:

Service cost — benefits earned during the period		$ 66.2
Interest cost on projected benefit obligation		393.7
Actual return on plan assets	$ 18.1	
Amount deferred	(424.4)	
Recognized return on plan assets		(406.3)
Amortization of unrecognized net obligation		47.3
Amortization of unrecognized prior service cost		10.8
Net periodic pension cost		$111.7

The following table sets forth the domestic plans' funded status and amounts recognized in the Corporation's Consolidated Balance Sheet at December 31, 1987, in millions:

Actuarial present value of benefit obligation:	
Vested	$(3,832.1)
Nonvested	(399.9)
Accumulated benefit obligation	(4,232.0)
Effect of projected future compensation levels	(445.3)
Projected benefit obligation for service rendered to date	(4,677.3)
Plan assets at fair value, primarily listed stocks, fixed income and real estate investments	3,629.5
Projected benefit obligation in excess of plan assets	(1,047.8)
Unrecognized net loss	429.4
Prior service cost not yet recognized in net periodic pension cost	124.6
Unrecognized net obligation at January 1, 1987, net of amortization	663.0
Prefunded pension contribution	$ 169.2

For the principal United States pension plans, the discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 9.0 percent and 6.0 percent, respectively. The expected long-term rate of return on assets was 11.0 percent. For 1986 and 1985, the earnings assumption used to determine pension expense and the discount rate used to determine the actuarial present value of accumulated benefits were 12.25 percent for plan participants who were retired or inactive-vested at December 31, 1982, and 8.25 percent for all other plan participants.

Various pension arrangements, which supplement and are coordinated with required government plans, are in effect for most foreign subsidiaries. These subsidiaries are not required to report to government agencies pursuant to ERISA, and do not determine the actuarial value of accumulated or projected benefits under methods comparable to those applicable to U.S. plans. Pension expense for those subsidiaries having private pension plans was not material.

In addition to pension benefits, certain health care and life insurance benefits are provided to employees who retire from the parent company or its domestic subsidiaries. Retiree health care and similar benefits for active employees are provided through insurance companies whose premiums are based on the benefits paid during the year. The related cost is recognized as expense as premiums and claims are paid. All retiree life insurance benefits are paid from funds previously set aside with the insurer. The cost of retiree health care was approximately $45 million in 1987, $33 million in 1986, and $38 million in 1985.

Note 3: Income Taxes

Income Taxes
(in millions)

	1987	*1986*	*1985*
Current:			
Federal	**$ 76.5**	$ 99.3	$ 54.3
State	**26.6**	45.5	32.7
Foreign	**34.7**	48.5	44.9
	137.8	193.3	131.9
Deferred:			
Federal	**166.9**	(32.9)	51.2
State	**12.1**	(17.7)	–
Foreign	**16.6**	(13.7)	5.5
	195.6	(64.3)	56.7
Income taxes	**$333.4**	$129.0	$188.6

Income tax expense for financial reporting was reduced by investment tax credits of $9.0 million in 1987, $23.1 million in 1986, and $48.0 million in 1985. In addition, investment tax credits of $50.1 million were deferred at the end of 1987 by the financial services subsidiary and remain to be amortized.

The foreign portions of income before income taxes in the consolidated statement of income were $67.6 million in 1987, $13.5 million in 1986, and $39.5 million in 1985. The foreign income before taxes is comprised of profits and losses generated from foreign operations. Such income can be subject to both United States and foreign income taxes.

Deferred federal income taxes have not been provided on cumulative undistributed earnings of $367 million from certain subsidiaries because the earnings have been reinvested for an indefinite time.

Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and the tax effect of each are shown in the following table.

Income Taxes Deferred
(in millions)

	1987	*1986*	*1985*
Major business restructuring program	**$136.9**	$(239.8)	$ –
Leasing transactions of financial services subsidiary	**71.5**	67.5	49.3
Depreciation	**25.0**	52.4	101.1
Product warranty	**21.9**	(4.3)	(4.1)
Pension deduction greater (less) than pension expense	**21.0**	(40.6)	–
Investment and research tax credits	**7.1**	189.9	11.5
Sale-leaseback of facilities	**.9**	.2	(18.7)
Disposal of asset previously written down	**–**	29.3	–
Provision for estimated credit losses of financial services subsidiary	**(13.5)**	(18.9)	–
Long-term contracts in process	**(31.4)**	(44.9)	.2
Federal tax on undistributed foreign earnings	**–**	–	(26.9)
Miscellaneous	**(43.8)**	(55.1)	(55.7)
Income taxes deferred*	**$195.6**	$ (64.3)	$ 56.7

** Includes deferred taxes of $53.6 million in 1987, $47.2 million in 1986, and $50.4 million in 1985 attributable to the financial services subsidiary reported under the equity method of accounting.*

Certain amounts shown for 1986 in the accompanying tax tables were reclassified for comparative purposes as a result of final differences between income taxes for financial statement purposes and the filed 1986 tax returns.

Consolidated net income includes income of certain manufacturing operations in Puerto Rico which are exempt from United States tax and which are either totally or partially exempt from Puerto Rican income tax under grants of industrial tax exemptions, which will expire at various dates from 1993 through 2004.

The reconciliation between the federal statutory tax rate and the Westinghouse consolidated effective tax rate is shown in the following table.

Consolidated Effective Tax Rate

	1987	*1986*	*1985*
Federal statutory income tax rate	**40.0%**	46.0%	46.0%
Increase (reduction) in the tax rate resulting from:			
Lower tax rate on net income of Puerto Rico operations	**(7.9)**	(12.2)	(11.1)
Lower tax rate on FSC income	**(1.1)**	(3.3)	(1.3)
Investment tax credit	**(.8)**	(2.8)	(6.0)
Capital gain benefit	**(.6)**	(1.8)	(2.5)
Tax rate reduction on leveraged leases of financial services subsidiary	**(.4)**	(3.2)	–
Sale of Group W Cable	**–**	(14.6)	–
Federal tax on undistributed foreign earnings	**–**	–	(3.4)
Goodwill writeoff	**.2**	4.5	.3
State income tax, net of federal effect	**2.2**	1.9	2.2
Miscellaneous items	**(.5)**	1.6	(.5)
Consolidated effective tax rate	**31.1%**	16.1%	23.7%

The federal income tax returns of the Corporation and its wholly owned subsidiaries are settled through the year ended December 31, 1975. For the years 1976 through 1981 the IRS has proposed deficiencies, similar to those initially proposed and subsequently settled for the years 1974 and 1975, related to reallocations to the parent company of a portion of the income of certain domestic subsidiaries operating in Puerto Rico under tax incentive grants. It is expected that proposed deficiencies related to similar reallocations will also be made by the IRS for subsequent years. Tax counsel for the Corporation has advised that the proposed reallocations do not represent a reasonable interpretation of the law. Accordingly, the Corporation will continue to contest any proposed reallocations for all years through 1987. Management believes that adequate provisions for taxes, including tax deficiencies applicable to the ultimate resolution of the reallocation issues, have been made through December 31, 1987.

In December 1987, the Financial Accounting Standards Board adopted Statement of Financial Accounting Standards No. 96 (SFAS No. 96), "Accounting for Income Taxes." The new standard must be adopted for fiscal years beginning after December 15, 1988. The most significant changes required by the new standard applicable to the Corporation are recognition of the effects of tax rate changes on deferred tax balances and limitations on recognition of deferred tax benefits. Transition rules included in the standard permit either prospective or retroactive application of the new requirements.

The Corporation plans to apply the new standard retroactively prior to the end of the transition period. This application will result in deferred tax benefits and prior period net income being reduced an estimated $150 million to $175 million.

Note 4: Customer Receivables

Allowances for doubtful accounts of $21.5 million and $19.5 million at December 31, 1987 and 1986 were deducted from customer receivables.

Customer receivables included $92 million at December 31, 1987, representing the sales value of material shipped under long-term contracts but not billed to the customer. Collection of these receivables, which will be billed upon shipment of major components of the contract, is expected to be substantially completed within one year.

Note 5: Inventories and Progress Billings

The portion of the year-end gross inventory value of raw materials, work in process, and finished goods determined using the LIFO method was 32 percent for 1987 and 1986.

The excess of production cost over the cost of inventories valued on the LIFO basis was approximately $245 million and $280 million at December 31, 1987 and 1986.

Raw materials, work in process and finished goods included costs relating to short- and long-term contracts of approximately $845 million and $829 million at December 31, 1987 and 1986. All costs in long-term contracts in process, progress payments to subcontractors, and recoverable engineering and development costs were contract-related.

Inventories
(in millions)

	1987	*1986*
Raw materials	**$ 161.9**	$ 144.6
Work in process	**931.7**	911.9
Finished goods	**322.9**	278.2
	1,416.5	1,334.7
Long-term contracts in process	**591.7**	732.7
Progress payments to subcontractors	**128.1**	194.5
Recoverable engineering and development costs	**453.0**	395.0
	2,589.3	2,656.9
Less: inventoried costs related to contracts with progress billing terms	**1,351.8**	1,495.3
Inventories	**$1,237.5**	$1,161.6

Costs and Billings on Uncompleted Contracts
(in millions)

	1987	*1986*
Costs included in inventories	**$ 829.9**	$ 839.3
Less: progress billings on contracts	**582.9**	609.5
Costs of uncompleted contracts in excess of related billings	**$ 247.0**	$ 229.8
Progress billings on contracts	**$1,484.2**	$1,785.5
Less: costs included in inventories	**521.9**	656.0
Billings on uncompleted contracts in excess of inventoried costs	**$ 962.3**	$1,129.5

Inventories other than those related to long-term contracts are generally realized within one year. Inventoried costs do not exceed realizable values.

Note 6: Prepaid and Other Current Assets

Prepaid and Other Current Assets
(in millions)

	1987	*1986*
Deferred income taxes	**$200.9**	$334.9
Prefunded pension contribution	**169.2**	166.8
Other	**282.5**	239.5
Prepaid and other current assets	**$652.6**	$741.2

Note 7: Investments

Investments
(in millions)

	1987	*1986*
Financial services subsidiary	**$ 767.1**	$656.9
Joint ventures and other affiliates	**247.7**	159.4
Other security investments	**44.3**	77.3
Investments	**$1,059.1**	$893.6

During 1986, Westinghouse Financial Services, Inc., was formed to hold all of the stock of Westinghouse Credit Corporation and other related financial services companies. The formation of this subsidiary had no impact on the Corporation's financial position or results of operations.

Note 8: Plant and Equipment

Plant and Equipment
(in millions)

	1987	*1986*
Land and buildings	**$ 914.7**	$ 851.1
Machinery and equipment	**3,268.0**	3,025.8
Construction in progress	**295.6**	230.1
Plant and equipment, at cost	**4,478.3**	4,107.0
Less: accumulated depreciation	**2,141.3**	1,918.3
Plant and equipment	**$2,337.0**	$2,188.7

Note 9: Intangible and Other Noncurrent Assets

Intangible and Other Noncurrent Assets
(in millions)

	1987	*1986*
Goodwill and other acquired intangible assets (note 17)	**$ 479.1**	$260.5
Uranium settlement assets	**112.2**	139.6
Other	**445.9**	364.1
Intangible and other noncurrent assets	**$1,037.2**	$764.2

Uranium settlement assets relate to uranium inventory awaiting delivery and settlement items being produced by the Corporation under uranium supply contract settlement agreements (note 16). Inventory and other settlement items expected to be delivered within one year are included in other current assets.

Note 10: Short-Term Debt

Short-Term Debt
(in millions)

	At December 31		During the Year		
	Balance	Composite Rate	Max. Outstanding	Avg. Outstanding	Wtd. Avg. Rate
1987					
Commercial paper	**$1,357.2**	**7.6%**	**$1,357.2**	**$ 990.8**	**6.8%**
Short-term bank loans:					
Foreign	**114.5**	**9.4%**	**$ 134.2**	**$ 125.7**	**8.6%**
Domestic	**3.8**	**6.2%**	**$ 3.8**	**$ 2.9**	**5.7%**
Other	**60.2**				
Short-term debt	**$1,535.7**				
1986					
Commercial paper	$ 464.3	6.7%	$1,982.0	$1,012.1	7.4%
Short-term bank loans:					
Foreign	106.3	10.7%	$ 110.9	$ 105.5	12.6%
Domestic	—	—%	$ 35.2	$ 20.2	7.0%
Other	26.3				
Short-term debt	$ 596.9				
1985					
Commercial paper	$1,864.4	8.0%	$2,145.0	$1,417.8	8.0%
Short-term bank loans:					
Foreign	109.5	21.0%	$ 109.5	$ 98.5	15.0%
Domestic	31.2	7.0%	$ 35.5	$ 29.3	7.0%
Other	34.1				
Short-term debt	$2,039.2				

Average outstanding borrowings were determined based on daily amounts outstanding for commercial paper and on monthly balances outstanding for bank loans. The average rates for foreign short-term bank loans reflect the impact of higher interest costs on local currency borrowings of subsidiaries in countries experiencing high inflation.

Other short-term debt consisted primarily of the current portion of long-term debt at the end of 1986 and 1985. At the end of 1987 other short-term debt also included $46.6 million of notes due in 1988 related to the acquisition of Challenger Electrical Equipment Corporation and Soil & Materials Engineering, Inc. (S&ME) (note 17).

Bank lines of credit totaled $956 million and $580 million at the end of 1987 and 1986, respectively, of which $725 million and $300 million were domestic. Of these lines, $883 million in 1987 and $429 million in 1986, most of which supported commercial paper, were unused at December 31. Commitment fees and compensating balance requirements under these credit arrangements were not material.

Note 11: Other Current Liabilities

Other Current Liabilities
(in millions)

	1987	*1986*
Accrued employee compensation	**$ 346.6**	$ 329.3
Accrued product warranty	**142.2**	193.7
Income taxes currently payable	**141.0**	206.9
Major business restructuring costs (note 17)	**139.3**	343.8
Estimated future costs of uranium settlements (note 16)	**32.3**	11.5
Other	**846.2**	738.7
Other current liabilities	**$1,647.6**	$1,823.9

Note 12: Long-Term Debt

Long-Term Debt
(in millions)

	1987	*1986*
7¾% Notes due 1996	**$300.0**	$300.0
5⅜% Debentures due 1992	**38.8**	51.3
13¼% New Zealand dollar linked notes due 1991	**51.2**	—
13½% Australian dollar notes due 1990	**35.3**	—
9% Convertible subordinated debentures due 2009	**115.6**	123.3
Variable rate notes due 2007	**216.8**	—
Other	**72.5**	43.6
Long-term debt	**$830.2**	$518.2

The 7¾ percent notes may not be redeemed prior to maturity.

The Corporation has repurchased sufficient amounts of 5⅜ percent debentures to satisfy all sinking fund requirements through 1991.

The Corporation has entered into agreements related to the New Zealand dollar linked notes which fully hedge the New Zealand dollar repayment exposure and result in a variable U.S. dollar interest cost below the Federal Reserve Board commercial paper rate.

On $24.8 million of the Australian dollar notes, the Corporation has entered into agreements which convert interest and principal payments to U.S. dollars and result in a variable interest cost below the Federal Reserve Board commercial paper rate.

The Corporation's 9 percent subordinated debentures are convertible into common stock at a conversion price of $31 per share. The debt matures on August 15, 2009, and is subject to a mandatory annual sinking fund requirement of $10 million commencing in 1995. Conversions, which have reduced the debt outstanding by $84.4 million, may be applied against the sinking fund obligation.

The variable rate notes were issued in conjunction with the acquisition of Challenger Electrical Equipment Corporation on December 30, 1987, and mature on December 30, 2007, unless previously redeemed at the holders' option. The interest rate is determined based on a formula which considers the London Inter-Bank Offered Rate, with a maximum rate of the Federal Reserve Board commercial paper rate plus 50 basis points.

Other long-term debt includes $22.9 million of variable prime rate notes due 1991 related to the acquisition of S&ME

on December 4, 1987. A substantial portion of the remaining $49.6 million is secured by various assets of wholly and majority owned subsidiaries and matures serially in various annual amounts through the year 1999. At December 31, 1987, this debt included $25.3 million of borrowings by foreign subsidiaries with a weighted average interest rate of 8.2 percent.

Long-term debt at December 31, 1987 maturing in each of the following years is: 1988 – $9.6 million, 1989 – $14.4 million, 1990 – $40.7 million, 1991 – $79.1 million, and 1992 – $40.0 million.

Note 13: Other Noncurrent Liabilities

Other Noncurrent Liabilities
(in millions)

	1987	*1986*
Estimated future costs of uranium settlements (note 16)	**$ 77.2**	$118.0
Major business restructuring costs (note 17)	**48.0**	140.5
Deferred income taxes	**46.8**	30.3
Other	**482.9**	445.2
Other noncurrent liabilities	**$654.9**	$734.0

Note 14: Common and Preferred Stock

At December 31, 1987, 240,000,000 shares of common stock, $1.00 par value, were authorized. Common shares issued and outstanding are summarized in the table below. During 1987, 248,269 new shares were issued upon conversion of the Corporation's 9 percent convertible subordinated debentures.

Shares of Common Stock

At December 31	*1987*	*1986*	*1985*
Issued	**183,353,092**	183,104,823	180,630,766
In treasury	**39,805,944**	40,648,027	26,841,833
Outstanding	**143,547,148**	142,456,796	153,788,933

Primary earnings per share are computed based on the weighted average number of common shares outstanding during the year plus common stock equivalents consisting of shares subject to stock options and shares potentially issuable under deferred compensation programs. For purposes of this computation, net income was adjusted for the after-tax interest expense applicable to the deferred compensation programs. The computation of fully diluted earnings per share, in addition to the adjustments for primary earnings per share, assumed conversion of the outstanding convertible subordinated debentures.

The following average shares were used for the computation of primary and fully diluted earnings per share.

Average Shares of Common Stock

	1987	*1986*	*1985*
Primary	**145,180,270**	152,331,187	172,488,375
Fully diluted	**149,009,989**	157,325,433	179,157,479

In 1985, the Corporation initiated a common stock repurchase program under which 25 million shares were purchased at an average price of $43.15 per share. Upon this program's completion in July 1986, another stock repurchase program was initiated, and an additional 10 million shares were purchased at an average price of $56.60 per share.

Treasury Stock Activity

	1987	*1986*	*1985*
Shares in treasury at January 1	**40,648,027**	26,841,833	5,648,587
Shares purchased under stock repurchase programs	**–**	13,555,700	21,444,300
Other shares purchased	**396,000**	1,301,300	1,888,000
Shares issued	**(1,238,083)**	(1,050,806)	(2,139,054)
Shares in treasury at December 31	**39,805,944**	40,648,027	26,841,833

Treasury shares have been issued to meet the requirements of various management compensation and employee benefit plans under which common stock is distributed to employees.

Twenty-five million shares of preferred stock, $1.00 par value, have been authorized. No preferred shares have been issued.

Note 15: Stock Options and Other Long-Term Incentive Compensation Awards

The 1984 Long-Term Incentive Plan provides for the granting of stock options, stock appreciation rights and other performance awards to key employees of the Corporation and its subsidiaries. An aggregate of six million shares have been authorized for awarding under the Plan, of which stock options covering 1,482,300 shares and 198,400 performance shares have been awarded as of December 31, 1987. Requirements for shares may be satisfied from either unissued shares or shares held in treasury. At December 31, 1987, approximately 350 employees of the Corporation and its subsidiaries were eligible and 337 employees were granted options and other performance awards under the 1984 Plan.

During 1987, 115 employees were granted stock options under the 1984 Plan. The option price under the Plan may not be less than the fair market value of the shares on the date the option is granted. The options were granted for terms of 10 years and become exercisable in whole or in part after the commencement of the second year of the term.

Stock options are also outstanding under the 1979 Stock Option and Long-Term Incentive Plan and under the 1974 Stock Option Plan. No additional awards may be granted under either plan. At December 31, 1987, 134 and 9 employees held outstanding options under the 1979 Plan and the 1974 Plan, respectively.

All options outstanding under the three plans, except for those granted in 1987, were exercisable at December 31, 1987 and have expiration dates ranging from July 25, 1988 to December 1, 1997.

Stock Option Information

	Shares Subject To Option	Weighted Average Option Price
Balance at January 1, 1987	1,663,526	$28.58
Options granted	354,000	57.97
Options exercised	(418,258)	23.44
Options terminated	(15,050)	44.53
Balance at December 31, 1987	1,584,218	$36.35

Also during 1987, 39,200 performance shares were awarded to 19 employees in the form of putative stock, and 101,215 performance units with a face value of $100 per unit were awarded to 203 employees. Payment of these performance awards is approved by a committee of the Board of Directors and is contingent on achieving performance targets over a three-year period. In 1987, 92,970 performance units totaling $9.3 million were paid to 151 employees based upon performance units awarded in 1984 and 235,779 performance shares totaling $14.9 million were paid to 25 employees based on performance shares awarded in 1983.

Note 16: Commitments and Contingent Liabilities

The Corporation had previously provided for all estimated future costs associated with the resolution of all uranium supply contract suits and related litigation. The net liability for estimated future costs of $109.5 million at December 31, 1987 is deemed adequate considering all facts and circumstances known to management. The future obligations require providing specific quantities of uranium and products and services over a period extending beyond the year 2000. The net costs of meeting these obligations and other related settlement transactions are applied to the balance of the liability and are not reflected in results of operations. Variances from estimates which may occur will be considered in determining if an adjustment of the liability is necessary.

The Corporation's commitments for the purchase of plant and equipment and contingent liabilities consisting of guarantees, pending litigation and other claims were not material.

Following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 1987:

Minimum Rental Payments
(in millions)

Year Ending December 31:	
1988	$150.8
1989	131.2
1990	105.3
1991	82.9
1992	55.0
Subsequent years	446.5
Total minimum payments required	$971.7

Note 17: Acquisitions, Divestitures and Restructurings

On December 30, 1987, the Corporation acquired Challenger Electrical Equipment Corporation (Challenger), including cash and marketable securities of $55 million, for $250 million of notes payable. Notes totaling $33.2 million are classified as short-term debt. Challenger manufactures residential circuit breakers, load centers, meter centers, safety switches, panelboards, switchboards and wiring devices used in the commercial and residential construction industries.

Also in December 1987, the Corporation acquired S&ME for cash and notes totaling $60 million. S&ME is an engineering, environmental and hazardous waste services firm and provides a full range of geotechnical engineering, materials engineering, testing inspection, and quality control services.

During 1987, 1986 and 1985, the Corporation acquired other smaller businesses and invested in several joint ventures. Acquisitions were recorded under the purchase method of accounting. Investments in joint ventures were recorded at cost and are adjusted periodically according to the equity method of accounting. The impact of these transactions on the Corporation's financial statements was not material.

In June 1986, the Corporation completed the sale of the stock of its Group W Cable subsidiary to a consortium of cable television operators for cash proceeds of approximately $1.7 billion and realized a pre-tax gain of $651.2 million. The transaction included all of the Corporation's remaining cable television properties except for its interest in a limited partnership which operates two franchises in Chicago.

Also in June 1986, a provision totaling $790.0 million was recorded to provide for all of the costs and expenses associated with the Corporation's major business restructuring program and for certain other unusual items. The restructuring program consists primarily of product-line relocations, the closedown or sale of certain businesses and facilities, and the writedown of inventories, fixed assets, goodwill, and other assets to recognize the impairment of value resulting from the restructuring activities. As of December 31, 1987, $187.3 million of the restructuring provision remains.

The after-tax impact of the gain from the sale of Group W Cable offset the after-tax impact of the provision for restructuring because of the different income tax rates associated with these transactions.

Note 18: Segment Information

Westinghouse is a diversified, global, technology-based corporation operating in the principal business arenas of television and radio broadcasting, defense electronics, financial services, and the industrial, construction and electrical utility markets. Through 1987 the Corporation's business units were structured into four organizational groups — Energy and Advanced Technology, Industries and International, Commercial, and Westinghouse Broadcasting. Financial results of international manufacturing entities, export sales, and foreign licensee income are included in the financial information of the organizational group which has operating responsibility.

The Energy and Advanced Technology Group provides research, development, production and support services primarily for such advanced technology products as radar systems, aircraft electrical systems, communications systems, marine propulsion equipment and launching apparatus. The Group also designs, develops, manufactures and services nuclear and fossil-fueled power generation systems, nuclear fuel, advanced energy systems, low-level nuclear waste management programs, solid waste combustion systems and transportation systems. In addition, it operates several government-owned facilities under contracts with various departments of the federal government.

The Industries and International Group includes operations that design, manufacture and market globally, electrical control, measurement, transmission and distribution products, including circuit protective devices, meters, electronic components, manufacturing automation systems, transformers and switchgear. The Group's activities also include engineering services and an electrical products distribution organization. International activities integrate domestic business units with the in-country operations in key markets of the world.

The Commercial Group consists of diverse businesses whose products include transport refrigeration equipment, decorative and copper-clad laminates, insulating materials, furniture systems and components, elevators and escalators, watches, beverage bottling and community development.

Westinghouse Broadcasting owns and operates five television stations, 15 radio stations and a production company that produces syndicated television programs. The Group also provides programming for the cable television industry. The Group's cable television systems were sold in June 1986 (note 17). In January 1988 Westinghouse Broadcasting agreed to acquire an additional radio station. Group W Cable's results for the portion of 1986 during which it was owned by Westinghouse comprised approximately 30 percent of the Broadcasting segment's revenues for the year and 8 percent of its profit.

Financial Information by Segment

(in millions)

	1987	*1986*	*1985*
Sales and operating revenues:			
Energy and Advanced Technology	**$ 4,578.8**	$ 4,727.3	$ 4,303.3
Industrial	**3,779.5**	3,655.8	3,792.5
Commercial	**1,865.4**	1,689.0	1,740.0
Broadcasting	**600.5**	838.8	1,069.2
Other	**109.9**	110.7	119.9
	10,934.1	11,021.6	11,024.9
Intersegment sales	**(255.1)**	(290.6)	(324.7)
Total sales and operating revenues	**$10,679.0**	$10,731.0	$10,700.2
Operating profit:			
Energy and Advanced Technology	**$ 463.6**	$ 433.4	$ 397.7
Industrial	**152.4**	132.4	79.4
Commercial	**223.3**	177.8	135.4
Broadcasting	**137.4**	149.9	138.7
Other	**(39.6)**	(22.7)	(9.1)
Gain from sale of Group W Cable (note 17)	**–**	651.2	–
Provision for major business restructuring and other unusual items (note 17)	**–**	(790.0)	–
Operating profit after unusual items	**937.1**	732.0	742.1
Equity in income of financial services subsidiary and other affiliates	**148.5**	111.1	120.8
Other income, net	**112.5**	103.8	118.0
Interest expense	**(126.1)**	(145.9)	(185.0)
Income before income taxes and minority interest	**$ 1,072.0**	$ 801.0	$ 795.9
Segment identifiable assets:			
Energy and Advanced Technology	**$ 2,690.9**	$ 2,755.1	$ 2,749.4
Industrial	**2,395.4**	1,869.5	2,026.9
Commercial	**1,108.1**	1,050.3	1,001.4
Broadcasting	**383.4**	313.9	1,680.9
Other	**194.7**	367.1	318.5
Adjustments and eliminations	**(81.9)**	(92.2)	(120.2)
	6,690.6	6,263.7	7,656.9
Investments	**1,059.1**	893.6	762.3
Corporate assets	**2,203.4**	1,324.5	1,292.1
Total assets	**$ 9,953.1**	$ 8,481.8	$ 9,711.3

Segment sales and operating revenues include products that are transferred between segments generally at inventory cost plus a margin. Segment operating profit consists of sales and operating revenues less segment operating expenses. Of the total costs and expenses related to the Corporation's 1986 major business restructuring program, approximately $215 million related to Energy and Advanced Technology, $225 million to Industrial, $135 million to Commercial, and $75 million to Broadcasting. The remainder of the provision was for corporate restructuring activities and other unusual items. Revenues and profit of foreign manufacturing operations are included in the appropriate segments.

Certain amounts shown for 1986 and 1985 in the segment information tables have been reclassified for comparative purposes.

Assets not identified to segments principally include cash and marketable securities, deferred income taxes, investment in the nonconsolidated financial services subsidiary, and the pre-funded pension contribution.

Adjustments and eliminations deducted from segment-identifiable assets represent the removal of intersegment operating profit from the identifiable assets.

Other Financial Data
(in millions)

	1987	*1986*	*1985*
Depreciation and amortization:			
Energy and Advanced Technology	**$155**	$139	$137
Industrial	**79**	78	90
Commercial	**40**	38	35
Broadcasting	**20**	84	152
Other	**24**	32	35
	$318	$371	$449
Capital expenditures:			
Energy and Advanced Technology	**$198**	$221	$229
Industrial	**125**	114	125
Commercial	**64**	53	53
Broadcasting	**21**	43	155
Other	**11**	9	6
	$419	$440	$568

The largest single customer of the Corporation is the United States government and its agencies, whose purchases accounted for 24 percent of the consolidated sales and operating revenues in 1987 and 1986, and 20 percent in 1985. Of these purchases, 95 percent were made from Energy and Advanced Technology. No other customer made purchases totaling 10 percent or more of consolidated sales and operating revenues.

Research and Development Expenditures
(in millions)

	1987	*1986*	*1985*
Westinghouse sponsored:			
Energy and Advanced Technology	**$152**	$174	$176
Other Westinghouse operations	**63**	72	70
Customer sponsored:			
Energy and Advanced Technology	**552**	629	695
Other Westinghouse operations	**41**	43	41
Total research and development expenditures	**$808**	$918	$982

The above amounts do not include research and development program expenditures at government-owned, Westinghouse-operated facilities.

Financial Information by Geographic Area
(in millions)

	1987	*1986*	*1985*
Sales and operating revenues:			
United States	**$ 9,571.7**	$ 9,799.2	$ 9,795.9
Subsidiaries outside United States	**1,107.3**	931.8	904.3
	$10,679.0	$10,731.0	$10,700.2
Operating profit before unusual items:			
United States	**$ 857.2**	$ 816.2	$ 675.3
Subsidiaries outside United States	**79.9**	54.6	66.8
	$ 937.1	$ 870.8	$ 742.1
Segment identifiable assets:			
United States	**$ 6,000.9**	$ 5,648.7	$ 6,972.9
Subsidiaries outside United States	**689.7**	615.0	684.0
	$ 6,690.6	$ 6,263.7	$ 7,656.9

Subsidiaries located outside the United States contributed 6 percent in 1987, 2 percent in 1986, and 6 percent in 1985 of net income. The decline in the subsidiaries' net income for 1986 reflects their portion of the cost of the Corporation's major business restructuring program. These operations comprised 7 percent of total assets and 6 percent, 6 percent and 5 percent of total liabilities for the same three years.

The Corporation sells products manufactured domestically to customers throughout the world using domestic divisions and domestic subsidiaries doing business primarily outside the United States. Generally, products manufactured outside the United States are sold outside the United States.

Sales from Products Sold Outside the United States
(in millions)

	1987		*1986*		*1985*	
	Amount	% of Consol. Sales	Amount	% of Consol. Sales	Amount	% of Consol. Sales
Subsidiaries outside United States	**$1,107**	**10.3%**	$ 932	8.7%	$ 904	8.5%
United States exports	**1,096**	**10.3%**	1,079	10.0%	1,114	10.4%
Total sales from products sold outside United States	**$2,203**	**20.6%**	$2,011	18.7%	$2,018	18.9%

Westinghouse Financial Services, Inc. Condensed Consolidated Financial Statements

(in millions)

Balance Sheet

At December 31	1987	1986
Cash and short-term investments	**$ 386.7**	$ 420.9
Marketable securities	**380.6**	274.2
Receivables, net	**5,269.0**	4,977.8
Other assets	**225.9**	84.6
Total assets	**$6,262.2**	$5,757.5
Short-term notes payable	**$2,500.3**	$2,601.6
Long-term senior debt	**2,192.9**	1,758.8
Subordinated debt	**334.7**	339.3
Other liabilities	**467.2**	400.9
Capital, net of unrealized loss on marketable equity securities	**90.7**	95.5
Income reinvested in the business	**676.4**	561.4
Total liabilities and stockholder's equity	**$6,262.2**	$5,757.5

Statement of Income

Year Ended December 31	1987	1986	1985
Earned income	**$687.5**	$689.0	$586.7
Expenses:			
Interest	**394.8**	379.1	338.6
Operating and administrative	**86.5**	82.2	78.5
Provision for losses on receivables and other assets	**33.4**	111.0	48.5
Total expenses	**514.7**	572.3	465.6
Income before income taxes	**172.8**	116.7	121.1
Provision for income taxes	**57.8**	10.7	42.9
Net income	**$115.0**	$106.0	$ 78.2

Additional information concerning Westinghouse Credit Corporation, the principal subsidiary of Westinghouse Financial Services, Inc., is included in its 1987 Annual Report.

Five-Year Summary Selected Financial And Statistical Data

(dollars in millions except per share amounts)

	1987	*1986*	*1985*	*1984*	*1983*
Sales and operating revenues	**$10,679.0**	$10,731.0	$10,700.2	$10,264.5	$9,532.6
Equity earnings and other income	**$ 261.0**	$ 214.9	$ 238.8	$ 228.8	$ 131.9
Interest expense	**$ 126.1**	$ 145.9	$ 185.0	$ 176.6	$ 151.1
Income taxes	**$ 333.4**	$ 129.0	$ 188.6	$ 122.6	$ 4.1
Net income	**$ 738.9**	$ 670.8	$ 605.3	$ 535.9	$ 449.0
Net income as a percentage of sales	**6.9%**	6.3%	5.7%	5.2%	4.7%
Return on average equity	**22.9%**	20.7%	16.0%	15.1%	13.8%
Primary earnings per share	**$ 5.12**	$ 4.42	$ 3.52	$ 3.04	$ 2.54
Dividends per share	**$ 1.64**	$ 1.35	$ 1.15	$ .975	$ .90
Cash and marketable securities	**$ 1,434.8**	$ 597.5	$ 702.1	$ 611.5	$ 548.3
Plant and equipment, net	**$ 2,337.0**	$ 2,188.7	$ 3,300.2	$ 3,295.4	$3,090.0
Total assets	**$ 9,953.1**	$ 8,481.8	$ 9,711.3	$ 9,150.4	$8,569.0
Short-term debt	**$ 1,535.7**	$ 596.9	$ 2,039.2	$ 1,115.1	$ 953.2
Long-term debt	**$ 830.2**	$ 518.2	$ 525.3	$ 567.3	$ 354.8
Common stockholders' equity	**$ 3,576.6**	$ 3,009.6	$ 3,234.7	$ 3,740.8	$3,410.3
Average shares for primary earnings per share	**145,180,270**	152,331,187	172,488,375	177,301,873	176,881,388
Market price range per share	**$75-40**	$62½-42	$46¾-25⅜	$28⅜-19¾	$28¼-18⅝
Common stockholders at year-end	**116,898**	123,859	134,096	140,799	143,731
Average number of employees	**112,478**	117,267	124,935	126,849	132,927

Quarterly Financial Information *(unaudited)*

(in millions except per share amounts)

Quarter Ended	Sales and Operating Revenues	Operating Profit After Unusual Items	Net Income	Primary Earnings Per Share	Dividends Per Share	Common Stock Prices *High*	*Low*
1987:							
December 31	**$ 3,121.5**	**$319.4**	**$223.3**	**$1.54**	**$ .43**	**74⅞**	**40**
September 30	**2,593.8**	**211.6**	**184.1**	**1.28**	**.43**	**75**	**62**
June 30	**2,640.5**	**232.5**	**179.9**	**1.25**	**.43**	**68⅜**	**56¼**
March 31	**2,323.2**	**173.6**	**151.6**	**1.05**	**.35**	**68**	**56⅛**
	$10,679.0	**$937.1**	**$738.9**	**$5.12**	**$1.64**	**75**	**40**
1986:							
December 31	$ 2,869.1	$286.6	$203.2	$1.38	$ .35	62½	52½
September 30	2,574.5	211.8	169.3	1.11	.35	60¼	48½
June 30	2,733.7	63.9(a)	163.1	1.05	.35	57¾	49½
March 31	2,553.7	169.7	135.2	.88	.30	55	42
	$10,731.0	$732.0	$670.8	$4.42	$1.35	62½	42

(a) Includes gain on the sale of Group W Cable of $651.2 and provision for major business restructuring and other unusual items of $790.0.

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Technology, Quality and Operations Services

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Marketing Services

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Maurice C. Sardi
Commercial

Burton B. Staniar
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Vice Presidents

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Pension Investments and Investor Relations

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President, Westinghouse Beverage Group

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President, Thermo King Corporation

John H. Courcoulas
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Controller

John H. Fooks
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Warren H. Hollinshead
Corporate Development

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President, Westinghouse Hanford Company

Carl R. Johnson
Southeastern Region

Margaret M. Kennedy
Administrative Assistant to the Chairman

Donald C. Korb
Treasurer

David L. Litten
Midwestern Region

Alan J. Meilinger
Purchases, Traffic and Real Estate

James S. Moore
Power Systems

Bruce W. Morrison
Atlantic Region

Hercules Paxinos
New York Metropolitan Region

Samuel R. Pitts
Environmental Affairs

Edward B. Priestner
President, Westinghouse Canada, Inc.

Richard J. Slember
Nuclear Fuel

William T. Taylor
President, Westinghouse Electric Supply Company

A. Richard Whittemore
Western Region

F. Leo Wright
Government Affairs

J. Stanley Wyble
Southwestern Region

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Calgary, Alberta, Canada

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Programs in Health
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School of Public Health
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Pittsburgh, Pa.

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Washington, D.C.

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Amoco Corporation
Chicago, Ill.

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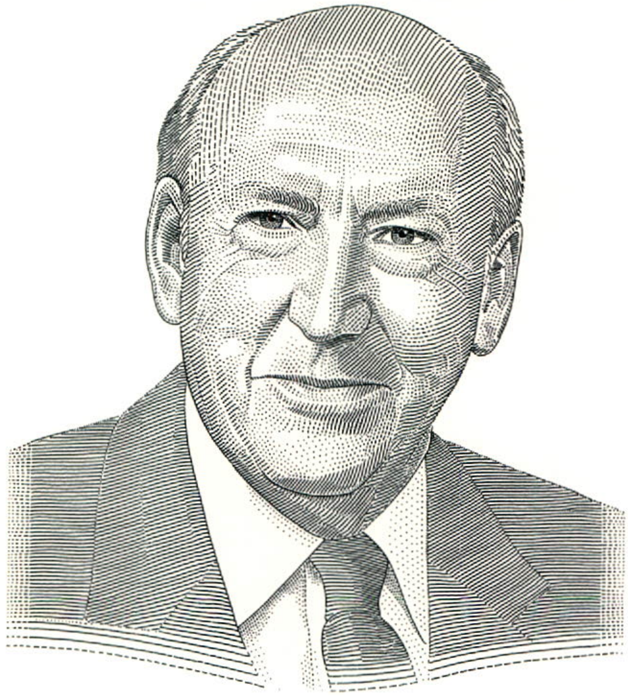

The Danforth Years

Douglas D. Danforth, the 11th chief executive in the 101-year history of Westinghouse, retired on December 31, 1987.

Success marked every endeavor of his distinguished business career — which culminated with four years as vice chairman and four years as chairman of Westinghouse.

In his 32 years of service to Westinghouse, Mr. Danforth strengthened thriving businesses, cured ailing ones, created exciting new ventures and skillfully balanced the long- and short-term needs of the enterprise.

His chairmanship demonstrated that dedication to the interests of shareholders serves investors, customers and employees equally well. Earnings per share doubled and return on equity, another key indicator of financial performance, rose to more than 20 percent — putting Westinghouse in the top echelon of American corporations.

Douglas Danforth's legacy is a financially sound Corporation, rich in technology and management talent, serving a solid worldwide customer base in a variety of growing markets — ingredients for continued progress in the years ahead.

Executive Offices
Westinghouse Building
Gateway Center
Pittsburgh, Pa. 15222
(412)244-2000

Stockholder Records
For information or assistance regarding individual stock records, transactions, dividend checks or stock certificates, contact:
Stockholder Records
Westinghouse Electric Corporation
P.O. Box 8815
Pittsburgh, Pa. 15221
(412)244-2398 – Registration Changes
(412)244-2723 – Registration Changes
(412)244-2706 – Lost Certificates
(412)244-2721 – Dividend Checks

Corporate Information
For a copy of Form 10-K or other information about the Corporation, contact:
Stockholder Communications
Westinghouse Electric Corporation
Westinghouse Building
Gateway Center
Pittsburgh, Pa. 15222
(412)642-3129

Annual Meeting
April 27, 1988
10:30 a.m.
The Peabody Hotel
149 Union Ave.
Memphis, Tenn.

Stock Exchanges
New York
Philadelphia
Boston
Midwest
Pacific

Stock Symbol
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Transfer Agents/Registrars
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110 William Street
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