

*The McGraw-Hill Companies*

# MHP

**2005  
Investor  
Fact  
Book**

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**PRINCIPAL EXECUTIVES****Harold McGraw III***Chairman, President and Chief Executive Officer***Corporate****Robert J. Bahash***Executive Vice President and Chief Financial Officer***David L. Murphy***Executive Vice President Human Resources***Deven Sharma***Executive Vice President Global Strategy***Kenneth M. Vittor***Executive Vice President and General Counsel***Glenn S. Goldberg***Senior Vice President, Corporate Affairs Assistant to the Chairman and Chief Executive Officer***Operations****Henry Hirschberg***President McGraw-Hill Education***Kathleen A. Corbet***President Financial Services***Scott C. Marden***President Information and Media Services***The McGraw-Hill Companies**1221 Avenue of the Americas  
New York, NY 10020-1095investor\_relations@mcgraw-hill.com  
www.mcgraw-hill.com/investor\_relationsDonald S. Rubin  
Senior Vice President,  
Investor Relations  
Tel: 212.512.4321  
Fax: 212.512.3840Celeste M. Hughes  
Manager, Communications and  
Shareholder Relations  
Tel: 212.512.2192

May 31, 2005

## CREATING TOTAL SHAREHOLDER VALUE

The 2005 *Investor Fact Book* provides fundamental data on what The McGraw-Hill Companies has achieved and new information on key trends that will help shape performance in the future.

Achievement can be measured by a record of growth in operating earnings, cash returned to shareholders, strong free cash flow and a solid return on invested capital. Over the last 10 years, MHP has outperformed the S&P 500, producing an annualized return of 20.9% versus 12.1% for the S&P 500.

Committed to producing total shareholder value, MHP has returned nearly \$3.2 billion in cash to shareholders since 1996 through payment of dividends and share repurchases (see table below). That represents a compound annual growth rate of 16.0%.

Transformational trends will be a catalyst for future growth.

**Financial Services** successfully operates in the world's leading markets and will keep growing as financial innovation, securitization, privatization, and disintermediation create new opportunities.

**McGraw-Hill Education** is a global business with steadily improving prospects because an educated workforce is the key to success in a knowledge-based economy. That recognition also underpins the reform movement in U.S. education. Only recently has the United States started to come to grips with the fact that human capital can no longer be wasted if the nation hopes to remain competitive.

**Information and Media Services**, whose market-leading brands include *BusinessWeek* and J.D. Power and Associates, provides business intelligence and solutions that executives and professionals must have to remain competitive in the global economy.

The convergence of content and technology will create more opportunities for The McGraw-Hill Companies. In the evolving digital marketplace, MHP is developing a growing array of higher value-added products for embedding in a customer's workflow; new solutions in education for teachers, students, and parents; and mass customization that can create a competitive advantage.

### MHP RATINGS HISTORY

#### Long-Term Notes

	2004	2003	2002	2001	2000
Moody's	A1	A1	A1	A1	A1
Fitch	A+	A+	A+	A+	A+
S&P	NA*	NA*	NA*	NA*	NA*

\* Standard & Poor's does not rate The McGraw-Hill Companies' Long-Term Notes

#### Commercial Paper Ratings

	2004	2003	2002	2001	2000
Moody's	P1	P1	P1	P1	P1
Fitch	F1	F1	F1	F1	F1
S&P	A1	A1	A1	A1	A1

## FREE CASH FLOW

Years ended December 31  
(dollars in thousands)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
<b>Cash provided by operating activities</b>	\$1,063,472	\$1,382,345	\$1,142,391	\$1,099,581	\$720,754	\$746,368	\$796,484	\$390,498	\$473,336	\$440,719	\$424,707
Investment in pre-publication costs	(237,760)	(218,049)	(249,317)	(294,538)	(250,005)	(246,341)	(194,978)	(166,784)	(182,978)	(134,118)	(118,377)
Purchase of property and equipment	(139,003)	(114,984)	(70,019)	(116,895)	(97,721)	(154,324)	(178,889)	(78,724)	(63,313)	(58,776)	(77,068)
Additions to technology projects	(10,623)	(28,145)	(55,477)	(28,840)	(15,194)	(38,315)	(41,414)	(17,422)	(13,184)	(7,483)	(10,788)
Other adjustments, principally foreign exchange	10,019	14,115	13,817	(2,221)	(3,089)	(1,679)	(1,715)	(1,500)	(341)	(2,213)	(4,883)
Dividends paid to shareholders	(228,166)	(206,543)	(197,016)	(189,834)	(182,462)	(169,049)	(154,386)	(142,705)	(131,375)	(119,653)	(114,317)
Tax payment/(dividend) from divestitures (a, b, c)	172,000	(103,500)	—	—	—	—	—	150,000	—	—	—
<b>Free cash flow</b>	\$629,939	\$725,239	\$584,379	\$467,253	\$172,283	\$136,660	\$225,102	\$133,363	\$82,145	\$118,476	\$99,274

(a) 2004, \$172.0 million tax payment related to a 2003 gain from sale of real estate

(b) 2003, \$103.5 million dividend received from the sale of the Corporation's equity interest in real estate

(c) 1997, \$150.0 million tax payment related to the sale of Shepard's/McGraw-Hill in 1996

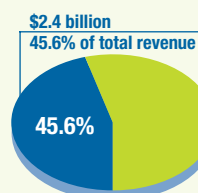
## CASH RETURNED TO SHAREHOLDERS

(dollars in millions, except S&P 500 dividend)

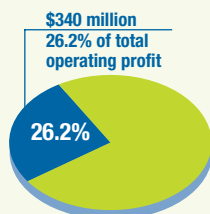
	2004	2003	2002	2001	2000	1999	1998	1997	1996	Total '96-'04	8-year CAGR
MHP dividends paid	\$228.2	\$206.5	\$197.0	\$189.8	\$182.5	\$169.0	\$154.4	\$142.7	\$131.4	\$1,601.5	7.1%
MHP shares repurchased	409.4	216.4	183.1	176.5	167.6	173.8	105.6	79.9	63.3	1,575.6	26.3%
<b>Total</b>	\$637.6	\$422.9	\$380.1	\$366.3	\$350.1	\$342.8	\$260.0	\$222.6	\$194.7	\$3,177.1	16.0%
<i>MHP growth</i>	50.8%	11.3%	3.8%	4.6%	2.1%	31.8%	16.8%	14.3%	n/a		
S&P 500 dividend	\$19.44	\$17.38	\$16.07	\$15.74	\$16.27	\$16.69	\$16.20	\$15.49	\$14.90		3.4%
<i>S&amp;P 500 growth</i>	11.9%	8.2%	2.1%	(3.3%)	(2.5%)	3.0%	4.6%	4.0%	n/a		

**MCGRAW-HILL EDUCATION**

**2004 Revenue**



**2004 Operating Profit**



**School Education Group**

**Key markets:**  
Pre-kindergarten, elementary, secondary, testing, supplemental, vocational, and post-secondary fields in the U.S.

**Higher Education, Professional and International Group**

**Key higher education markets:**  
International college, university, and post-graduate fields/markets and English as a Second Language (ESL).

**Key professional markets:**  
Worldwide engineering, science, medicine, health care, computer technology, business, government and general reference publishing.

**Key international markets:**  
Education, business, and professional markets.

**McGraw-Hill Education – Segment Revenue, Operating Profit and Operating Margin**

(dollars in millions)	2004 <sup>(a)</sup>	2003 <sup>(a)</sup>	2002 <sup>(a)</sup>
Revenue	\$ 2,396	\$ 2,349	\$ 2,343
Profit	\$ 340	\$ 322	\$ 333
Profit Margin	14.2%	13.7%	14.2%

**School Education Group – Revenue**

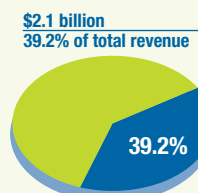
(dollars in millions)	2004	2003	2002
Revenue	\$ 1,279	\$ 1,282	\$ 1,297

**Higher Education/Professional/International Group – Revenue**

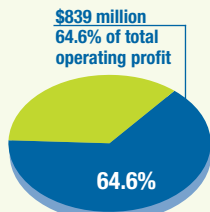
(dollars in millions)	2004	2003	2002
Revenue	\$ 1,117	\$ 1,067	\$ 1,046

**FINANCIAL SERVICES**

**2004 Revenue**



**2004 Operating Profit**



**Standard & Poor's**

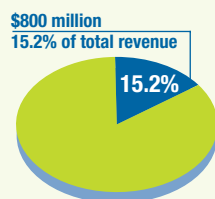
**Key markets:**  
Worldwide customers include debt issuers, investors, intermediaries, corporations, government agencies, financial institutions, portfolio managers, brokers, financial advisors, fund managers, and securities traders.

**Financial Services – Segment Revenue, Operating Profit and Operating Margin**

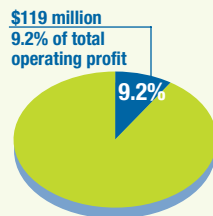
(dollars in millions)	2004	2003	2002 <sup>(b)</sup>
Revenue	\$ 2,055	\$ 1,769	\$ 1,556
Profit	\$ 839	\$ 668	\$ 561
Profit Margin	40.8%	37.7%	36.1%

## INFORMATION AND MEDIA SERVICES

### 2004 Revenue



### 2004 Operating Profit



### Business-to-Business Group

#### Key markets:

Professionals and corporate executives in automotive, aviation, construction, energy, and healthcare. Global business and financial professionals, investors, marketers, advertisers, and consumers worldwide.

### Broadcasting Group

#### ABC affiliates:

KMGH-TV (Denver), KGTV (San Diego), KERO-TV (Bakersfield), WRTV (Indianapolis)

#### Key markets:

Television audiences in Denver, Colorado; Indianapolis, Indiana; San Diego and Bakersfield, California.

### Information and Media Services – Segment Revenue, Operating Profit and Operating Margin

(dollars in millions)	2004	2003	2002
Revenue	\$ 800	\$ 773	\$ 809
Profit	\$ 119	\$ 110	\$ 118
Profit Margin	14.9%	14.2%	14.6%

### Business-to-Business Group – Revenue

(dollars in millions)	2004	2003	2002
Revenue	\$ 686	\$ 670	\$ 700

### Broadcasting Group – Revenue

(dollars in millions)	2004	2003	2002
Revenue	\$ 114	\$ 103	\$ 109

Notes for Segments at a Glance (pages 2 and 3):

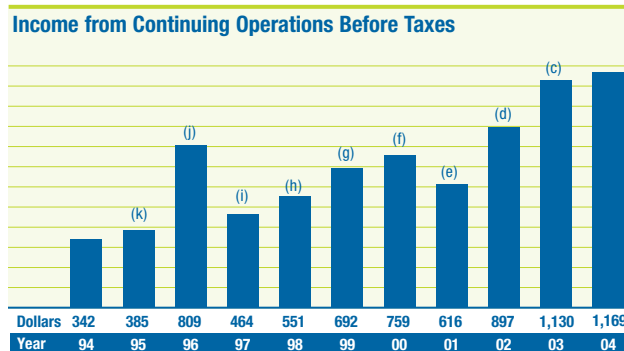
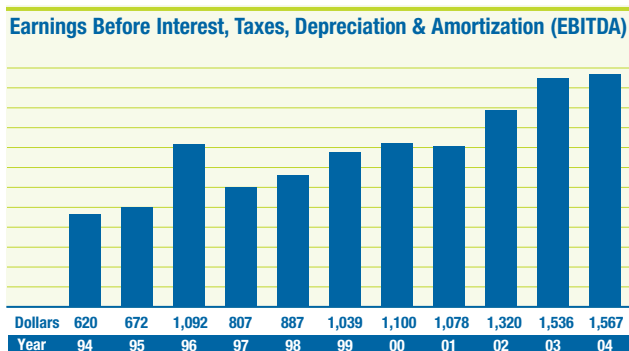
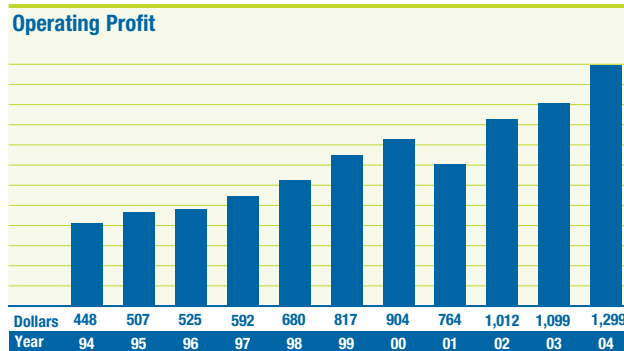
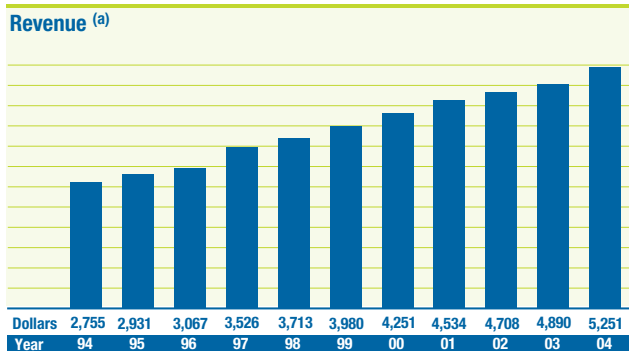
#### McGraw-Hill Education

- (a) Revenue has been reclassified in accordance with Emerging Issues Task Force 00-10 "Accounting for Shipping and Handling Fees and Costs," resulting in an increase in revenue of \$62.5 million, \$62.5 million and \$67.5 million for 2004, 2003 and 2002, respectively

#### Financial Services

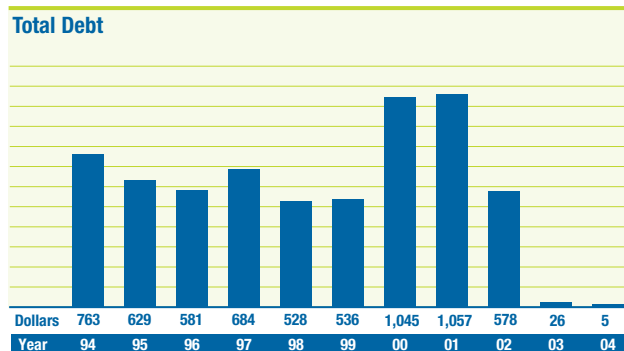
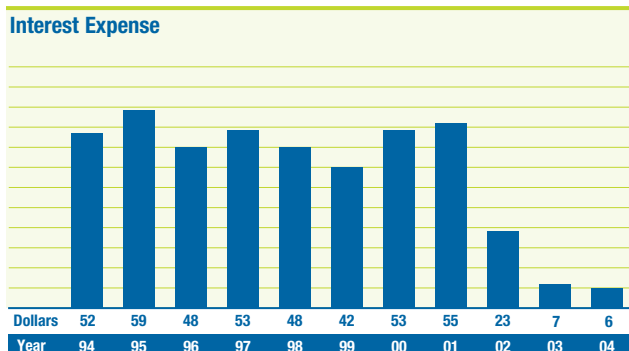
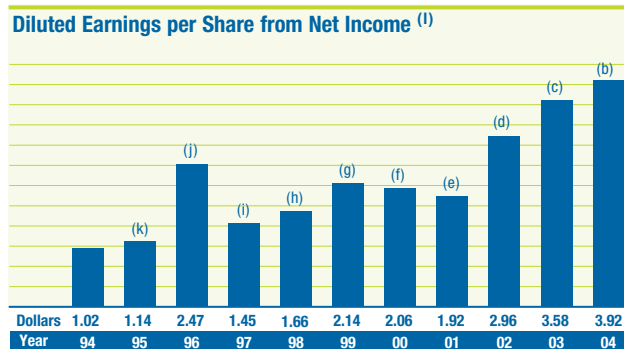
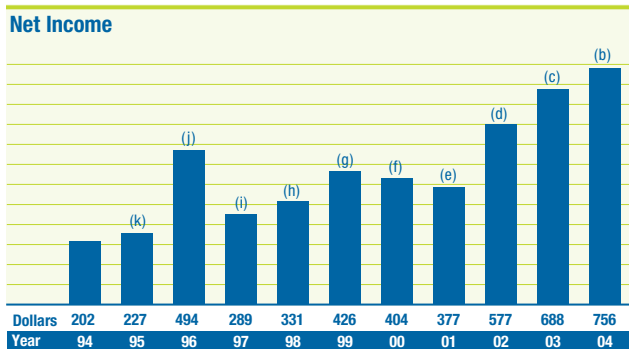
- (b) Reflects the impact of a \$14.5 million pre-tax loss on the disposition of MMS International

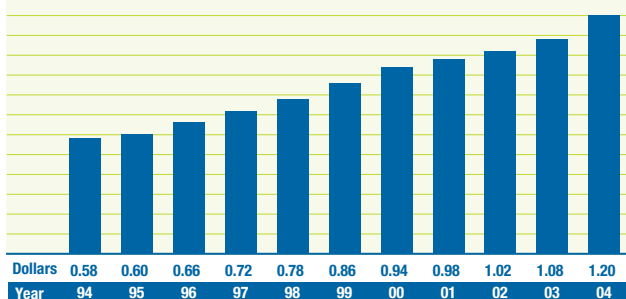
(dollars in millions, except per share data)



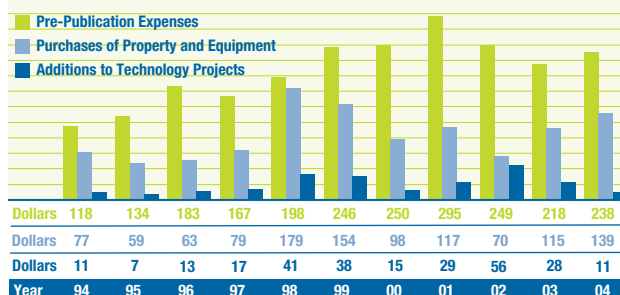
4

Please refer to EBITDA reconciliation table on page 14



Dividends per Share of Common Stock <sup>(1)</sup>

## Capital Expenditures

Notes for Eleven-Year Financial Trends  
(pages 4 and 5):

Certain prior year amounts have been reclassified for comparability purposes

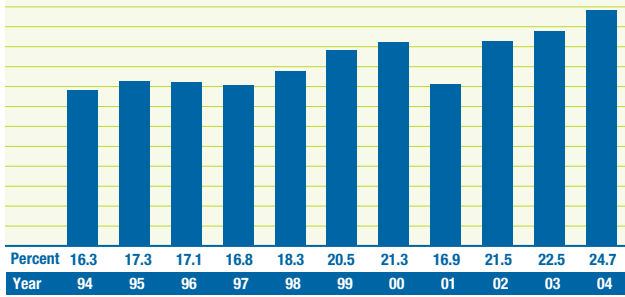
- (a) In 2004, all revenue in prior periods were reclassified in accordance with Emerging Issues Task Force Issue 00-10, "Accounting for Shipping and Handling Fees and Costs," resulting in an increase in revenues in all years presented
- (b) 2004 includes a non-cash benefit of approximately \$20 million (\$0.10 per diluted share) as a result of the Company's completion of various federal, state and local, and foreign tax audit cycles. In the first quarter of 2004 the Company accordingly removed approximately \$20 million from its accrued income tax liability accounts. This non-cash item resulted in a reduction to the overall effective tax rate from continuing operations to 35.3%
- (c) 2003 income from continuing operations includes a pre-tax gain on sale of real estate of \$131.3 million (\$58.4 million after-tax gain, or \$0.30 per diluted earnings per share)
- (d) Includes a \$14.5 million pre-tax loss (\$2.0 million after-tax benefit, or \$0.01 per diluted share) on the disposition of MMS International

- (e) Includes impact of the following items: a \$159.0 million provision for restructuring and asset write-down (\$112.0 million after taxes, or \$0.57 per diluted share), a \$6.9 million pre-tax gain on the sale of real estate (\$0.02 per diluted share), an \$8.8 million pre-tax gain on the sale of DRI (\$26.3 million after taxes, or \$0.13 per diluted share), and a \$22.8 million pre-tax charge for the write-down of certain assets, the shutdown of *Blue List* and the contribution of Rational Investors (\$21.9 million after taxes, or \$0.11 per diluted share)
- (f) Includes a \$16.6 million gain on sale of Tower Group International (\$10.2 million after taxes, or \$0.05 per diluted share) and the cumulative effect on prior years of changes in accounting of \$68.1 million or \$0.35 per diluted share for the adoption of SAB 101, "Revenue Recognition in Financial Statements"
- (g) Includes a \$39.7 million gain on the sale of the Petrochemical publications (\$24.2 million after taxes, or \$0.12 per diluted share)

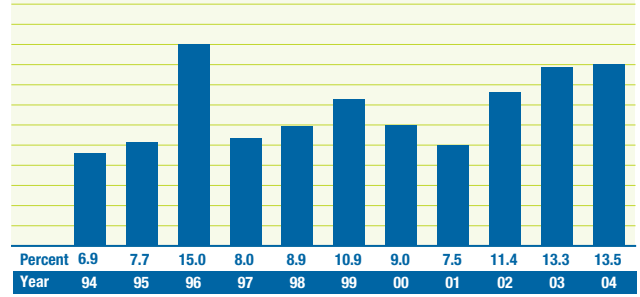
- (h) Includes a \$26.7 million gain on sale of a building (\$16.3 million after-tax, or \$0.08 per diluted share) and a \$16.0 million provision (\$9.8 million after-tax, or \$0.05 per diluted share) at Continuing Education Center for write-down of assets due to a continuing decline in enrollments and the impact of an extraordinary loss of \$8.7 million (\$5.6 million after taxes, or \$0.04 per diluted share) on the early extinguishment of debt
- (i) Includes a provision of \$33.2 million (\$19.9 million after taxes, or \$0.10 per diluted share) for real estate write-downs for the consolidation of office space in New York City; also includes a gain on the sale of Datapro Information Services of \$20.4 million (\$20.2 million after taxes, or \$0.10 per diluted share)
- (j) Includes a gain on the exchange of Shepard's/McGraw-Hill for the Times Mirror Higher Education Group of \$418.7 million (\$260.5 million after taxes, or \$1.30 per diluted share) and a one-time charge of \$25.0 million (\$14.9 million after taxes, or \$0.07 per diluted share) for integration costs

- (k) Includes a \$26.8 million provision for best-practice initiatives and a \$23.8 million gain on the sale of the topical publishing division of Shepard's/McGraw-Hill
- (l) All per share data and all prior periods reflect the 2-for-1 stock split declared by the Company's Board of Directors on January 27, 1999

Operating Profit Margin

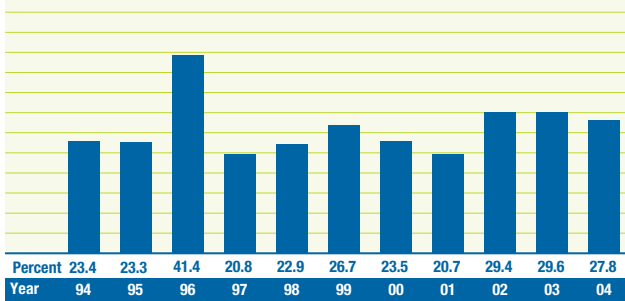


Return on Average Assets\*

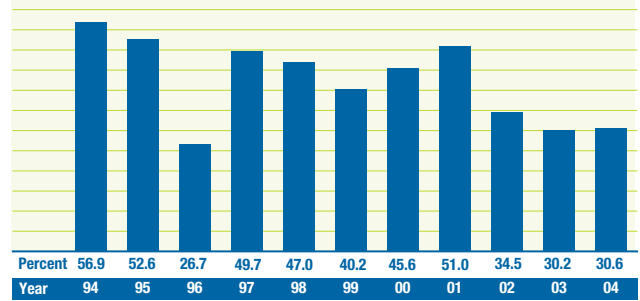


\* Certain prior year amounts have been reclassified for comparability purposes

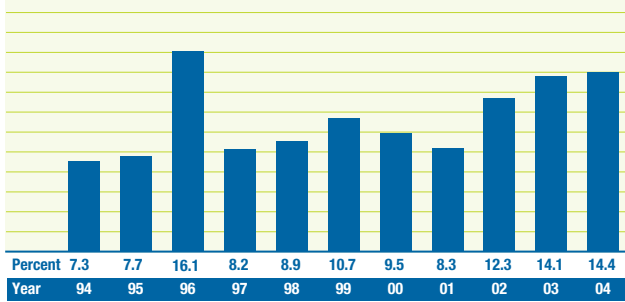
Return on Average Shareholders' Equity



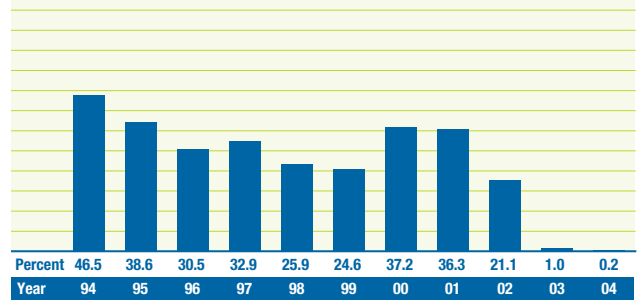
Dividend Payout (as a percentage of current year's earnings)



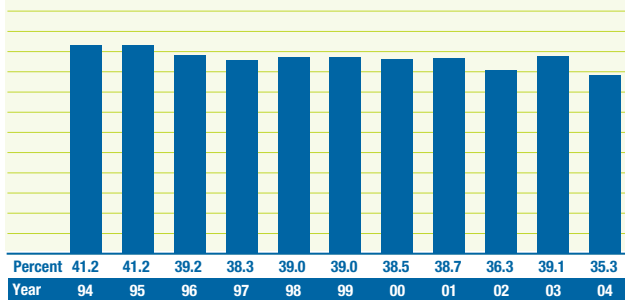
Net Income Margin



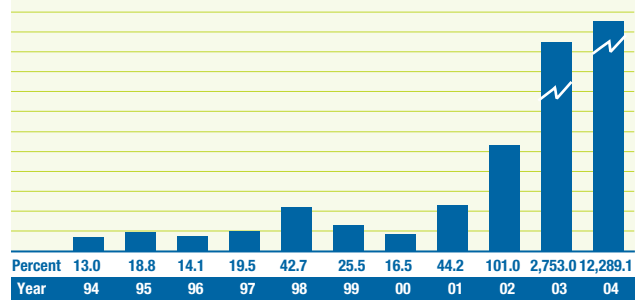
Total Debt to Capitalization



Tax Rate



Free Cash Flow to Debt



Please see free cash flow table on page 1

RETURN ON INVESTED CAPITAL											
(dollars in millions)	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Income from continuing operations before taxes on income	\$1,168.9	\$1,130.3	\$897.4	\$616.1	\$759.4	\$692.1	\$551.4	\$463.9	\$808.8	\$385.1	\$342.0
Interest expense	5.8	7.1	22.5	55.1	52.8	42.0	48.0	52.5	47.7	58.8	51.7
Early extinguishment of debt, net of tax	—	—	—	—	—	—	(8.7)	—	—	—	—
Cumulative effect on prior years of changes in accounting	—	—	—	—	(68.1)	—	—	—	—	—	—
<b>EBIT</b>	<b>\$1,174.7</b>	<b>\$1,137.4</b>	<b>\$919.9</b>	<b>\$671.2</b>	<b>\$744.1</b>	<b>\$734.1</b>	<b>\$590.7</b>	<b>\$516.4</b>	<b>\$856.5</b>	<b>\$443.9</b>	<b>\$393.7</b>
Present value of operating lease obligations (average)	\$1,082.3	\$1,109.0	\$851.4	\$576.0	\$515.0	\$448.3	\$344.9	\$239.1	\$188.8	\$202.5	\$240.0
Short-term debt (average)	15.3	72.7	171.2	225.4	204.8	128.6	76.4	51.0	47.9	88.3	138.0
Long-term debt (average)	0.5	229.7	646.2	825.6	586.2	403.4	529.6	581.9	557.1	607.4	707.5
Non-current deferred taxes (average)	201.6	167.9	156.7	132.1	98.4	75.3	56.9	61.3	69.9	54.1	39.0
Shareholders' equity (average)	2,770.8	2,361.4	2,009.9	1,807.5	1,704.8	1,578.7	1,451.7	1,358.6	1,160.9	938.1	832.9
<b>Invested capital (avg)</b>	<b>\$4,070.5</b>	<b>\$3,940.7</b>	<b>\$3,835.4</b>	<b>\$3,566.6</b>	<b>\$3,109.2</b>	<b>\$2,634.3</b>	<b>\$2,459.5</b>	<b>\$2,291.9</b>	<b>\$2,024.6</b>	<b>\$1,890.4</b>	<b>\$1,957.4</b>
<b>Return on invested capital</b>	<b>28.9%</b>	<b>28.9%</b>	<b>24.0%</b>	<b>18.8%</b>	<b>23.9%</b>	<b>27.9%</b>	<b>24.0%</b>	<b>22.5%</b>	<b>42.3%</b>	<b>23.5%</b>	<b>20.1%</b>

Notes for Eleven-Year Key Ratios (pages 6 and 7):

Certain prior year amounts have been reclassified for comparability purposes

The following one-time items were included in the calculation of the eleven-year key ratios on pages six and seven:

2004: The Company reclassified revenue in accordance with Emerging Issues Task Force 00-10, "Accounting for Shipping and Handling Fees and Costs," resulting in an increase in revenue in all years presented

Includes a non-cash benefit of approximately \$20 million (\$0.10 per diluted share) as a result of the Company's completion of various federal, state and local, and foreign tax audit cycles

In the first quarter of 2004 the Company accordingly removed approximately \$20 million from its accrued income tax liability accounts. This non-cash item resulted in a reduction to the overall effective tax rate from continuing operations to 35.3%

2003: Income from continuing operations includes a pre-tax gain on sale of real estate of \$131.3 million (\$58.4 million after-tax gain, or \$0.30 per diluted earnings per share)

2002: \$14.5 million pre-tax loss on the disposition of MMS International. The variance between the \$14.5 million pre-tax loss and the \$2.0 million after-tax benefit on the sale of MMS International is the result of previous book write-downs and the inability of the Company to take a tax benefit for the write-downs until the unit was sold. This transaction reduced the effective tax rate by 1.2 percentage points

2001: \$159.0 million pre-tax charge for restructuring and asset write-down (\$112.0 million after-tax, or \$0.57 per diluted share). A \$26.3 million after-tax gain (\$8.8 million pre-tax, or \$0.13 per diluted share) from the divestiture of DRI. The variance between the pre-tax gain and the after-tax benefit – which reduced the effective tax rate by 3.4 percentage points – is the result of previous book write-downs and the inability of the Company to take a tax benefit for the write-downs until the unit was sold. Also included in the effective tax rate was the write-down of certain assets, the shut-down of the *Blue List*, and the contribution of Rational Investors to mPower.com in exchange for an equity position in the company. The total charge for these items was \$21.9 million after-tax (\$22.8 million pre-tax, or \$0.11 per diluted share). This transaction increased the effective tax rate by 1.3 percentage points due to the Company's inability to take a benefit for these write-downs

2000: \$16.6 million pre-tax gain on the sale of Tower Group International; \$68.1 million after-tax cumulative change in accounting related to the implementation of SAB 101, "Revenue Recognition in Financial Statements"

1999: \$39.7 million pre-tax gain on the sale of the Petrochemical publications

1998: \$26.7 million pre-tax gain on the sale of a building; \$16.0 million pre-tax charge at Continuing Education Center for write-down of assets; \$8.7 million after-tax loss on the early extinguishment of debt

1997: \$33.2 million pre-tax provision for the consolidation of office space in New York City; \$20.4 million pre-tax gain on the sale of Datapro Information Services

1996: \$418.7 million pre-tax gain on the exchange of Shepard's/McGraw-Hill for the Times Mirror Higher Education Group and a \$25.0 million pre-tax charge for integration costs

1995: \$26.8 million pre-tax provision for best-practices initiatives; \$23.8 million gain on the sale of the topical publishing division of Shepard's/McGraw-Hill

REVENUE BY SEGMENT											
(dollars in millions)	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
<b>McGraw-Hill</b>											
<b>Education<sup>(a)</sup></b>	\$2,395.5	\$2,348.6	\$2,342.5	\$2,289.6	\$2,038.6	\$1,786.2	\$1,660.1	\$1,611.9	\$1,309.1	\$1,263.4	\$1,188.7
% increase/(decrease)*	2.0%	0.3%	2.3%	12.3%	14.1%	7.6%	3.0%	23.1%	3.6%	6.3%	71.7%
% of total revenue	45.6%	48.0%	49.8%	50.5%	48.0%	44.9%	44.7%	45.7%	42.7%	43.1%	43.1%
<b>Financial Services</b>											
	\$2,055.3	\$1,769.1	\$1,555.7	\$1,398.3	\$1,205.0	\$1,163.6	\$1,037.0	\$878.3	\$766.6	\$705.0	\$669.7
% increase/(decrease)*	16.2%	13.7%	11.3%	16.0%	3.6%	12.2%	18.1%	14.6%	8.7%	5.3%	6.6%
% of total revenue	39.2%	36.2%	33.0%	30.8%	28.3%	29.2%	27.9%	24.9%	25.0%	24.1%	24.3%
<b>Information and Media Services</b>											
	\$799.7	\$772.6	\$809.5	\$846.1	\$1,007.6	\$1,030.0	\$1,015.6	\$1,035.8	\$990.9	\$962.4	\$897.0
% increase/(decrease)*	3.5%	(4.6%)	(4.3%)	(16.0%)	(2.2%)	1.4%	(2.0%)	4.5%	3.0%	7.3%	2.4%
% of total revenue	15.2%	15.8%	17.2%	18.7%	23.7%	25.9%	27.4%	29.4%	32.3%	32.8%	32.6%
<b>Total revenue<sup>(a)</sup></b>											
	\$5,250.5	\$4,890.3	\$4,707.7	\$4,534.0	\$4,251.2	\$3,979.8	\$3,712.7	\$3,526.0	\$3,066.6	\$2,930.8	\$2,755.4
% increase/(decrease)*	7.4%	3.9%	3.8%	6.7%	6.8%	7.2%	5.3%	15.0%	4.6%	6.4%	25.4%

\* % increase/(decrease) over prior year

Notes for Revenue and Operating Profit by Segment (pages 8 and 9):

Certain prior year amounts have been reclassified for comparability purposes

- (a) In 2004, all revenue in prior periods were reclassified in accordance with Emerging Issues Task Force Issue 00-10, "Accounting for Shipping and Handling Fees and Costs," resulting in an increase in revenue in all years presented
- (b) 2004 includes a non-cash benefit of approximately \$20 million (\$0.10 per diluted share) as a result of the Company's completion of various federal, state and local, and foreign tax audit cycles. In the first quarter of 2004 the Company accordingly removed approximately \$20 million from its accrued income tax liability accounts. This non-cash item resulted in a reduction to the overall effective tax rate from continuing operations to 35.3%
- (c) In 2003, the Company adopted the Discontinued Operations presentation, outlined in SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Discontinued operating components, revenue and operating profit of S&P ComStock and juvenile retail publishing business historically included in the Financial Services and McGraw-Hill Education segments, respectively, were presented as discontinued operations.

2003 discontinued operations include \$87.5 million on the divestiture of S&P ComStock (\$57.2 million after-tax gain, or \$0.30 per diluted earnings per share), and an \$81.1 million loss on the planned disposition of juvenile retail publishing business (\$57.3 million after-tax loss, or \$0.30 per diluted earnings per share) which was subsequently sold on January 30, 2004. Discontinued operations in years 2002 - 2000 reflect net after-tax earnings/(loss) from the operations of S&P ComStock and juvenile retail publishing business and 1999 - 1993 reflect net after-tax earnings/(loss) from the operations of S&P ComStock. Discontinued operations in 2004 reflect the net after-tax (loss) from the operations of juvenile retail publishing business in January of 2004 before the sale of the business

(d) 2003 income from continuing operations before taxes includes a pre-tax gain on sale of real estate of \$131.3 million (\$58.4 million after-tax gain, or \$0.30 per diluted earnings per share)

(e) 2002 income from continuing operations before taxes reflects a \$14.5 million pre-tax loss (\$2.0 million after-tax benefit, or \$0.01 per diluted share) on the disposition of MMS International

- (f) 2001 income from continuing operations before taxes reflects the following items: a \$159.0 million pre-tax charge for restructuring and asset write-down; an \$8.8 million pre-tax gain on the disposition of DRI; a \$22.8 million pre-tax loss on the closing of *Blue List*, the contribution of Rational Investors and the write-down of selected assets; and a \$6.9 million pre-tax gain on the sale of a building
- (g) 2000 income from continuing operations before taxes reflects a \$16.6 million gain on the sale of Tower Group International
- (h) 1999 income from continuing operations before taxes on income reflects a \$39.7 million gain on the sale of the Petrochemical publications
- (i) 1998 income from continuing operations before taxes on income reflects a \$26.7 million gain on sale of a building and a \$16.0 million charge at Continuing Education Center for write-down of assets due to a continuing decline in enrollments
- (j) 1997 income from continuing operations before taxes on income reflects a \$33.2 million provision for the consolidation of office space in New York City and a \$20.4 million gain on the sale of Datapro Information Services

- (k) 1996 operating profit excludes a net gain on the exchange of Shepard's/McGraw-Hill for the Times Mirror Higher Education group comprising a \$418.7 million gain on the exchange and a \$25.0 million one-time charge for integration costs
- (l) 1995 income from continuing operations before taxes on income reflects a \$26.8 million provision for best-practice initiatives and a \$23.8 million gain on sale of the topical publishing division of Shepard's/McGraw-Hill
- (m) The cumulative adjustment in 2000 reflects the adoption of SAB 101, "Revenue Recognition in Financial Statements." The extraordinary item in 1998 relates to costs for the early extinguishment of \$155 million of the Company's 9.43% Notes during the third quarter

OPERATING PROFIT BY SEGMENT											
(\$ in millions, except per share data)	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
<b>McGraw-Hill Education</b>	\$340.1	\$321.8	\$333.0	\$273.3	\$307.7	\$273.7	\$202.1	\$187.7	\$151.9	\$162.6	\$125.8
% increase/(decrease)*	5.7%	(3.4%)	21.8%	(11.2%)	12.4%	35.4%	7.6%	23.6%	(6.6%)	29.3%	N/M
% of total	26.2%	29.3%	32.9%	35.8%	34.0%	33.5%	29.7%	31.7%	29.0%	32.0%	28.1%
<b>Financial Services</b>	\$839.4	\$667.6	\$560.8	\$425.9	\$383.0	\$358.2	\$338.7	\$245.2	\$241.5	\$214.7	\$201.6
% increase/(decrease)*	25.7%	19.0%	31.7%	11.2%	6.9%	5.8%	38.1%	1.5%	12.5%	6.5%	8.2%
% of total	64.6%	60.7%	55.4%	55.7%	42.4%	43.8%	49.8%	41.4%	46.0%	42.3%	45.0%
<b>Information and Media Services</b>	\$119.3	\$109.8	\$118.0	\$65.0	\$212.9	\$185.5	\$139.3	\$158.9	\$131.4	\$130.2	\$120.5
% increase/(decrease)*	8.6%	(7.0%)	81.6%	(69.5%)	14.8%	33.2%	(12.3%)	20.9%	1.0%	8.0%	3.2%
% of total	9.2%	10.0%	11.7%	8.5%	23.6%	22.7%	20.5%	26.9%	25.0%	25.7%	26.9%
<b>Total operating profit</b>	\$1,298.8	\$1,099.2	\$1,011.8	\$764.2	\$903.6	\$817.4	\$680.1	\$591.8	\$524.8	\$507.5	\$447.9
% increase/(decrease)*	18.2%	8.6%	32.4%	(15.4%)	10.6%	20.2%	14.9%	12.8%	3.4%	13.3%	27.0%
Unusual charges <sup>(k)</sup>	—	—	—	—	—	—	—	—	(25.0)	—	—
Gain on exchange of Shepard's/McGraw-Hill <sup>(k)</sup>	—	—	—	—	—	—	—	—	418.7	—	—
General corporate income/(expense) <sup>(d)</sup>	(124.1)	38.2	(91.9)	(93.0)	(91.4)	(83.3)	(80.7)	(75.3)	(62.1)	(63.6)	(54.1)
Interest expense	(5.8)	(7.1)	(22.5)	(55.1)	(52.8)	(42.0)	(48.0)	(52.6)	(47.6)	(58.8)	(51.8)
<b>Income from continuing operations before taxes on income<sup>(d,e,f,g,h,i,j,l)</sup></b>	1,168.9	1,130.3	897.4	616.1	759.4	692.1	551.4	463.9	808.8	385.1	342.0
Provision for taxes on income <sup>(b)</sup>	412.5	442.5	325.4	238.4	292.4	269.9	215.0	177.6	316.7	158.7	140.9
Income from continuing operations before extraordinary item and cumulative adjustment	756.4	687.8	572.0	377.7	467.0	422.2	336.4	286.3	492.1	226.4	201.1
<b>Discontinued operations</b>											
Net earnings/(loss) from discontinued operations <sup>(c)</sup>	(0.6)	(0.1)	4.8	(0.7)	4.9	3.4	2.9	2.4	1.4	0.4	0.7
<b>Income before extraordinary item and cumulative adjustment</b>	755.8	687.7	576.8	377.0	471.9	425.6	339.3	288.7	493.5	226.8	201.8
Early extinguishment of debt, net of tax <sup>(m)</sup>	—	—	—	—	—	—	(8.7)	—	—	—	—
Cumulative effect on prior years of changes in accounting <sup>(m)</sup>	—	—	—	—	(68.1)	—	—	—	—	—	—
<b>Net income</b>	\$755.8	\$687.7	\$576.8	\$377.0	\$403.8	\$425.6	\$330.6	\$288.7	\$493.5	\$226.8	\$201.8
<b>Basic earnings per share</b>											
Income from continuing operations before extraordinary item and cumulative adjustment	\$3.98	\$3.61	\$2.97	\$1.95	\$2.41	\$2.15	\$1.71	\$1.45	\$2.48	\$1.14	\$1.02
Discontinued operations <sup>(c)</sup>	—	—	0.02	—	0.02	0.02	0.01	0.01	—	—	—
Income before extraordinary item and cumulative adjustment	\$3.98	\$3.61	\$2.99	\$1.95	\$2.43	\$2.17	\$1.72	\$1.46	\$2.48	\$1.14	\$1.02
Extraordinary item and cumulative adjustment <sup>(m)</sup>	—	—	—	—	(0.35)	—	(0.04)	—	—	—	—
Net income	\$3.98	\$3.61	\$2.99	\$1.95	\$2.08	\$2.17	\$1.68	\$1.46	\$2.48	\$1.14	\$1.02
<b>Diluted earnings per share</b>											
Income from continuing operations before extraordinary item and cumulative adjustment	\$3.92	\$3.58	\$2.94	\$1.93	\$2.38	\$2.13	\$1.69	\$1.43	\$2.46	\$1.14	\$1.02
Discontinued operations <sup>(c)</sup>	—	—	0.02	(0.01)	0.03	0.01	0.01	0.02	0.01	—	—
Income before extraordinary item and cumulative adjustment	\$3.92	\$3.58	\$2.96	\$1.92	\$2.41	\$2.14	\$1.70	\$1.45	\$2.47	\$1.14	\$1.02
Extraordinary item and cumulative adjustment <sup>(m)</sup>	—	—	—	—	(0.35)	—	(0.04)	—	—	—	—
Net income	\$3.92	\$3.58	\$2.96	\$1.92	\$2.06	\$2.14	\$1.66	\$1.45	\$2.47	\$1.14	\$1.02

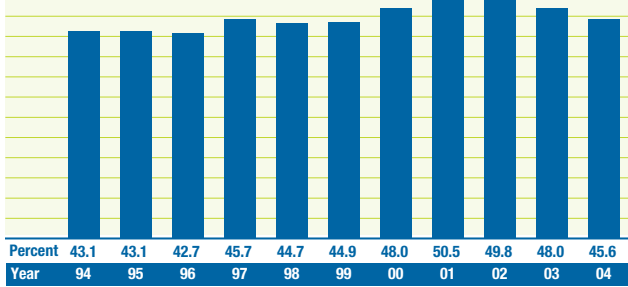
\* % increase/(decrease) over prior year

N/M indicates a non-meaningful or non-calculable variance

**MCGRAW-HILL EDUCATION**

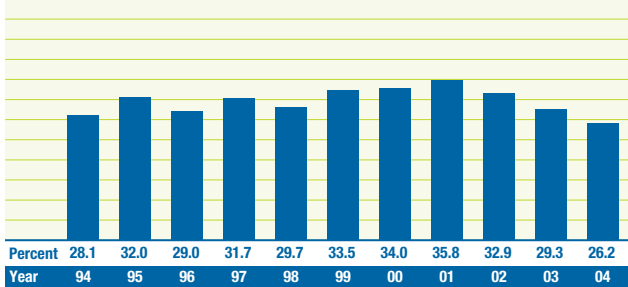
**Percent of Total Revenue**

McGraw-Hill Education



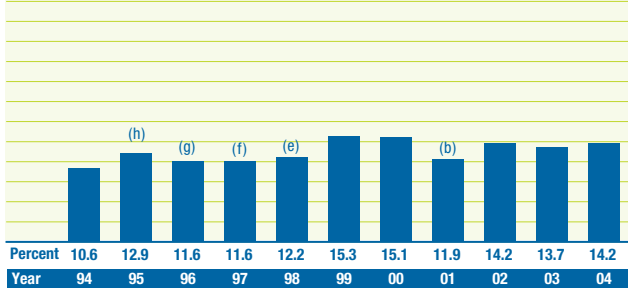
**Percent of Total Operating Profit**

McGraw-Hill Education



**Operating Profit Margin**

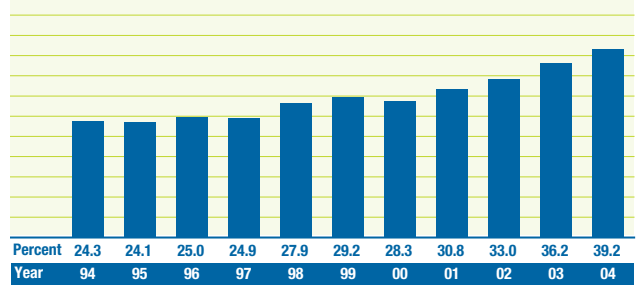
McGraw-Hill Education



**FINANCIAL SERVICES**

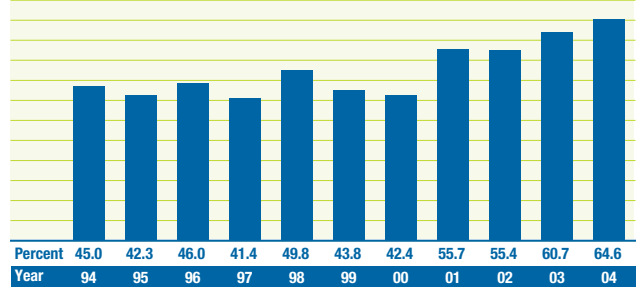
**Percent of Total Revenue**

Financial Services



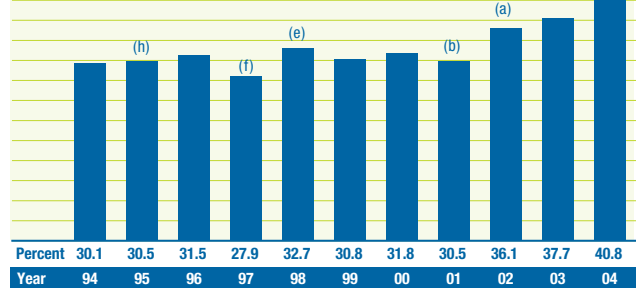
**Percent of Total Operating Profit**

Financial Services



**Operating Profit Margin**

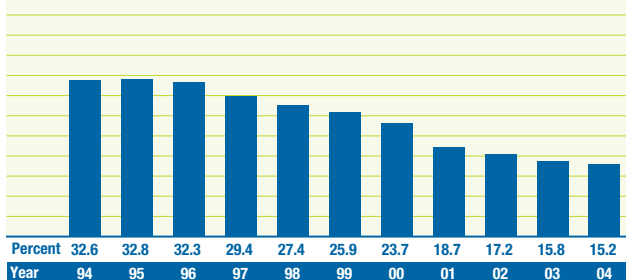
Financial Services



## INFORMATION AND MEDIA SERVICES

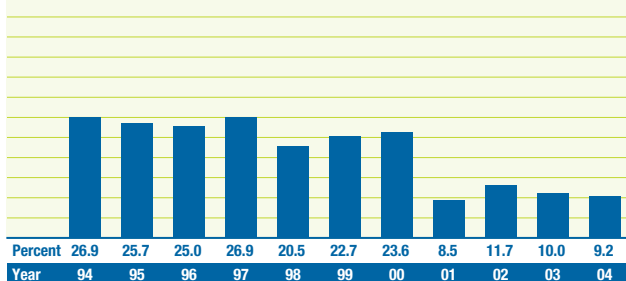
### Percent of Total Revenue

Information and Media Services



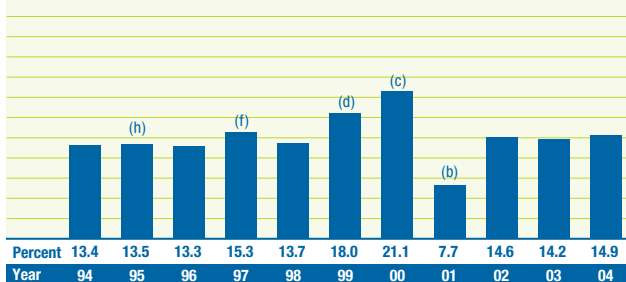
### Percent of Total Operating Profit

Information and Media Services



### Operating Profit Margin

Information and Media Services



Notes for Segment Trends (pages 10 and 11):

- (a) Operating margin for 2002 reflects a \$14.5 million pre-tax loss on the disposition of MMS International (\$2.0 million after-tax benefit, or \$0.01 per diluted share)
- (b) Operating margins for 2001 reflect the following items: a \$159.0 million provision for restructuring and asset write-down (\$112.0 million after taxes, or \$0.57 per diluted share), a \$6.9 million pre-tax gain on the sale of real estate (\$0.02 per diluted share), an \$8.8 million pre-tax gain on the sale of DRI (\$26.3 million after taxes, or \$0.13 per diluted share), and a \$22.8 million pre-tax charge for the write-down

of certain assets, the shutdown of *Blue List*, and the contribution of Rational Investors (\$21.9 million after taxes, or \$0.11 per diluted share)

(c) Operating margin for 2000 reflects a \$16.6 million gain on the sale of Tower Group International

(d) Operating margin for 1999 reflects a \$39.7 million gain on the sale of the Petrochemical publications

(e) Operating margins for 1998 reflect a \$16.0 million provision for the write-down of assets at the Continuing Education Center and a \$26.7 million gain on the sale of an office building

(f) Operating margins for 1997 reflect a \$33.2 million provision for real estate write-downs for the consolidation of office space in New York City and a \$20.4 million gain on the sale of Datapro Information Services

(g) Operating margin for 1996 excludes the impact of the gain on the exchange of Shepard's/McGraw-Hill and the one-time integration charge

(h) Operating margins for 1995 reflect a \$26.8 million provision for best-practice initiatives and a \$23.8 million gain on sale of the topical publishing division of Shepard's/McGraw-Hill

2004 QUARTERLY REVENUE AND OPERATING PROFIT BY SEGMENT										
(dollars in thousands, except earnings per share) favorable/(unfavorable)	2004 vs. 2003	2004 vs. 2003	2004 vs. 2003	2004 vs. 2003	2004 vs. 2003	2004 vs. 2003	2004 vs. 2003	2004 vs. 2003	Total	2004 vs. 2003
	1Q	2Q	3Q	4Q	Total					
<b>Revenue</b>										
McGraw-Hill Education	\$286,489	5.5%	\$547,386	(2.3%)	\$1,032,318	2.0%	\$529,320	4.9%	\$2,395,513	2.0%
Financial Services	456,635	15.6%	504,472	14.8%	502,799	14.1%	591,382	19.6%	2,055,288	16.2%
Information and Media Services	176,743	1.3%	194,104	2.5%	187,759	6.6%	241,131	3.7%	799,737	3.5%
Total revenue	\$919,867	9.4%	\$1,245,962	4.8%	\$1,722,876	5.8%	\$1,361,833	10.6%	\$5,250,538	7.4%
<b>Operating Profit</b>										
McGraw-Hill Education	\$(68,796)	2.0%	\$57,055	2.6%	\$323,255	9.1%	\$28,553	(28.6%)	\$340,067	5.7%
Financial Services	173,839	19.9%	214,205	24.9%	202,022	17.7%	249,332	39.0%	839,398	25.7%
Information and Media Services	13,651	9.4%	24,841	1.6%	23,808	23.3%	57,013	6.3%	119,313	8.6%
Total operating profit	\$118,694	36.0%	\$296,101	17.7%	\$549,085	12.7%	\$334,898	22.7%	\$1,298,778	18.2%
General corporate income/(expense)	\$(27,646)	29.6%	\$(31,041)	39.2%	\$(32,169)	23.7%	\$(33,232)	N/M	\$(124,088)	N/M
Interest expense	(1,737)	(35.2%)	(2,161)	(19.2%)	(1,867)	(7.8%)	(20)	N/M	(5,785)	(18.5%)
Income from continuing operations before taxes on income	89,311	41.2%	262,899	16.0%	515,049	12.2%	301,646	(20.9%)	1,168,905	3.4%
Provision for taxes on income	13,045	(44.3%)	97,273	16.0%	190,568	12.2%	111,609	(32.5%)	412,495	(6.8%)
Income from continuing operations before cumulative change in accounting	\$76,266	91.3%	\$165,626	16.0%	\$324,481	12.2%	\$190,037	(12.0%)	\$756,410	10.0%
Earnings/(loss) from discontinued operations	(587)	N/M	—	N/M	—	N/M	—	N/M	(587)	N/M
Net income	\$75,679	(20.7%)	\$165,626	16.6%	\$324,481	11.8%	\$190,037	18.8%	\$755,823	9.9%
<b>Earnings per share:</b>										
<u>Basic earnings per share</u>										
Income from continuing operations	\$0.40	90.5%	\$0.87	16.0%	\$1.71	12.5%	\$1.00	(11.5%)	\$3.98	10.2%
Net income	\$0.40	(20.0%)	\$0.87	16.0%	\$1.71	12.5%	\$1.00	19.0%	\$3.98	10.2%
<u>Diluted earnings per share</u>										
Income from continuing operations	\$0.39	85.7%	\$0.86	14.7%	\$1.69	11.9%	\$0.98	(12.5%)	\$3.92	9.5%
Net income	\$0.39	(22.0%)	\$0.86	16.2%	\$1.69	11.9%	\$0.98	18.1%	\$3.92	9.5%

2003 QUARTERLY REVENUE AND OPERATING PROFIT BY SEGMENT										
(dollars in thousands, except earnings per share) favorable/(unfavorable)	2003 vs. 2002	2003 vs. 2002	2003 vs. 2002	2003 vs. 2002	2003 vs. 2002	2003 vs. 2002	2003 vs. 2002	2003 vs. 2002	Total	2003 vs. 2002
	1Q	2Q	3Q	4Q	Total					
<b>Revenue</b>										
McGraw-Hill Education	\$271,632	0.9%	\$560,337	(1.4%)	\$1,011,914	0.8%	\$504,741	0.8%	\$2,348,624	0.3%
Financial Services	394,895	8.3%	439,365	9.7%	440,525	15.1%	494,308	21.3%	1,769,093	13.7%
Information and Media Services	174,489	(5.2%)	189,418	(4.2%)	176,130	(3.5%)	232,566	(5.1%)	772,603	(4.6%)
Total revenue	\$841,016	2.8%	\$1,189,120	1.9%	\$1,628,569	3.8%	\$1,231,615	6.8%	\$4,890,320	3.9%
<b>Operating Profit</b>										
McGraw-Hill Education	\$(70,180)	1.4%	\$55,626	(10.0%)	\$296,319	(2.2%)	\$39,986	1.9%	\$321,751	(3.4%)
Financial Services	144,991	9.6%	171,557	12.3%	171,618	33.6%	179,431	21.8%	667,597	19.0%
Information and Media Services	12,476	4.3%	24,443	(8.0%)	19,311	(2.4%)	53,611	(10.3%)	109,841	(7.0%)
Total operating profit	\$87,287	19.5%	\$251,626	4.4%	\$487,248	7.9%	\$273,028	10.8%	\$1,099,189	8.6%
General corporate income/(expense)	\$(21,335)	5.3%	\$(22,295)	14.1%	\$(26,016)	5.5%	\$107,831	N/M	\$38,185	N/M
Interest expense	(2,679)	(58.3%)	(2,673)	(62.6%)	(2,026)	(66.0%)	281	N/M	(7,097)	(68.5%)
Income from continuing operations before taxes on income	63,273	36.4%	226,658	5.7%	459,206	9.1%	381,140	76.6%	1,130,277	26.0%
Provision for taxes on income	23,410	34.6%	83,863	4.3%	169,907	15.8%	165,286	N/M	442,466	36.0%
Income from continuing operations	\$39,863	37.5%	\$142,795	6.6%	\$289,299	5.6%	\$215,854	60.0%	\$687,811	20.3%
Earnings/(loss) from discontinued operations	55,532	N/M	(760)	N/M	997	N/M	(55,930)	N/M	(161)	N/M
Net income	\$95,395	N/M	\$142,035	4.1%	\$290,296	5.1%	\$159,924	18.6%	\$687,650	19.2%
<b>Earnings per share:</b>										
<u>Basic earnings per share</u>										
Income from continuing operations	\$0.21	40.0%	\$0.75	8.7%	\$1.52	7.0%	\$1.13	61.4%	\$3.61	21.5%
Net income	\$0.50	N/M	\$0.75	5.6%	\$1.52	6.3%	\$0.84	20.0%	\$3.61	20.7%
<u>Diluted earnings per share</u>										
Income from continuing operations	\$0.21	40.0%	\$0.75	8.7%	\$1.51	7.1%	\$1.12	62.3%	\$3.58	21.8%
Net income	\$0.50	N/M	\$0.74	5.7%	\$1.51	6.3%	\$0.83	20.3%	\$3.58	20.9%

**2002 QUARTERLY REVENUE AND OPERATING PROFIT BY SEGMENT**

(dollars in thousands, except earnings per share) favorable/(unfavorable)	2002 vs. 2001	2002 vs. 2001	2002 vs. 2001	2002 vs. 2001	2002 vs. 2001	2002 vs. 2001	2002 vs. 2001	Total	2002 vs. 2001	
	1Q	2Q	3Q	4Q	Total					
<b>Revenue</b>										
McGraw-Hill Education	\$269,092	(9.4%)	\$568,483	2.3%	\$1,004,260	0.5%	\$500,693	14.4%	\$2,342,528	2.3%
Financial Services	364,769	12.6%	400,586	16.0%	382,814	15.9%	407,557	2.3%	1,555,726	11.3%
Information and Media Services	184,152	(4.8%)	197,724	(9.1%)	182,461	(2.1%)	245,102	(1.5%)	809,439	(4.3%)
<b>Total revenue</b>	<b>\$818,013</b>	<b>0.4%</b>	<b>\$1,166,793</b>	<b>4.3%</b>	<b>\$1,569,535</b>	<b>3.6%</b>	<b>\$1,153,352</b>	<b>6.3%</b>	<b>\$4,707,693</b>	<b>3.8%</b>
<b>Operating Profit</b>										
McGraw-Hill Education	\$(71,206)	(27.4%)	\$61,780	(11.4%)	\$303,116	(1.3%)	\$39,259	N/M	\$332,949	21.8%
Financial Services	132,312	27.3%	152,714	41.3%	128,493	19.2%	147,326	38.8%	560,845	31.7%
Information and Media Services	11,962	(12.5%)	26,556	(19.7%)	19,791	N/M	59,743	N/M	118,052	81.6%
<b>Total operating profit</b>	<b>\$73,068</b>	<b>18.5%</b>	<b>\$241,050</b>	<b>14.3%</b>	<b>\$451,400</b>	<b>6.7%</b>	<b>\$246,328</b>	<b>N/M</b>	<b>\$1,011,846</b>	<b>32.4%</b>
General corporate income/(expense)	\$(20,261)	63.2%	\$(19,540)	(7.2%)	\$(24,651)	21.2%	\$(27,482)	(30.0%)	\$(91,934)	(1.2%)
Interest expense	(6,422)	(62.0%)	(7,151)	(55.4%)	(5,965)	(56.0%)	(2,979)	(65.4%)	(22,517)	(59.1%)
Income from continuing operations before taxes on income	46,385	43.2%	214,359	23.3%	420,784	8.1%	215,867	N/M	897,395	45.7%
Provision for taxes on income	17,394	39.5%	80,385	49.0%	146,700	(2.1%)	80,950	N/M	325,429	36.5%
Income from continuing operations	\$28,991	45.6%	\$133,974	11.8%	\$274,084	14.5%	\$134,917	N/M	\$571,966	51.4%
Earnings/(loss) from discontinued operations	211	(55.6%)	2,496	N/M	2,135	N/M	(48)	(96.7%)	4,794	N/M
<b>Net income</b>	<b>\$29,202</b>	<b>43.2%</b>	<b>\$136,470</b>	<b>13.7%</b>	<b>\$276,219</b>	<b>15.3%</b>	<b>\$134,869</b>	<b>N/M</b>	<b>\$576,760</b>	<b>53.0%</b>
<b>Earnings per share:</b>										
<u>Basic earnings per share</u>										
Income from continuing operations	\$0.15	50.0%	\$0.69	11.3%	\$1.42	15.4%	\$0.70	N/M	\$2.97	52.3%
Net income	\$0.15	36.4%	\$0.71	14.5%	\$1.43	15.3%	\$0.70	N/M	\$2.99	53.3%
<u>Diluted earnings per share</u>										
Income from continuing operations	\$0.15	50.0%	\$0.69	13.1%	\$1.41	15.6%	\$0.69	N/M	\$2.94	52.3%
Net income	\$0.15	50.0%	\$0.70	14.8%	\$1.42	16.4%	\$0.69	N/M	\$2.96	54.2%

N/M indicates a non-meaningful or non-calculable variance

Notes for Quarterly Revenue and Operating Profit by Segment (pages 12 and 13):

The Company reclassified revenue in accordance with Emerging Issues Task Force 00-10, "Accounting for Shipping and Handling Fees and Costs," resulting in an increase in revenue of \$8.3 million, \$15.7 million, \$27.0 million and \$11.5 million in the first, second, third and fourth quarters of 2004, respectively; an increase in revenue of \$10.2 million, \$17.1 million, \$25.9 million and \$9.3 million in the first, second, third and fourth quarters of 2003, respectively and an increase in revenue of \$8.7 million, \$17.4 million, \$29.3 million and \$12.1 million in the first, second, third and fourth quarters of 2002, respectively

Basic and diluted earnings per share are computed independently for each quarter and full year presented. The number of weighted average shares outstanding changes as common shares are issued pursuant to employee stock option plans, as shares are repurchased by the Company and as other activity occurs throughout the year. Accordingly, the sum of the quarterly earnings per share data may not agree with the calculated full year earnings per share

2004 includes a non-cash benefit of approximately \$20 million (\$0.10 per diluted share) as a result of the Company's completion of various federal, state and local, and foreign tax audit cycles. In the first quarter of 2004, the Company accordingly removed approximately \$20 million from its accrued income tax liability accounts. This non-cash item resulted in a reduction to the overall effective tax rate from continuing operations to 35.3%

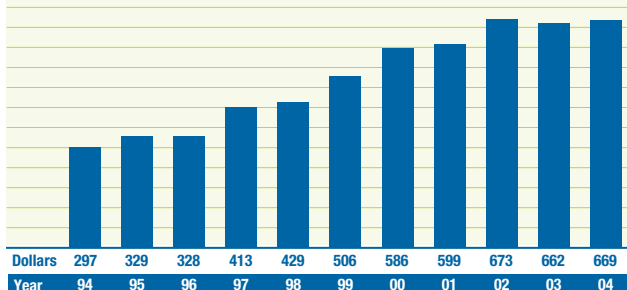
2003 4th quarter corporate expenses includes a \$131.3 million pre-tax gain on sale of real estate (\$58.4 million after-tax loss, or \$0.30 per diluted earnings per share)

2002 3rd quarter operating profit reflects a \$14.5 million pre-tax loss (\$2.0 million after-tax benefit, or \$0.01 per diluted share) on the sale of MMS International

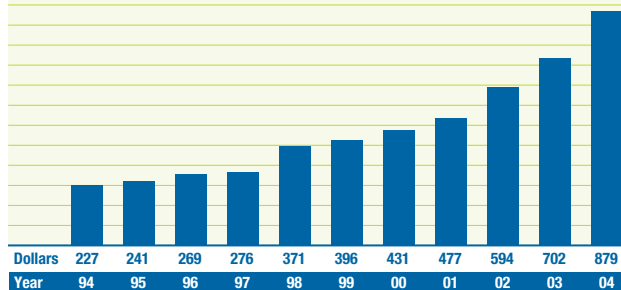
2001 1st quarter general corporate expense includes a \$6.9 million pre-tax gain (\$0.02 per diluted share) on sale of real estate. 2nd quarter operating profit includes an \$8.8 million pre-tax gain (\$0.13 per diluted share) on the sale of DRI and a \$22.8 million pre-tax charge (\$0.11 per diluted share) for restructuring initiatives. 4th quarter includes a \$159.0 million (\$0.57 per diluted share) provision for restructuring and asset write-down

**McGraw-Hill Education**

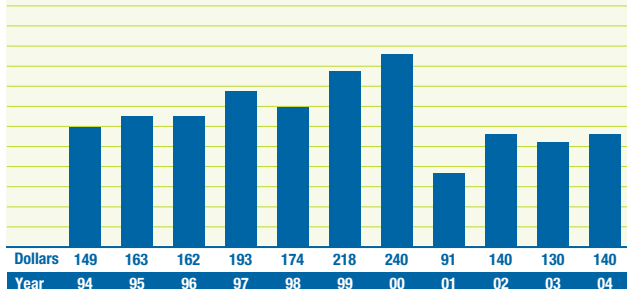
(dollars in millions)

**Financial Services**

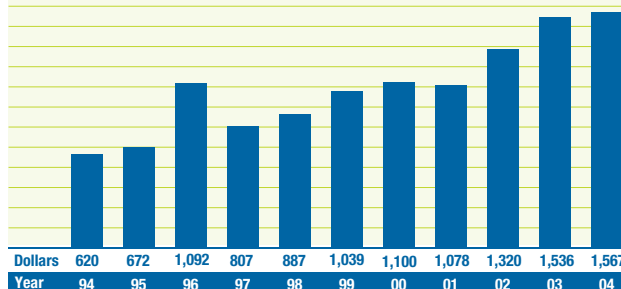
(dollars in millions)

**Information and Media Services**

(dollars in millions)

**Total Company EBITDA**

(dollars in millions)

**EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION & AMORTIZATION – EBITDA**

(dollars in thousands)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
McGraw-Hill Education	\$340,067	\$321,751	\$332,949	\$273,339	\$307,672	\$273,667	\$202,076	\$187,722	\$151,921	\$162,604	\$125,765
Financial Services	839,398	667,597	560,845	425,911	383,025	358,155	338,655	245,150	241,479	214,707	201,642
Information and Media Services	119,313	109,841	118,052	65,003	212,921	185,551	139,352	158,879	131,397	130,145	120,482
<b>Total operating profit</b>	<b>\$1,298,778</b>	<b>\$1,099,189</b>	<b>\$1,011,846</b>	<b>\$764,253</b>	<b>\$903,618</b>	<b>\$817,373</b>	<b>\$680,083</b>	<b>\$591,751</b>	<b>\$524,797</b>	<b>\$507,456</b>	<b>\$447,889</b>
Unusual gain/(loss) <sup>(a)</sup>	–	–	–	–	\$(68,122)	–	\$(8,716)	–	\$393,731	–	–
Corporate income/(expense) <sup>(b)</sup>	(124,088)	38,185	(91,934)	(93,062)	(91,380)	(83,280)	(80,685)	(75,342)	(62,073)	(63,570)	(54,134)
Depreciation	92,268	82,827	86,818	85,748	84,812	80,348	75,538	71,689	69,673	65,748	62,194
Amortization	300,213	315,478	313,351	320,728	271,314	225,020	220,852	219,147	166,242	162,278	164,525
<b>EBITDA</b>	<b>\$1,567,171</b>	<b>\$1,535,679</b>	<b>\$1,320,081</b>	<b>\$1,077,667</b>	<b>\$1,100,242</b>	<b>\$1,039,461</b>	<b>\$887,072</b>	<b>\$807,245</b>	<b>\$1,092,370</b>	<b>\$671,912</b>	<b>\$620,474</b>

Notes:

(a) The unusual gains and losses are as follows:

In 2000, the cumulative adjustment for the adoption of Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements"

In 1998, the early extinguishment of \$155 million of the Company's 9.43% debt

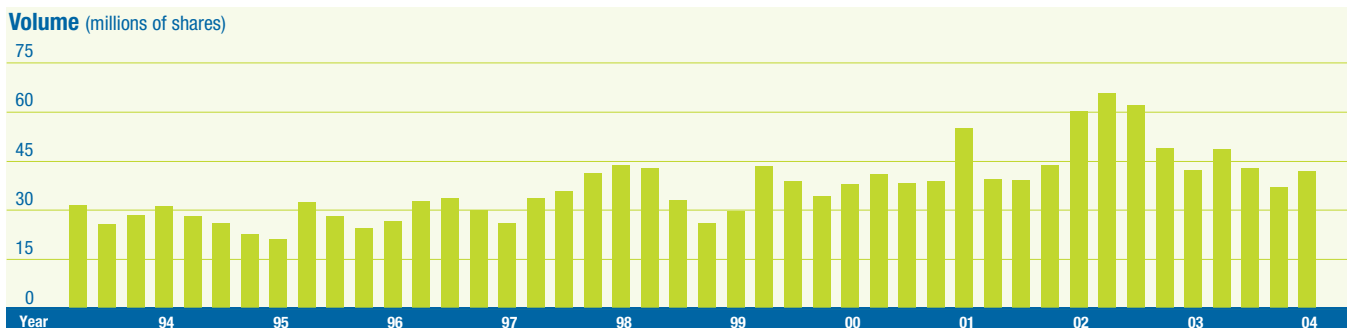
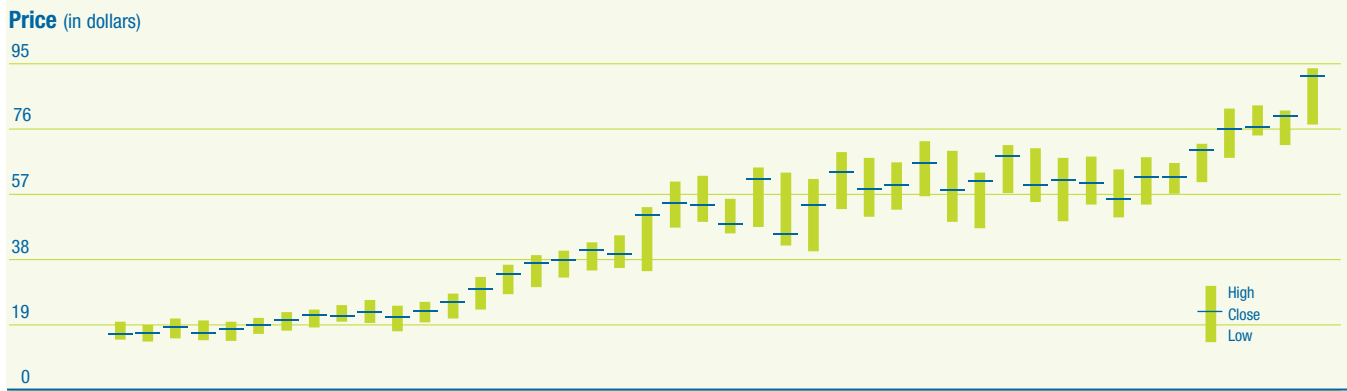
In 1996, the net gain on the exchange of Shepard's/McGraw-Hill for the Times Mirror Higher Education Group

(b) In 2003, corporate expenses includes a pre-tax gain on sale of real estate of \$131.3 million

	ACQUISITIONS	DIVESTITURES		ACQUISITIONS	DIVESTITURES
<b>2004</b>	<b>\$303,351,000</b> Center for Business Intelligence (energy conference business only) Grow.net, Inc. Capital IQ, Inc. PRCEDU Corporation (8.7%)	<b>\$46,142,000</b> Landoll, Frank Schaffer and related juvenile retail publishing businesses J.J. Kenny Drake, Inc.	<b>1998</b>	<b>\$25,428,000</b> Xebec Multimedia Solutions, Ltd. Optical Data Corporation	<b>\$28,600,000</b> Information Technology and Communications Group (BYTE, Data Communications, LAN Times, tele.com, NSTL)
<b>2003</b>	<b>\$1,800,000</b> FriedWire, Inc.	<b>\$497,658,000</b> Rock-McGraw, Inc. (45% interest) S&P ComStock	<b>1997</b>	<b>\$85,698,000</b> Argentina Ratings Fund Research, Ltd. Thomson Technical List Published Image Micropal Group, Ltd. Taiwan Ratings Corp. (50%) CRISIL (9.6%)	<b>\$54,521,000</b> London House McGraw-Hill School Systems Datapro Information Services
<b>2002</b>	<b>\$19,310,000</b> Open University Press Reality Based Learning Bredex Corporation Clear Learning EA Ratings	<b>\$23,136,000</b> MMS International Lifetime Learning CAP	<b>1996</b>	<b>\$516,195,000</b> Times Mirror Higher Education Group Open Court Publishing Tata Publishing Co. Healthcare Informatics/InfoCare Magazine Cavalier Shipping Co.	<b>\$491,383,000</b> Shepard's/McGraw-Hill Global Finance College BRAVO titles Healthcare Management Group
<b>2001</b>	<b>\$333,234,000</b> Mayfield Publishing Company Charter Research Corporation Frank Schaffer Publications Corporate Value Consulting Financial Times Energy Visual Education Corporation BizNet TV, Inc. Uniscore, Inc.	<b>\$29,979,000</b> Data Resources Inc. Rational Investors	<b>1995</b>	<b>\$36,246,000</b> ADEF (50%) Hospital Practice UCB Canada College Titles FAME List BidFax	<b>\$34,828,000</b> Ryerson French-Language Division Hazardous Waste Strategies SRA Technology Training Shepard's Topical
<b>2000</b>	<b>\$703,719,000</b> Tribune Education BuildPoint Corporation Canadian Bond Rating Service Portfolio Management Data, LLC MPI Interactive – e-Builder, Inc. Thomas Murray Network Management Ltd.	<b>\$138,150,000</b> Tower Group International	<b>1994</b>	<b>\$1,219,000</b> Iberating S.A. Trans Global Logistics, Inc. Trade Link, Inc. InteGrade Software Winston Press JOY Program	<b>\$700,000</b> Coal Technology International SRA speech/language titles
<b>1999</b>	<b>\$67,100,000</b> Appleton & Lange, Inc. IFIS, Inc. Rational Investors, Inc. Micropal France Thesys Information, Ltd. Emerging Markets Data Base	<b>\$64,734,000</b> Petrochemical Publications (Chemical Engineering, Modern Plastics, Modern Plastics International) Libri Italia SRL (school titles only)			

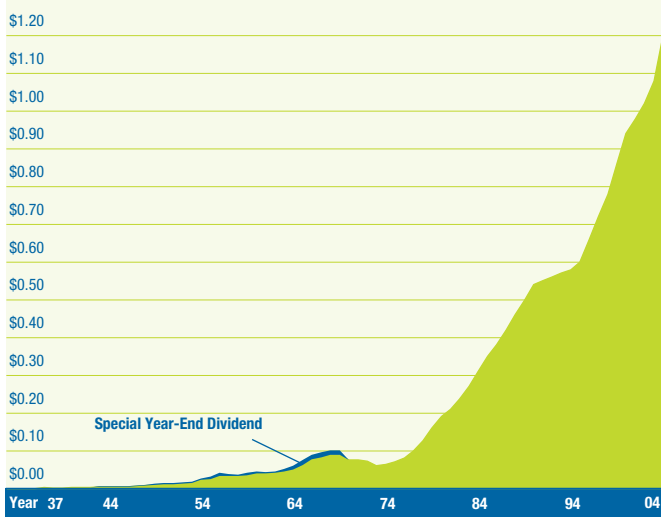
Common Stock: Price, Volume, Dividend and Stock Split History

**MHP STOCK PRICE AND VOLUME HISTORY, 1993-2004\***



\* Data reflect the 2-for-1 stock split announced by the Company's Board of Directors on January 27, 1999  
All prior periods have been restated to reflect the 1999 stock split  
Source: Standard & Poor's Compustat

**Common Stock Dividend History, 1937-2004**



Represents nominal dividend rates  
Dividend increases effective for first quarter of 1974 and forward  
No special year-end dividends after 1969  
Adjusted for all stock splits through 1999

**Stock Split History**

Record Date	Payment Date	Distribution
May 6, 2005	May 17, 2005	2 for 1
February 24, 1999	March 8, 1999	2 for 1
March 28, 1996	April 26, 1996	2 for 1
May 9, 1983	June 1, 1983	2 for 1
June 30, 1967	July 17, 1967	2 for 1
March 10, 1961	March 17, 1961	3 for 1
July 25, 1956	August 8, 1956	3 for 1
July 24, 1953	August 3, 1953	2 for 1

**Share Repurchase Programs\***

Year	\$ in millions	Shares Purchased	Average Price	Diluted Weighted Average Year-End Shares Outstanding
2004	\$400.6	5,000,000	\$80.13	192,911,850 <sup>1</sup>
2003	\$212.6	3,467,700	\$61.31	192,004,507
2002	\$195.6	3,204,600	\$61.04	194,573,319
2001	\$182.1	3,101,700	\$58.71	195,872,598
2000	\$167.7	3,117,600	\$53.79	196,071,625
1999	\$173.8	3,231,700	\$53.78	198,557,309
1998	\$105.6	2,674,000	\$39.49	199,104,066
1997	\$ 79.9	2,600,200	\$30.73	199,504,364
1996	\$ 63.3	2,725,800	\$23.22	199,741,804
1987	\$135.0	9,980,000	\$13.52	

\* Adjusted for all stock splits through 1999. Approximately sixty percent of repurchases during the period shown offset the issuance of shares for stock option and restricted share programs; the remaining forty percent reduce the net number of shares outstanding

<sup>1</sup> Increase primarily due to impact of 30% increase in MHP stock price in 2004. Under the treasury-stock method, an increase in share price results in more shares assumed to be issued since more options are considered in-the-money

## QUARTERLY STOCK VALUATION DATA

Year	Quarter	Prices*			MHP Volume	MHP – Price to Earnings**			S&P 500 – Price to Earnings			P/E Relative to S&P 500		
		High	Low	Close		High	Low	Close	High	Low	Close	High	Low	Close
2004	4	92.110	78.850	91.540	41,984,400	23.74	20.32	23.59	17.98	16.11	17.91	1.32	1.26	1.32
	3	79.770	72.830	79.690	37,106,100	21.50	19.63	21.48	17.66	15.57	17.26	1.22	1.26	1.24
	2	81.340	75.650	76.570	42,721,500	23.11	21.49	21.75	18.52	17.81	18.36	1.25	1.21	1.18
	1	80.370	69.100	76.140	48,826,000	23.64	20.32	22.39	20.02	19.03	19.39	1.18	1.07	1.15
2003	4	70.000	61.990	69.920	42,399,922	21.21	18.78	21.19	20.35	18.22	20.34	1.04	1.03	1.04
	3	64.510	58.600	62.130	48,966,201	20.35	18.49	19.60	20.10	18.57	19.25	1.01	1.00	1.02
	2	66.150	55.460	62.000	62,130,299	21.62	18.12	20.26	20.74	17.32	19.92	1.04	1.05	1.02
	1	62.580	51.740	55.590	65,576,901	20.79	17.19	18.47	19.61	16.55	17.79	1.06	1.04	1.04
2002	4	66.300	55.510	60.440	60,119,598	22.25	18.63	20.28	20.72	16.70	19.11	1.07	1.12	1.06
	3	65.980	50.710	61.220	43,733,688	23.15	17.79	21.48	22.57	17.62	18.51	1.03	1.01	1.16
	2	68.730	56.300	59.700	39,248,901	25.74	21.09	22.36	27.60	22.91	23.80	0.93	0.92	0.94
	1	69.700	58.880	68.250	39,380,295	27.23	23.00	26.66	30.20	27.56	29.43	0.90	0.83	0.91
2001	4	61.800	48.700	60.980	55,101,900	24.92	19.64	24.59	30.22	26.44	29.55	0.82	0.74	0.83
	3	67.950	50.550	58.200	38,938,100	27.51	20.47	23.56	29.51	22.49	24.77	0.93	0.91	0.95
	2	70.870	57.840	66.150	38,222,100	30.29	24.72	28.27	27.98	23.22	26.03	1.08	1.06	1.09
	1	64.740	54.090	59.650	41,072,700	28.27	23.62	26.05	26.15	20.44	21.93	1.08	1.16	1.19
2000	4	66.000	52.000	58.625	37,914,700	27.73	21.85	24.63	25.92	22.34	23.52	1.07	0.98	1.05
	3	67.688	54.250	63.562	34,364,000	29.18	23.38	27.40	26.94	24.90	25.30	1.08	0.94	1.08
	2	59.875	41.875	54.000	38,878,399	26.49	18.53	23.89	27.47	24.09	26.17	0.96	0.77	0.91
	1	61.688	43.500	45.500	43,631,300	28.56	20.14	21.06	28.80	24.57	27.80	0.99	0.82	0.76
1999	4	63.125	49.000	61.625	29,862,899	30.94	24.02	30.21	28.50	23.88	28.42	1.09	1.01	1.06
	3	54.125	47.125	48.375	26,250,500	28.04	24.42	25.06	28.76	25.44	25.98	0.98	0.96	0.96
	2	60.750	50.438	53.938	33,251,100	33.94	28.18	30.13	29.36	27.25	29.30	1.16	1.03	1.03
	1	59.125	48.875	54.500	42,867,099	34.28	28.33	31.59	29.37	26.73	28.53	1.17	1.06	1.11
1998	4	51.656	36.125	50.938	43,823,601	30.30	21.19	29.88	28.12	20.85	27.76	1.08	1.02	1.08
	3	43.500	37.031	39.625	41,306,601	26.13	22.24	23.80	25.45	21.32	23.07	1.03	1.04	1.03
	2	41.500	36.375	40.750	35,832,199	26.60	23.32	26.12	25.63	24.04	25.39	1.04	0.97	1.03
	1	39.000	34.250	38.031	33,594,194	26.09	22.91	25.44	25.08	20.58	24.84	1.04	1.11	1.02
1997	4	37.688	31.563	37.000	26,185,392	25.64	21.47	25.17	22.40	19.43	22.04	1.14	1.11	1.14
	3	34.813	29.500	33.843	30,148,595	24.18	20.49	23.50	22.04	20.24	21.66	1.10	1.01	1.09
	2	31.438	24.938	29.406	33,729,390	24.37	19.33	22.80	21.16	17.22	20.76	1.15	1.12	1.10
	1	26.563	22.438	25.563	32,864,391	21.34	18.02	20.53	19.57	17.46	18.11	1.09	1.03	1.13
1996	4	24.125	21.250	23.063	26,589,792	19.30	17.00	18.45	18.75	16.83	18.24	1.03	1.01	1.01
	3	22.938	18.625	21.313	24,636,992	20.17	16.37	18.74	17.54	15.38	17.44	1.15	1.06	1.07
	2	24.625	21.031	22.875	28,409,792	22.54	19.25	20.94	17.35	15.89	17.09	1.30	1.21	1.23
	1	23.094	21.344	21.688	32,471,184	21.53	19.90	20.22	17.27	15.53	16.80	1.25	1.28	1.20
1995	4	21.906	19.750	21.781	21,273,600	20.62	18.59	20.50	16.53	15.17	16.34	1.25	1.23	1.25
	3	21.188	18.844	20.438	22,933,600	18.96	16.86	18.29	16.01	14.79	15.90	1.18	1.14	1.15
	2	19.406	17.813	18.969	26,171,188	18.61	17.09	18.20	15.76	14.30	15.58	1.18	1.20	1.17
	1	18.344	15.906	17.938	28,231,992	17.98	15.59	17.59	15.29	13.76	15.08	1.18	1.13	1.17
1994	4	18.688	15.969	16.719	31,220,393	18.23	15.58	16.31	14.96	13.95	14.46	1.22	1.12	1.13
	3	19.313	16.594	18.313	28,587,592	19.31	16.59	18.31	15.88	14.71	15.38	1.22	1.13	1.19
	2	17.469	15.625	16.625	25,728,792	19.52	17.46	18.58	15.97	15.03	15.31	1.22	1.16	1.21
	1	18.250	16.125	16.344	31,391,992	20.92	18.48	18.73	17.36	15.67	16.03	1.20	1.18	1.17

\* Data reflect the 2-for-1 stock split announced by the Company's Board of Directors on January 27, 1999. All prior periods have been restated to reflect the 1999 stock split

\*\* Based on 12-month moving operating earnings per share, which excludes one-time items

Source: Standard & Poor's Compustat

**INTERNATIONAL OPERATIONS BY REGION AND SEGMENT**

Revenue from foreign sources grew by 17.1% to \$1,130.4 million in 2004 and represented 21.5% of The McGraw-Hill Companies' total revenue last year. Favorable foreign exchange rates accounted for \$46.8 million of top-line revenue in 2004.

Europe continues to be the most important contributor to The McGraw-Hill Companies' foreign revenue, producing 57.3% of the total in 2004. Of all the foreign regions, Asia grew the fastest, increasing revenue by 20.7%. Europe grew by 19.7% and Canada was up 13.9%. Latin America posted a modest decline.

**Financial Services**

Financial Services continues as MHP's biggest and fastest growing international business. Standard & Poor's foreign revenue grew at 25.8% in 2004 to \$642.2 million, 56.8% of the Company's total foreign revenue. Favorable foreign exchange rates accounted for \$30.1 million of the revenue increase in 2004.

The development of a European debt market based on a single currency, the Euro, continues to be an important growth driver for Standard & Poor's. There was also solid growth in international markets as the use of securitization increases globally.

Since 1997, foreign revenue in this segment has grown at a compound annual rate of 18.4%.

**McGraw-Hill Education**

International publishing operations' foreign revenue grew by 8.3% to \$354.5 million in 2004, or 31.4% of the total foreign revenue. Favorable foreign exchange rates accounted for \$16.0 million of the revenue increase in this segment.

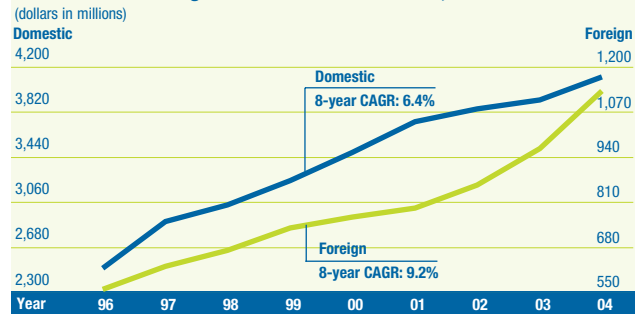
International publishing distributes McGraw-Hill Education's instructional and professional products outside the United States, publishing in more than 50 languages worldwide through adaptations, translations, and local publishing programs.

Recognizing the fact that an educated workforce is the key to international competitiveness has led to growing enrollments and education reforms in many key countries. These factors will be important long-term growth drivers.

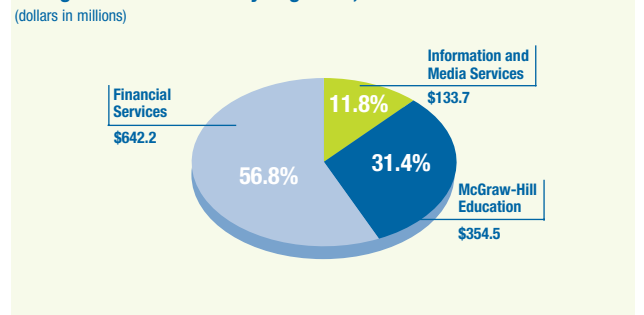
**Information and Media Services**

The Information and Media Services segment accounted for \$133.7 million, or 11.8% of the Company's total foreign revenue.

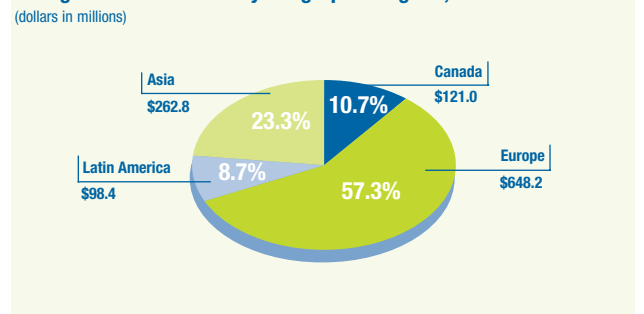
**Domestic and Foreign Source Revenue Growth\*, 1996-2004**



**Foreign Source Revenue by Segment\*, 2004**



**Foreign Source Revenue by Geographic Region\*, 2004**



\* Foreign source revenue includes international sales by U.S. operations

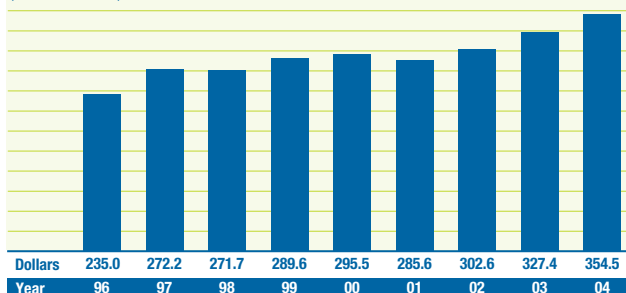
**Worldwide Offices**

North America	Caribbean/Central and South America	Europe, Middle East, Africa	Asia-Pacific
Canada	Argentina	France	Australia
Mexico	Brazil	Germany	India
United States of America	Chile	Ireland	Japan
	Colombia	Italy	Malaysia
	Costa Rica	Luxembourg	New Zealand
	Dominican Republic	Netherlands	Taiwan
	Guatemala	Portugal	Thailand
	Panama		People's Republic of China
	Peru		Philippines
	Puerto Rico		Singapore
	Venezuela		South Korea

## FOREIGN SOURCE REVENUE BY SEGMENT,\* 1996-2004

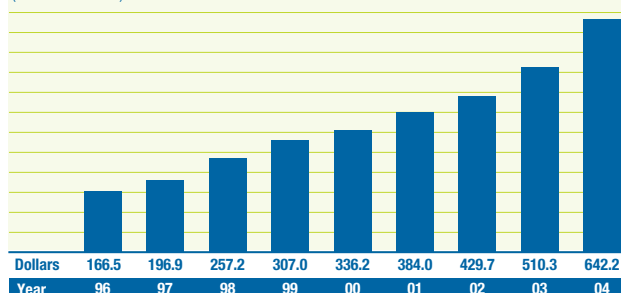
## McGraw-Hill Education

(dollars in millions)



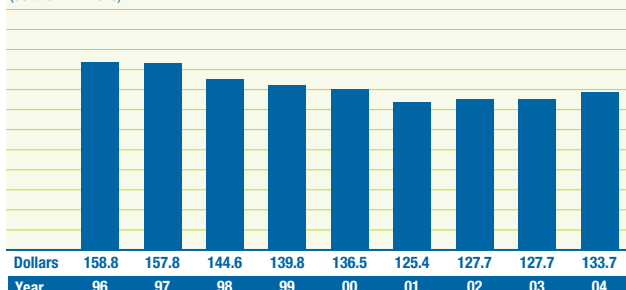
## Financial Services

(dollars in millions)



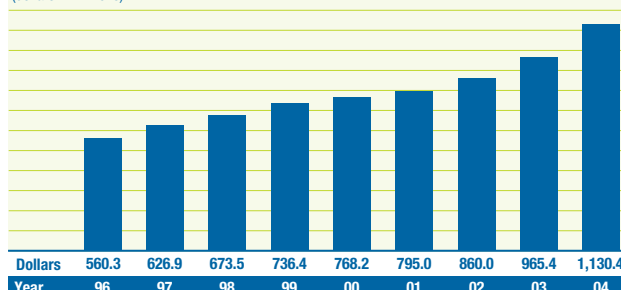
## Information and Media Services

(dollars in millions)



## Total Company

(dollars in millions)



## SUMMARY OF DOMESTIC AND FOREIGN SOURCE REVENUE, 1996-2004

(dollars in millions)	2004	2003	2002	2001	2000	1999	1998	1997	1996	8-year CAGR
<b>Total Revenue</b>										
Domestic	\$4,120.1	\$3,924.9	\$3,847.7	\$3,739.0	\$3,483.0	\$3,243.5	\$3,039.2	\$2,899.1	\$2,506.3	6.4%
Foreign*	1,130.4	965.4	860.0	795.0	768.2	736.4	673.5	626.9	560.3	9.2%
<b>Total</b>	<b>\$5,250.5</b>	<b>\$4,890.3</b>	<b>\$4,707.7</b>	<b>\$4,534.0</b>	<b>\$4,251.2</b>	<b>\$3,979.9</b>	<b>\$3,712.7</b>	<b>\$3,526.0</b>	<b>\$3,066.6</b>	<b>7.0%</b>

## Revenue by Segment

## Domestic

McGraw-Hill Education	\$2,041.0	\$2,021.2	\$2,039.9	\$2,004.0	\$1,743.1	\$1,496.6	\$1,388.4	\$1,339.7	\$1,074.1	8.4%
Financial Services	1,413.1	1,258.8	1,126.0	1,014.3	868.8	856.7	779.8	681.3	600.1	11.3%
Information and Media Services	666.0	644.9	681.8	720.7	871.1	890.2	871.0	878.1	832.1	(2.7%)
<b>Total</b>	<b>\$4,120.1</b>	<b>\$3,924.9</b>	<b>\$3,847.7</b>	<b>\$3,739.0</b>	<b>\$3,483.0</b>	<b>\$3,243.5</b>	<b>\$3,039.2</b>	<b>\$2,899.1</b>	<b>\$2,506.3</b>	<b>6.4%</b>

## Foreign\*

McGraw-Hill Education	\$354.5	\$327.4	\$302.6	\$285.6	\$295.5	\$289.6	\$271.7	\$272.2	\$235.0	5.3%
Financial Services	642.2	510.3	429.7	384.0	336.2	307.0	257.2	196.9	166.5	18.4%
Information and Media Services	133.7	127.7	127.7	125.4	136.5	139.8	144.6	157.8	158.8	(2.1%)
<b>Total</b>	<b>\$1,130.4</b>	<b>\$965.4</b>	<b>\$860.0</b>	<b>\$795.0</b>	<b>\$768.2</b>	<b>\$736.4</b>	<b>\$673.5</b>	<b>\$626.9</b>	<b>\$560.3</b>	<b>9.2%</b>

## Number of Employees

Domestic	13,122	12,736	13,180	13,566	13,339	13,032	12,599	12,669	13,374
Foreign	4,131	3,332	3,325	3,569	3,422	3,344	3,298	3,021	2,846
<b>Total</b>	<b>17,253</b>	<b>16,068</b>	<b>16,505</b>	<b>17,135</b>	<b>16,761</b>	<b>16,376</b>	<b>15,897</b>	<b>15,690</b>	<b>16,220</b>

## Notes:

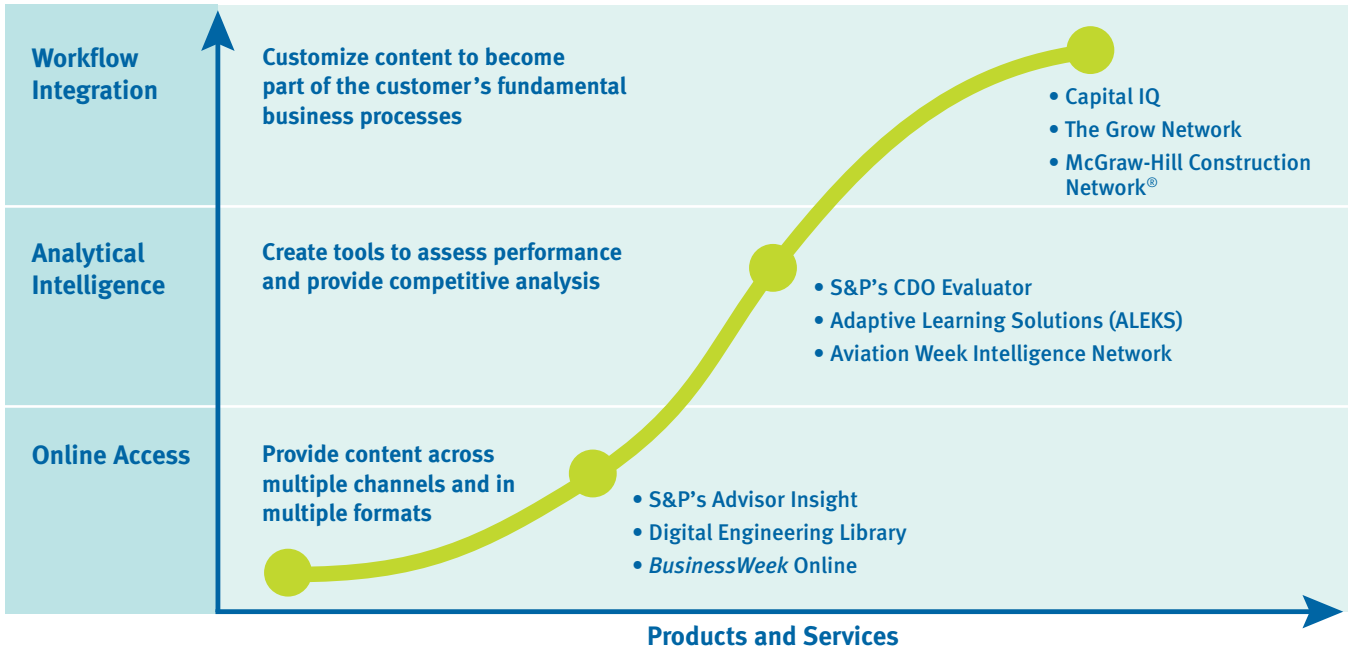
\* Foreign source revenue includes international sales by U.S. operations

Years restated for discontinued operations

Revenue has been reclassified in accordance with Emerging Issues Task Force 00-10 "Accounting for Shipping and Handling Fees and Costs"

**OPPORTUNITIES THROUGH TECHNOLOGY**

From online access to workflow integration, The McGraw-Hill Companies uses technology to deliver a growing range of value-added information products to its customers.



20

**Workflow Integration**

McGraw-Hill's suite of workflow solutions aggregate and integrate high-quality information into a customer's fundamental business processes.

**Capital IQ**  
[www.capitaliq.com](http://www.capitaliq.com)

Capital IQ's integrated desktop solution makes effective research, analysis, and project management easier. The proprietary "Six Degrees of Separation" tool enables users to trace relationships between individuals. Capital IQ's deeply integrated data is a valuable resource for company financials and competitive analysis. The results of any desktop activity can be downloaded into Microsoft Excel, Word, or Outlook formats.



**The Grow Network**  
<http://info.grow.net>

The Grow Network's innovative approach is making testing and assessment a starting point for improving student achievement. Educational leaders have come to recognize that test results provide an insightful metric to target instruction to the needs of individual students. Grow's personalized assessment reports analyze and categorize students' test results in an easily accessible format, to help students, parents, and teachers determine the best path to improve performance.

**McGraw-Hill Construction Network®**  
[www.construction.com](http://www.construction.com)

The McGraw-Hill Construction Network integrates project, product, and industry data to offer a single work interface to the architectural, engineering, and construction industry. It delivers content from Dodge, Sweets, and leading industry publications to users online, who can then customize it to find new business leads and manage their workflow.

**Analytical Intelligence**

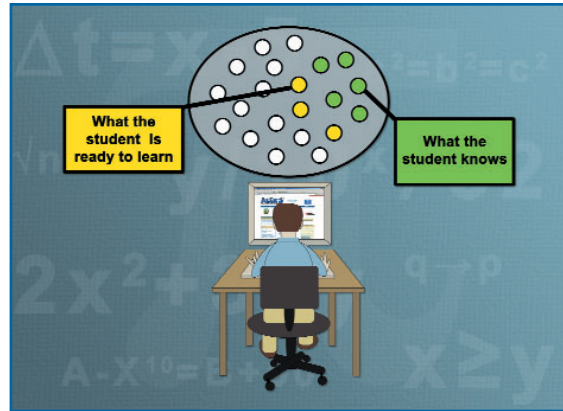
Technology-based tools offer superior analytics to evaluate risk, assess competitiveness, and develop remedial action plans.

**Standard & Poor's CDO Evaluator**

Collateralized Debt Obligations (CDOs) represent one of the fastest growing asset classes that Standard & Poor's rates in structured finance. With more than 2,500 active users, Standard & Poor's CDO Evaluator helps clients analyze cash flow and synthetic CDO structures. Utilizing a Monte Carlo simulation of defaults with correlation to estimate default rates for different portfolios, the CDO Evaluator model provides insight into the risk characteristics of a CDO transaction. By running thousands of simulations per second, the CDO Evaluator quickly produces statistics and benchmarks even for the most complex CDO structures, such as CDO squared and CDO cubed transactions. The model has also recently incorporated a Japanese language version.

**Aviation Week Intelligence Network**

Aviation Week Intelligence Network (AWIN) is an online information service that combines all Aviation Week content into one customizable, searchable database. AWIN serves a large customer base of both single users and large corporations, some of which use AWIN's content on co-branded intranet sites.



**ALEKS – An Adaptive Learning Solution**  
[www.highedmath.aleks.com](http://www.highedmath.aleks.com)

**ALEKS is a Web-based tutoring system that can be used in the classroom and outside, in a growing number of subjects. ALEKS uses an artificial intelligence engine, which through an adaptive assessment, determines what a student already knows and is ready to learn next. Based on the assessment results, ALEKS develops a unique learning path for each student.**

**Online Access**

Online information increases user flexibility and accessibility via desktops or mobile PDA devices. Numerous sources can be integrated into the same interface, facilitating cross-referencing and completeness of information.

**Standard & Poor's Advisor Insight**

[www.advisorinsight.com](http://www.advisorinsight.com)

Advisor Insight provides financial advisors with online access to S&P's research, analytic tools, and performance-driven investment advice. Subscribers can purchase individual modules including MarketScope for intra-day market commentary, news, and investment research and analysis. The Stock Reports module offers research, analysis, and tools on thousands of stocks, including qualitative buy/sell/hold S&P STARS opinions on more than 1,500 U.S. and 250 non-U.S. corporations. Other Advisor Insight modules cover mutual funds, annuities, separate accounts, fixed income, sectors and industries, client sales tools, alerts, and more.

**McGraw-Hill Professional Digital Engineering Library**

[www.digitalengineeringlibrary.com](http://www.digitalengineeringlibrary.com)

This new online service offers engineers content from more than 150 McGraw-Hill publications, including classics such as Marks' *Standard Handbook for Mechanical Engineers*, 10th ed. and Perry's *Chemical Engineers Handbook*, 7th ed., and more than 4,000 engineering articles. Users have unparalleled access to this content through a cross-indexed, taxonomically-organized searchable database structured around 12 major areas of engineering and more than 500 topics.

**BusinessWeek Online**  
[www.businessweek.com](http://www.businessweek.com)

**BusinessWeek Online delivers a daily, interactive experience through a powerful combination of online tools and real-time content. The site's new design leads its audience to Investing, Global Biz, Technology, Small Biz, B-Schools, and Careers channels where interactivity is paired with news and analysis. It also offers community-building tools such as online forums, bulletin boards and blogs, as well as features such as video interviews, interactive tools, and Really Simple Syndication (RSS) feeds that deliver headlines to the desktop.**

The screenshot shows the BusinessWeek Online homepage. At the top, there's a navigation bar with tabs for 'BW HOME', 'BW MAGAZINE', 'TOP NEWS', 'INVESTING', 'GLOBAL BIZ', 'TECHNOLOGY', 'SMALL BIZ', 'B-SCHOOLS', and 'CAREERS'. The main content area features a large headline 'Carving Up the Carmakers?' with a sub-headline 'Private equity players are sniffing around the troubled auto industry for deals'. To the right, there's a 'MARKET INFO' section with data for DJIA, S&P 500, and Nasdaq. Below the main headline, there are several smaller articles and video thumbnails, including 'Tech's Mixed Signals' and 'Gerald Putnam Scores'.

Trends in Education

**THE CHANGING EDUCATION MARKETPLACE**

The demand for reform is changing pre-K-12 education in the United States. There is new emphasis on accountability, testing and assessment, early childhood education, reform of high schools to improve graduation rates and better prepare students for entering the workforce, the growing use of technology, and professional

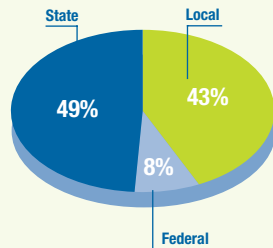
development. At the heart of the reform movement is the *No Child Left Behind Act*. With its promise that every child will have an opportunity to receive a first-rate education by 2014, it is now a requirement that schools and students demonstrate adequate yearly progress.

**Education Funding and Expenditures per Pupil**

Funding for public education is generated from federal, state, and local sources. See p. 25 for a detailed breakout of *No Child Left Behind* funding from the federal government. Expenditures per pupil in the U.S. will continue rising through 2013, according to the latest projections by the National Center for Education Statistics.

**The Public Education Dollar: Revenues by Source**

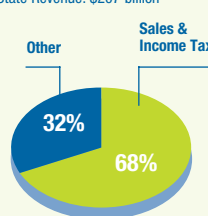
Total Revenue: \$420 billion



Source: U.S. Department of Education, National Center for Education Statistics, Common Core of Data, "National Public Education Financial Survey, 2001-02"

**Sources of State Funding**

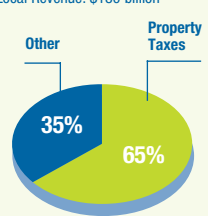
Total State Revenue: \$207 billion



Source: U.S. Census Bureau, "Public Education Finances Report: 2002"

**Sources of Local Funding**

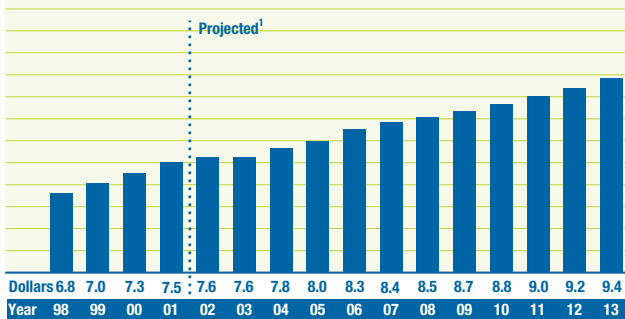
Total Local Revenue: \$180 billion



Source: U.S. Census Bureau, "Public Education Finances Report: 2002"

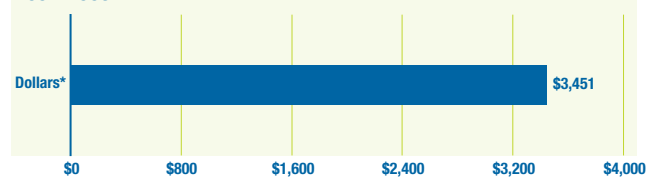
**Current and Projected Expenditures per Pupil in K-12**

(in thousands, in constant 2001-2002 dollars)



Source: U.S. Department of Education, National Center for Education Statistics, "Projections of Education Statistics to 2013" <sup>1</sup> Middle range of projections cited

**National Average Spending per Child Enrolled in Pre-K Programs, 2002-2003**



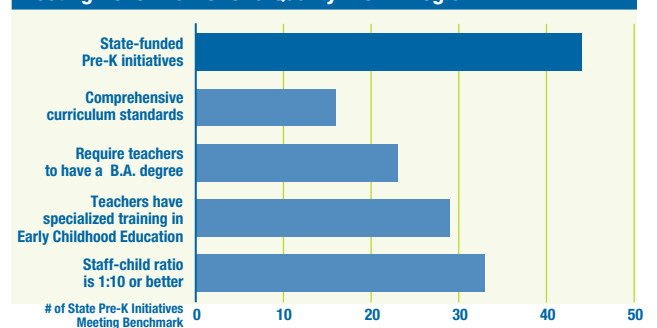
Source: National Institute for Early Education Research, "The State of Preschool: 2004 State Preschool Yearbook"

\* Pre-K may receive additional funds from federal or local sources that are not included in this figure

**Early Childhood Education**

Early childhood education is gaining new importance for educators and policy makers as research shows that school readiness and future academic success hinge on early development of verbal and math skills. Students from non-English speaking or economically disadvantaged backgrounds frequently do not enter school with the same familiarity with language and quantitative concepts as children from the middle class. In light of these findings, states contributed more than \$2.5 billion to their pre-school programs in 2002-2003 on top of pre-school special education funding. Federal support for early childhood is also growing, most notably through Head Start and such initiatives as Early Reading First. As enrollments and funding continue to grow, standards and curricula for pre-school programs will continue to grow.

**Meeting Benchmarks for a Quality Pre-K Program\***



Source: National Institute for Early Education Research, "The State of Preschool: 2004 State Preschool Yearbook"

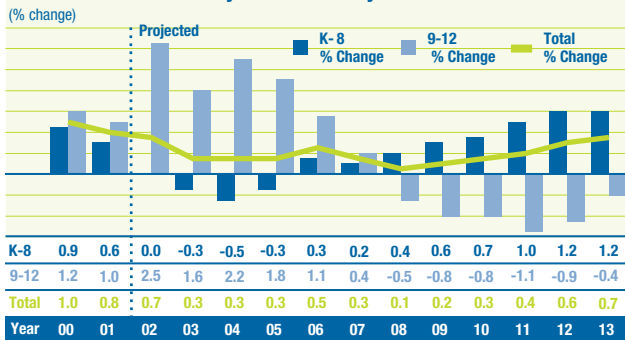
\* State pre-K initiative is defined as a state-funded program for 3- and 4-year-old children. Data is based on 38 states and the District of Columbia which together offer 44 state-funded initiatives. Twelve states do not operate a state-financed pre-kindergarten initiative

### Pre-K-12: Growing Enrollments

School enrollments continue to grow. A record 56.4 million students will be enrolled in grades K-12 by 2013, according to the latest projections by the National Center for Education Statistics.

The new emphasis on early childhood education is also bringing children into the system at a younger age. There is general agreement that free access to pre-kindergarten should be available as a matter of social equity, as an investment in economic growth, and to meet the practical needs of accountability created by the *No Child Left Behind Act*. As a result, pre-kindergarten enrollments continue to grow in public schools and more full-day kindergarten programs are being added.

#### Enrollment in Elementary and Secondary Institutions



Source: U.S. Department of Education, National Center for Education Statistics, "Projection of Education Statistics to 2013"

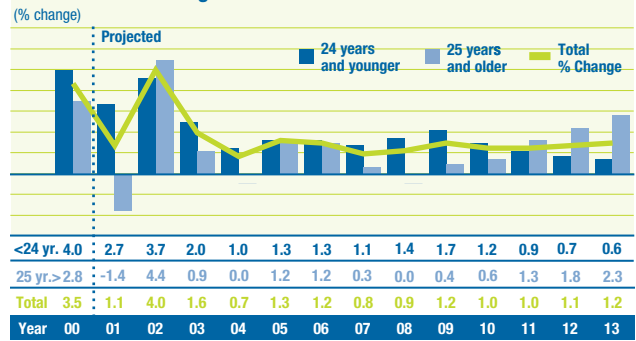
### Higher Education: Growing Enrollments

Higher education enrollments in the United States continue to grow. A record 18.2 million students will be enrolled by 2013, according to the latest projections by the National Center for Education Statistics.

Enrollments at for-profit post-secondary institutions have been growing at a faster pace than the overall U.S. college market.

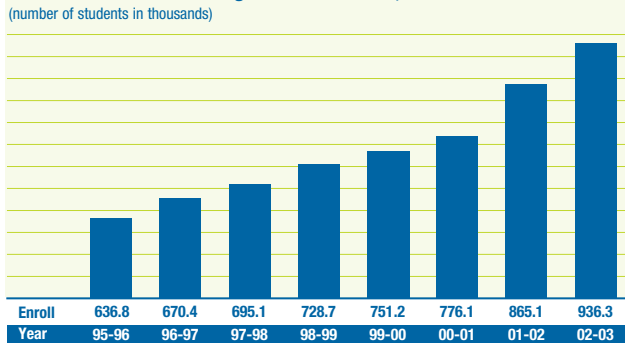
Online distance courses are attracting a growing number of students. Between 2000 and 2007, online enrollments are expected to grow at a compounded annual rate of 35%.

#### Enrollment in U.S. Higher Education Institutions



Source: U.S. Department of Education, National Center for Education Statistics, "Projection of Education Statistics to 2013"

#### Public School Pre-Kindergarten Enrollment, 1995-2003



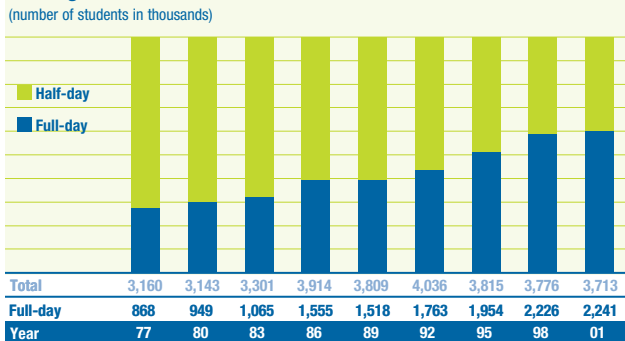
Source: National Center for Education Statistics, Common Core of Data

#### Enrollment in For-Profit Post-Secondary Institutions



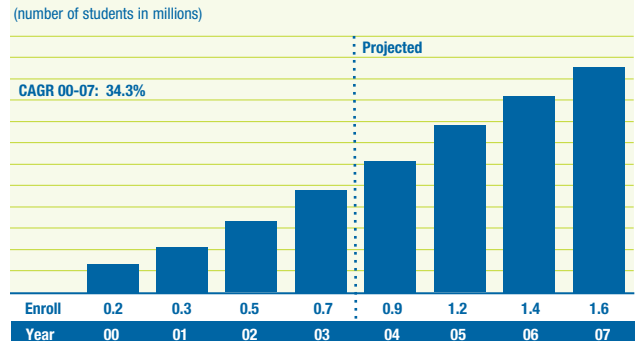
Source: National Center for Education Statistics, "Digest of Education Statistics 2003"

#### Kindergarten Enrollment Trends



Source: National Center for Education Statistics, "The Condition of Education 2004"

#### Enrollment in Fully-Online Distance Education



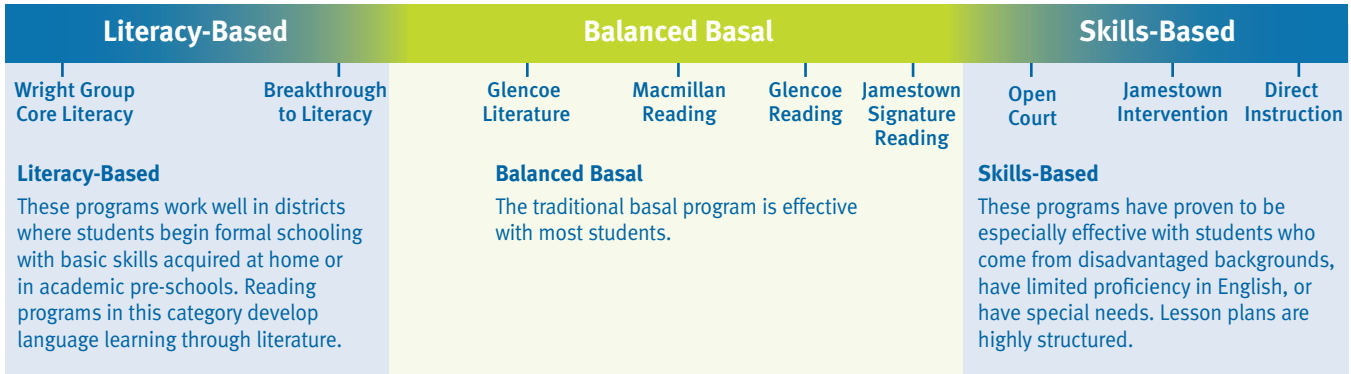
Source: Eduventures

Trends in Education

**TEACHING THE COMPLETE SPECTRUM FOR READING**

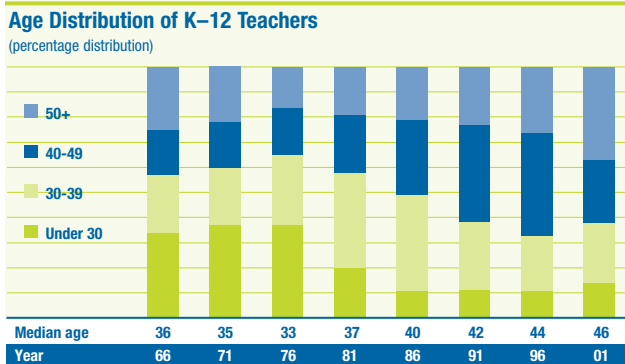
Students enter school with diverse backgrounds and learning needs. With the new emphasis on accountability and measurable progress, concepts and skills must be presented in various ways to make them accessible to all students. The response from McGraw-Hill Education: Offer the most complete and most competitive spectrum of products in the marketplace. In reading, the skill most fundamental to success, products range from literacy-based to skills-based (see diagram below).

**READING**



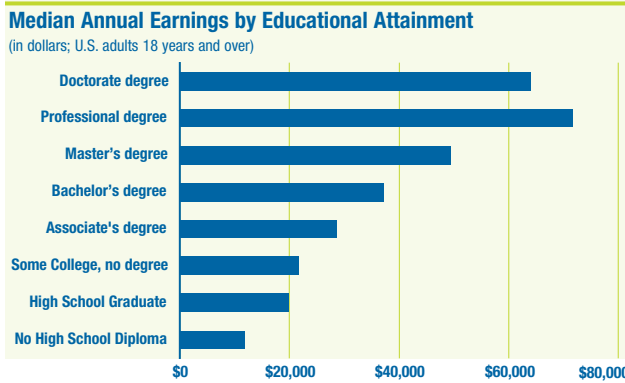
**CURRENT TRENDS IN EDUCATION**

As the NEA data shows, teachers are aging and more replacements will be required as retirements grow. An NCES study predicts that from 1998 to 2008, as many as 2.7 million of the current 3.0 million teachers will be replaced.



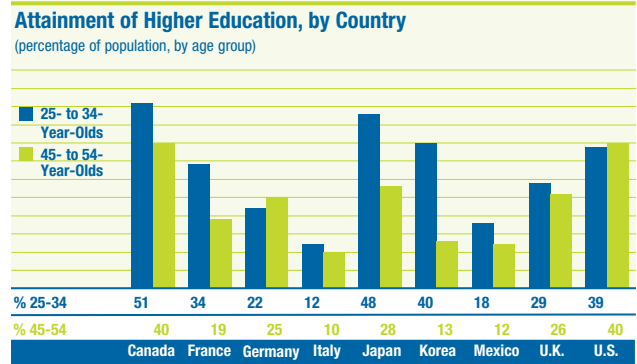
Source: National Education Association, "Status of the American Public School Teacher, 2000-2001"

Education pays off: According to 2002 data from the U.S. Census Bureau, individuals with advanced degrees earn more than those with less education. The wage gap is significant. An individual with a professional degree earns \$50,000 more per year than an individual with a high school degree.



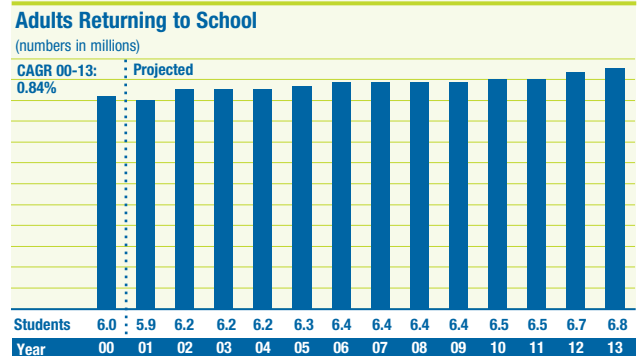
Source: U.S. Census Bureau, March 2002

An OECD report indicates that countries including Japan, Korea, and Canada have more people age 25-34 attaining a higher education degree than those in the 45-54 age range. The U.K. and U.S. show little or no growth.



Source: OECD, "Education at a Glance, 2003"

More U.S. adults are seeking a post-secondary education. At the start of the decade, students 25 or older accounted for 40% of post-secondary enrollments. According to projections from the National Center for Education Statistics, enrollments of students 25 or older will continue to increase through 2013.



Source: U.S. Department of Education, National Center for Education Statistics, "Projections of Education Statistics to 2013"

**EDUCATION REFORM: NEW OPPORTUNITIES FOR THE MCGRAW-HILL COMPANIES**

Signed into law in 2002, the *No Child Left Behind Act* ushers in a new era of reform in U.S. education by focusing public attention on accountability and standards. NCLB's goal is to close the student achievement gap and get every child to grade level by the 2013/14

school year. The new emphasis on accountability will result in increased use of testing to measure progress, greater use of proven teaching methods, the professional development of teachers, and more technology in the classroom.

**Federal Funding for Major NCLB Programs**

Federal grants will be made to state education agencies each year for a six-year period, subject to annual appropriations and reports of satisfactory progress. Currently, there is visibility on five years of funding.

Major Programs	Appropriated Federal Funds					Comments
	Year 1 Funding from Fed FY 2002	Year 2 Funding from Fed FY 2003	Year 3 Funding from Fed FY 2004	Year 4 Funding from Fed FY 2005	Year 5 Funding from Fed FY 2006 <sup>1</sup>	
Testing (State assessments)	\$387 million	\$384.5 million	\$390 million	\$411.7 million	\$411.7 million	Annual testing in reading and math for grades 3-to-8 and 10; Annual testing in science at three grade levels
Reading First	\$900 million	\$993.5 million	\$1.024 billion	\$1.042 billion	\$1.042 billion	Reading programs to ensure every child can read at or above grade-level by end of third grade
Early Reading First	\$75 million	\$74.5 million	\$94.4 million	\$104.2 million	\$104.2 million	Supports school readiness of pre-school-aged children, particularly from low-income families
Striving Readers	–	–	–	\$25 million	\$200 million	Research-based instruction for teenagers reading below grade level
Mathematics and Science Partnerships	\$12.5 million	\$100.3 million	\$149.1 million	\$178.6 million	\$269 million	Promotes strong teaching skills for elementary and secondary math and science teachers
Improving Teacher Quality	\$2.85 billion	\$2.93 billion	\$2.93 billion	\$2.92 billion	\$2.92 billion	Funding to help states meet highly-qualified teacher requirement
State Grants for Innovative Programs	\$385 million	\$382.5 million	\$296.5 million	\$198.4 million	\$100 million	Administrative programs, including independent analysis to measure, report school district performance

<sup>1</sup> Year 5 funding levels were proposed by President Bush in Feb. 2005 as part of the 2006 Federal budget, which requires approval by Congress. New grants will be awarded to states between July and October 2005

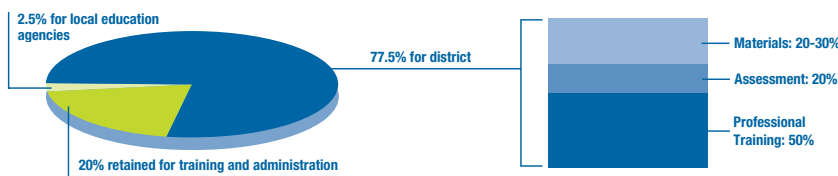
Source: U.S. Department of Education

**Following the Funding for Reading First**

In 2005, *Reading First* spending patterns are expected to change in states that are not expanding the number of approved sites. Many *Reading First* states have already bought basal programs and will use new funds for supplemental materials, assessment, and professional development. About 25% of the states, including Colorado, Georgia, Michigan, Missouri, New York, and Ohio, are using their most recent allocations to create new *Reading First* sites, which will offer fresh opportunities for basal sales.

**Allocation\* of Federal Funds at State- and District-Level**

**State Level**

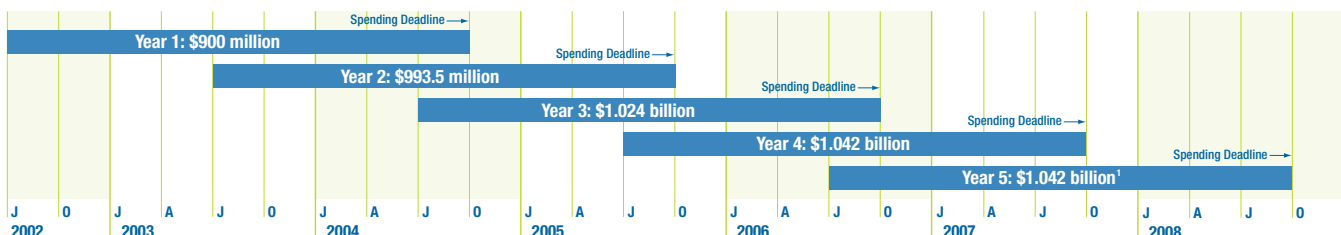


\* Estimated

**Performance Review**

- Department of Education requires annual reports.
- After three years, the State Education Agency must submit a midpoint progress report that will be reviewed by an expert panel.

**Reading First Grants to States: Receipt of Funding and Spending Deadlines**



Note: The fiscal year for 46 states in the United States is July to June

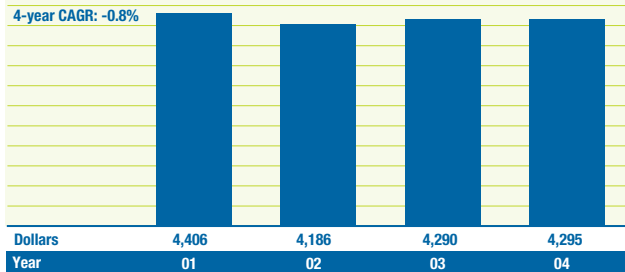
Pre-K–12 Education: Market, Adoption States, Open Territories, and Supplemental Sales

**PRE-K–12 SALES**

In 2004, sales of textbooks and educational materials for the pre-K–12 school market increased by 0.1% to \$4.3 billion, according to the Association of American Publishers (AAP).

**Estimated Total Pre-K–12 Industry Sales**

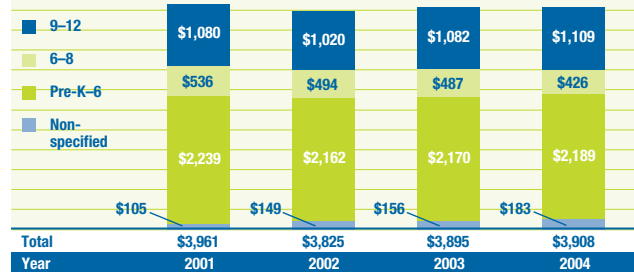
(sales in millions)



Source: AAP. Includes sales of domestic and non-domestic products

**Total Net Elementary/High School Sales**

Basal, Supplemental, and Online Materials (dollars in millions)



Source: AAP, as reported by 10 publishers. Includes sales of U.S. products only. Includes sales to foreign subsidiaries and third parties

**Elementary Market (Pre-K–8)**

**Elementary Sales by State** (in thousands)

	2004	% of 2004 Total	2003	2002
1 California	\$ 263,712	13.4%	\$ 360,438	\$ 419,093
2 New York	136,282	6.9%	114,324	132,391
3 Florida	134,975	6.8%	120,113	143,241
<b>Top 3 for 2004</b>	<b>\$ 534,969</b>	<b>27.1%</b>	<b>\$ 594,875</b>	<b>\$ 694,725</b>
4 Texas	111,551	5.7%	208,909	137,252
5 Pennsylvania	92,532	4.7%	96,084	76,370
6 New Jersey	91,243	4.6%	82,590	85,621
7 Illinois	87,881	4.5%	109,976	108,922
8 Ohio	74,432	3.8%	79,677	66,487
9 Virginia	66,119	3.3%	54,075	41,952
10 North Carolina	62,998	3.2%	50,777	33,261
<b>Top 10 for 2004</b>	<b>\$ 1,121,725</b>	<b>56.8%</b>	<b>\$ 1,276,964</b>	<b>\$ 1,244,588</b>
11 Michigan	53,755	2.7%	58,943	70,574
12 Maryland	52,706	2.7%	38,636	36,600
13 Georgia	50,782	2.6%	103,610	84,817
14 Indiana	47,390	2.4%	47,784	54,985
15 Arizona	41,212	2.1%	41,899	34,818
<b>Top 15 for 2004</b>	<b>\$ 1,367,570</b>	<b>69.3%</b>	<b>\$ 1,567,837</b>	<b>\$ 1,526,381</b>
<b>All Others</b>	<b>\$ 606,438</b>	<b>30.7%</b>	<b>\$ 502,486</b>	<b>\$ 545,003</b>
<b>Total Domestic U.S.</b>	<b>\$ 1,974,008</b>	<b>100%</b>	<b>\$ 2,070,323</b>	<b>\$ 2,071,384</b>

Source: AAP, as reported by 10 publishers. Excludes supplemental and non grade-specific basal materials. State ranking varies each year in accordance with adoption cycle

**Secondary Market (9–12)**

**Secondary Sales by State** (in thousands)

	2004	% of 2004 Total	2003	2002
1 California	\$ 120,358	11.6%	\$ 103,440	\$ 120,732
2 Florida	94,581	9.2%	82,352	51,709
3 New York	61,208	5.9%	63,180	53,077
<b>Top 3 for 2004</b>	<b>\$ 276,147</b>	<b>26.7%</b>	<b>\$ 248,972</b>	<b>\$ 225,518</b>
4 Texas	52,127	5.0%	130,225	87,333
5 Illinois	45,212	4.4%	44,085	41,068
6 Pennsylvania	44,804	4.3%	34,976	34,588
7 Georgia	38,961	3.8%	19,941	44,470
8 New Jersey	38,376	3.7%	32,135	33,884
9 Ohio	35,893	3.5%	40,764	32,147
10 North Carolina	35,527	3.4%	32,209	15,210
<b>Top 10 for 2004</b>	<b>\$ 567,048</b>	<b>54.9%</b>	<b>\$ 583,308</b>	<b>\$ 514,219</b>
11 Virginia	28,260	2.7%	35,571	18,122
12 Indiana	28,033	2.7%	28,612	36,703
13 Tennessee	27,673	2.7%	25,225	24,698
14 Maryland	26,091	2.5%	19,573	17,078
15 Michigan	25,410	2.5%	25,843	26,249
<b>Top 15 for 2004</b>	<b>\$ 702,514</b>	<b>68.0%</b>	<b>\$ 718,133</b>	<b>\$ 637,069</b>
<b>All Others</b>	<b>\$ 330,816</b>	<b>32.0%</b>	<b>\$ 291,716</b>	<b>\$ 302,797</b>
<b>Total Domestic U.S.</b>	<b>\$ 1,033,330</b>	<b>100%</b>	<b>\$ 1,009,849</b>	<b>\$ 939,867</b>

Source: AAP, as reported by 10 publishers. Excludes supplemental and non grade-specific basal materials. State ranking varies each year in accordance with adoption cycle

**Elementary Sales by Subject Category** (in millions)

	2004	% of 2004 Total	2003	% of 2003 Total	2002	% of 2002 Total
Reading/Literature	\$ 775	39.2%	\$ 837	40.4%	\$ 820	39.6%
Mathematics	648	32.8%	484	23.4%	512	24.7%
Language Arts/English	156	7.9%	179	8.7%	204	9.8%
Science	155	7.9%	182	8.8%	259	12.5%
Social Studies	131	6.6%	300	14.5%	152	7.4%
Religion	32	1.6%	31	1.5%	35	1.7%
Music	27	1.4%	31	1.5%	31	1.5%
All Others	50	2.5%	27	1.3%	58	2.8%
<b>Total</b>	<b>\$ 1,974</b>	<b>100%</b>	<b>\$ 2,070</b>	<b>100%</b>	<b>\$ 2,071</b>	<b>100%</b>

Source: AAP, as reported by 10 publishers. Excludes supplemental, non grade-specific basal, and non-domestic

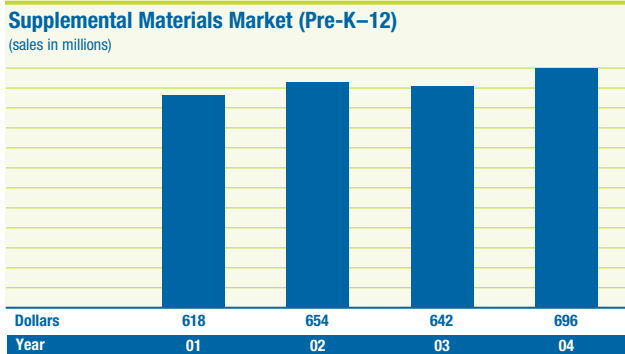
**Secondary Sales by Subject Category** (in millions)

	2004	% of 2004 Total	2003	% of 2003 Total	2002	% of 2002 Total
Mathematics	\$ 285	27.6%	\$ 164	16.2%	\$ 150	16.0%
Science	174	16.8%	171	16.9%	247	26.2%
Social Studies	159	15.3%	278	27.5%	152	16.2%
Reading/Literature	115	11.2%	125	12.3%	129	13.7%
Foreign Language	109	10.5%	91	9.0%	81	8.7%
Business Education	53	5.2%	59	5.8%	56	5.9%
Language Arts/English	52	5.0%	38	3.8%	44	4.6%
All Others	87	8.4%	85	8.4%	82	8.7%
<b>Total</b>	<b>\$ 1,033</b>	<b>100%</b>	<b>\$ 1,010</b>	<b>100%</b>	<b>\$ 940</b>	<b>100%</b>

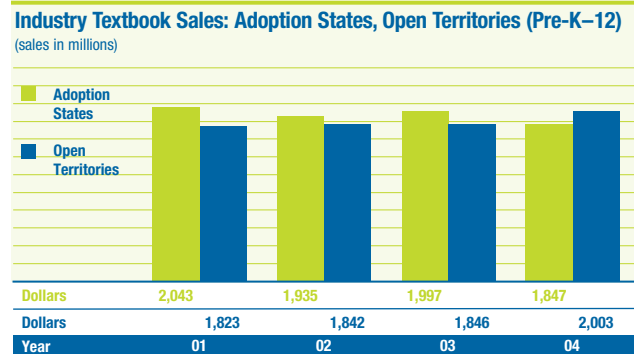
Source: AAP, as reported by 10 publishers. Excludes supplemental, non grade-specific basal, and non-domestic

## ADOPTION STATES, OPEN TERRITORIES, AND SUPPLEMENTAL SALES

Based on data from the AAP, growth in the elementary-high school market in 2004 came from the open territories and supplemental materials markets, which both increased 8.5%. The adoption market declined 7.5% due to limited opportunities in new state adoptions in 2004.



Source: AAP, as reported by 10 publishers. Includes non grade-specific materials



Source: AAP, as reported by 10 publishers. Includes non grade-specific basal and supplemental materials. Excludes non-domestic sales of \$58 million, \$52 million, \$47 million, and \$60 million for 2004, 2003, 2002, and 2001, respectively

## Mapping the Adoption Process

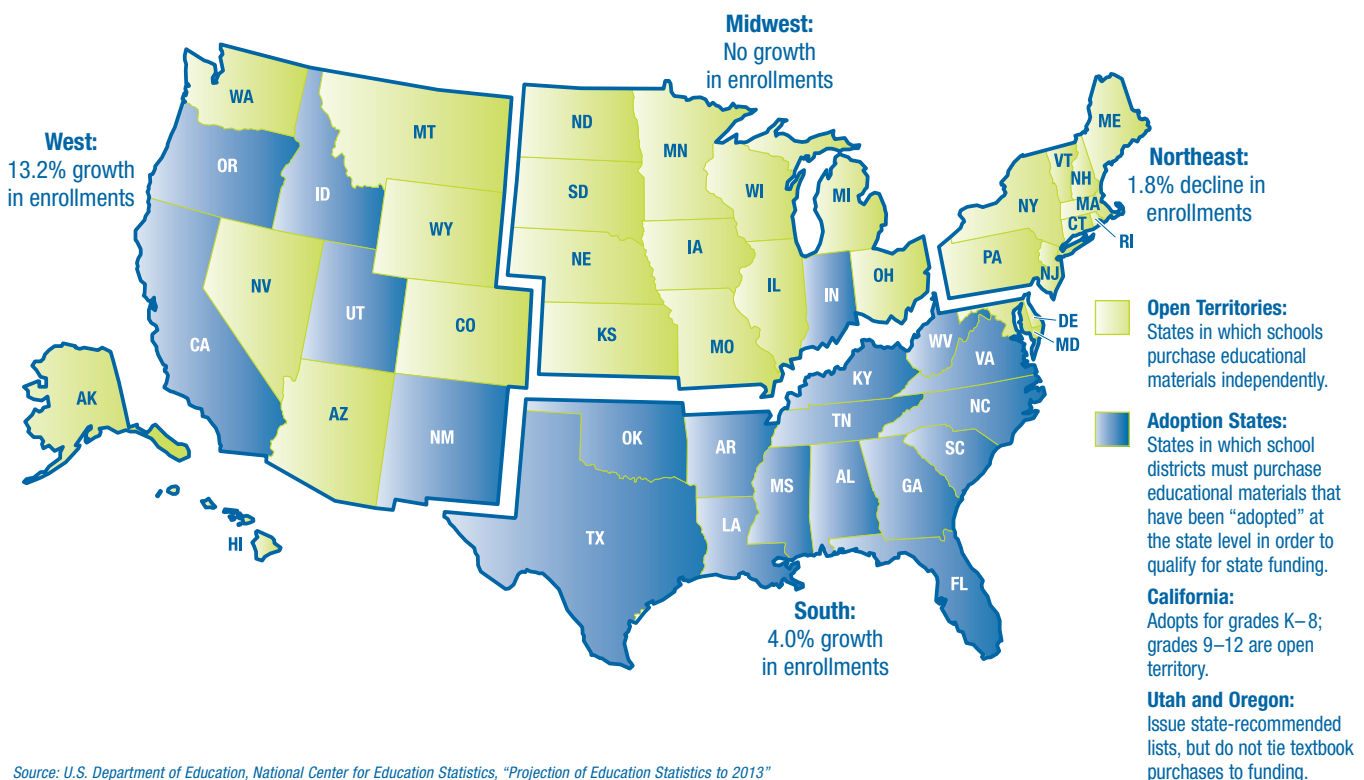
Nineteen states use the adoption process to buy elementary and secondary textbooks. A twentieth state, California, adopts textbooks through the eighth grade. In the adoption process, a state education board selects textbooks to be placed on an approved list. To use state education funds, local school districts must choose textbooks from the approved list. In adoption states,

the state board issues curriculum guidelines and schedules the purchase of new books in each subject area. In the remaining states, known as “open territories,” textbooks are purchased independently by local school districts or individual schools. There are no statewide purchasing schedules or state selected lists of textbooks.

## Growing Enrollments in Key Adoption States

Changing U.S. K–12 Enrollment by Region, 2001–2013

Enrollments are growing faster in the key adoption states in the west and south as Americans continue to migrate to the Sunbelt.



Source: U.S. Department of Education, National Center for Education Statistics, “Projection of Education Statistics to 2013”

Elementary School Adoption Schedule

**EL-HI ADOPTION OPPORTUNITIES**

Adoption states' plans to buy new materials are a key factor in gauging prospects for the elementary and secondary school markets. 2005 marks an upturn in new state adoptions and promises to be a strong year for educational publishers. The rest of the decade is expected to remain strong, with slight fluctuations. The schedules are subject to change.

**Elementary School Adoption Schedule**

Bid Year	2004	2005	2006	2007	2008	2009	2010
Purchase Year	2005	2006	2007	2008	2009	2010	2011
<b>Reading</b>	Arkansas (K-8) South Carolina (6-8)	Kentucky (K-8) North Carolina (K-8)	Indiana (1-8) Oregon (K-8) Tennessee (K-8) West Virginia (K-8)	Alabama (K-8) Florida (K-8) Idaho (K-8) Louisiana (K-8) Oklahoma (K-8)	California (K-8) Georgia (K-8) Mississippi New Mexico (P-8) Texas (1-5) <i>Spn (1-5)</i>	South Carolina (K-5)	Arkansas (K-8)
<b>Math</b>	Louisiana (K-8) Tennessee (K-8) Virginia (K-8) West Virginia (K-8)	Arkansas (K-8)	Georgia (K-8) Mississippi (K-8) New Mexico (P-8) Texas (6-8) <i>Spn (6)</i>	California (K-8) Texas (1-5) <i>Span (1-5)</i>	Idaho (K-8) Kentucky (K-8) North Carolina (K-5) South Carolina (K-8)	Alabama (K-8) Florida (K-5) Indiana (1-8) Oklahoma (K-8) Oregon (K-8)	Tennessee (K-8) West Virginia (K-8)
<b>English/ Language Arts</b>	Arkansas (K-8) Oklahoma (K-8) South Carolina (6-8)	Kentucky (K-8) Mississippi (K-8) North Carolina (3-5)	Idaho (K-8) Louisiana (K-8) Oregon (K-8)	Indiana (K-8) West Virginia (K-8)	Alabama (K-8) California (K-8) Florida (K-5) Georgia (K-8) Texas (1) <i>Spn (1)</i>	New Mexico (P-8) South Carolina (K-5) Tennessee (1-8) Texas (2-8) <i>Spn (2-6)</i>	Arkansas (K-8) North Carolina (K-8) Oklahoma (K-8) South Carolina (6-8)
<b>Science</b>	Idaho (K-8) Indiana (1-8) North Carolina (K-8)	Alabama (K-8) Florida (K-8) New Mexico (P-8) Oklahoma (K-8) West Virginia (K-8)	Arkansas (K-8) California (K-8) South Carolina (K-8)	Georgia (K-8) Kentucky (K-8) Mississippi (K-8)	Oregon (K-8) Tennessee (K-8)	Idaho (K-8) Louisiana (K-8) North Carolina (K-8)	Indiana (1-8) Texas (1-8) <i>Spn (1-6)</i>
<b>Social Studies</b>	Alabama (K-8) Florida (K-8) Georgia (K-8) Mississippi (K-8) New Mexico (P-8) Oregon (K-8)	California (K-8) Louisiana (K-8) South Carolina (K-8)	Kentucky (K-8) Oklahoma (K-8)	Arkansas (K-8) Idaho (K-8) North Carolina (K-8) Tennessee (K-8)	Indiana (1-8)	West Virginia (K-8)	Alabama (K-8) Florida (K-8) Georgia (K-8) Mississippi (K-8) New Mexico
<b>Health</b>	California (K-8) Idaho (K-8) Indiana (1-8) South Carolina (K-5) Texas (1-8)	Mississippi (K-8) New Mexico (P-8) South Carolina (6-8) West Virginia (K-8)	Arkansas (K-8) Florida (K-8)	Georgia (K-8) Oregon (K-8)	North Carolina (K-5) Oklahoma (K-8) Tennessee (K-8)	Alabama (K-8) Idaho (K-8) Kentucky (K-8) Louisiana (K-8)	South Carolina (K-5)
<b>Music</b>	Georgia (K-8) Kentucky (K-8) Mississippi (K-8) Texas (1-8)	Indiana (1-8) Oregon (K-8) Tennessee (K-8)	Alabama (K-8) California (K-8) Idaho (K-8) New Mexico (P-8) North Carolina (K-8) Oklahoma (K-8)	South Carolina (K-8)	Florida (K-8) West Virginia (K-8)	Arkansas (K-8)	Georgia (K-8) Kentucky (K-8) Louisiana (K-8) Mississippi (K-8)
<b>Spelling</b>	Arkansas (K-8) Oklahoma (K-8)	Kentucky (K-8) Mississippi (K-8) North Carolina (2-8) Tennessee (1-8)	Idaho (K-8) West Virginia (K-8)	Florida (K-8) Indiana (K-8)	Alabama (K-8) Georgia (K-8)	South Carolina (K-5)	Arkansas (K-8) Oklahoma (K-8)
<b>Literature</b>	South Carolina (6-8)	Idaho (K-8) Kentucky (K-8) North Carolina (6-8) Tennessee (6-8)	Louisiana (6-8) West Virginia (6-8)	Alabama (K-8) Indiana (K-8) Oklahoma (K-8)	Florida (6-8) Mississippi Texas (6-8) <i>Spn (6)</i>	—	—
<b>ESL</b>	Oklahoma (1-8)	—	—	—	Arkansas (K-8) Florida (K-8)	Georgia (K-8) Tennessee (1-8) Texas (1-8)	Oklahoma (K-8) Oregon (K-8)
<b>Handwriting</b>	Arkansas (K-8) Idaho (K-8) Oklahoma (K-8)	Kentucky (K-8) Mississippi (K-8) North Carolina (1-5)	Indiana (1-8)	Florida South Carolina (K-3) West Virginia (K-8)	Alabama (K-8)	—	Arkansas (K-8) Louisiana (K-8) Oklahoma (K-8)
<b>Dictionaries</b>	Arkansas (K-8) Oklahoma (1-8)	Mississippi (K-12)	Idaho (K-8)	—	Alabama (K-8) Florida (K-8) Georgia (K-8)	—	Arkansas (K-8) Oklahoma (K-8)

Source: AAP School Division/NASTA

Notes:  
Schedules are subject to change.  
*Italics indicate Spanish-language program*

Secondary School Adoption Schedule

Secondary School Adoption Schedule

Bid Year	2004 <sup>1</sup>	2005	2006	2007	2008	2009	2010
Purchase Year	2005	2006	2007	2008	2009	2010	2011
<b>Social Studies</b>	Alabama Florida (6-12) Georgia Mississippi New Mexico Oregon South Carolina <sup>2</sup> (9-12)	California (6-8) Louisiana South Carolina <sup>2</sup> (6-8)	Kentucky Oklahoma	Arkansas Idaho <sup>2</sup> North Carolina South Carolina <sup>2</sup> (9-12) Tennessee	Indiana	South Carolina <sup>2</sup> (9-12) West Virginia (6-12)	Alabama Florida (6-12) Georgia Mississippi South Carolina <sup>2</sup> (9-12)
<b>Science</b>	Idaho <sup>2</sup> Indiana North Carolina	Alabama Florida (6-12) New Mexico Oklahoma West Virginia	Arkansas California (6-8) South Carolina <sup>2</sup> (6-12)	Georgia Kentucky Mississippi	Oregon South Carolina <sup>2</sup> (9-12) Tennessee	Idaho Louisiana North Carolina South Carolina <sup>2</sup> (9-12)	Indiana Texas (6-8) <i>Spr (6)</i>
<b>Mathematics</b>	Louisiana Tennessee Virginia West Virginia	Arkansas	Georgia Mississippi New Mexico Texas	California (6-8)	Idaho <sup>2</sup> Kentucky North Carolina South Carolina <sup>2</sup> (6-12)	Alabama Florida (6-12) Indiana Oklahoma Oregon South Carolina <sup>2</sup> (9-12)	Tennessee West Virginia (6-12)
<b>Literature</b>	Arkansas (9-12) Virginia	Idaho <sup>2</sup> Kentucky Mississippi North Carolina (9-12) Tennessee	Indiana (6-8 Reading) Louisiana (6-12) Oregon West Virginia	Alabama Indiana Oklahoma South Carolina (9-12)	Florida (6-12) Georgia (6-8) Mississippi New Mexico Texas	Georgia (9-12)	Arkansas Idaho North Carolina (9-12)
<b>Reading</b>	Arkansas <sup>2</sup> Oklahoma <sup>2</sup>	Kentucky North Carolina (6-8)	Indiana <sup>2</sup> Tennessee (6-12)	Alabama Florida <sup>2</sup> Idaho Louisiana (6-8) Oklahoma <sup>2</sup>	California <sup>2</sup> (6-8) Mississippi <sup>2</sup> New Mexico	–	Arkansas North Carolina (6-8) Oklahoma <sup>2</sup>
<b>English/ Language Arts</b>	Arkansas Oklahoma Virginia	Kentucky Mississippi North Carolina (6-12) South Carolina <sup>2</sup> (6-8)	Idaho <sup>2</sup> Louisiana (6-8) Oregon West Virginia	Indiana Louisiana (9-12) West Virginia	Alabama California <sup>2</sup> (6-8) Florida (6 yr) Georgia (6-8)	Georgia (9-12) New Mexico Tennessee Texas	Arkansas North Carolina (6-12) Oklahoma South Carolina <sup>2</sup>
<b>World Languages</b>	Kentucky North Carolina <sup>2</sup> Texas Virginia	–	Alabama Florida Idaho <sup>2</sup> North Carolina <sup>2</sup>	Indiana Mississippi South Carolina (6-12)	Arkansas New Mexico Oklahoma West Virginia	Georgia (6-12) North Carolina <sup>2</sup> Tennessee	Kentucky Louisiana Oregon
<b>Business Education</b>	South Carolina <sup>2</sup>	Georgia Indiana Tennessee	Florida <sup>2</sup> Mississippi <sup>2</sup> South Carolina <sup>2</sup>	New Mexico North Carolina South Carolina <sup>2</sup>	Arkansas Idaho <sup>2</sup> Louisiana Oklahoma South Carolina <sup>2</sup>	Alabama Florida <sup>2</sup> South Carolina <sup>2</sup>	South Carolina <sup>2</sup>
<b>Computer Education</b>	Idaho <sup>2</sup> South Carolina <sup>2</sup> Tennessee	Arkansas Idaho <sup>2</sup> Oklahoma	Florida Idaho <sup>2</sup> Louisiana Mississippi South Carolina <sup>2</sup>	Idaho <sup>2</sup> South Carolina <sup>2</sup>	Idaho <sup>2</sup> Oklahoma South Carolina <sup>2</sup>	Alabama Florida Kentucky Louisiana <sup>2</sup>	South Carolina <sup>2</sup> Tennessee
<b>Health (H) Physical Education (PE)</b>	California (6-8) (H) Idaho (H) Indiana (H) Texas (H, PE)	Mississippi (H, PE) New Mexico (H, PE) South Carolina (6-12) (H) West Virginia (H)	Arkansas (H, PE) Florida (H, PE)	Georgia (H, PE) Oregon (H) South Carolina (PE)	Louisiana (H, PE) North Carolina (6-9) (H) Oklahoma (H, PE) Tennessee (H)	Alabama (H, PE) Arkansas (H, PE) Idaho (H) Kentucky (H, PE) Louisiana (H, PE)	Indiana (H)
<b>Family/ Consumer Science</b>	South Carolina <sup>2</sup>	Georgia Indiana Mississippi South Carolina <sup>2</sup>	Florida North Carolina	New Mexico South Carolina <sup>2</sup> (Occup)	Idaho Louisiana Oklahoma Tennessee West Virginia <sup>2</sup>	Alabama Arkansas	South Carolina <sup>2</sup> (Non-Occup)
<b>Art (A) Music (M) Drama (D) Speech (S)</b>	Florida (D, S) Georgia (A, M, D) Kentucky (A, M, D) Mississippi (A, M, D) Oklahoma (S) Texas (A, M, D)	Indiana (A, M) Kentucky (S) Oregon (A, M) Tennessee (A, M, D)	Alabama (A, M, D) California (A, M) Florida (A) Idaho <sup>2</sup> (A, M, D, S) New Mexico (A, M, D) North Carolina (A, M, D) Oklahoma (A, M, D)	South Carolina (A, M, D, S)	Alabama (S) Florida (M, D, S) Louisiana (S) West Virginia (A, M)	Arkansas (A, M) Georgia (S) Tennessee (S) Texas (S)	Georgia (A, M, D) Kentucky (A, M, D) Louisiana (A, M) Oklahoma (S)
<b>Vocational/ Technical Education</b>	South Carolina <sup>2</sup>	Georgia Indiana Tennessee	Arkansas <sup>2</sup> Florida <sup>2</sup> Mississippi <sup>2</sup> South Carolina <sup>2</sup>	Mississippi <sup>2</sup> New Mexico South Carolina <sup>2</sup>	Idaho <sup>2</sup> Louisiana North Carolina Oklahoma South Carolina <sup>2</sup>	Alabama Arkansas Florida <sup>2</sup> Kentucky	South Carolina <sup>2</sup>
<b>Career/ Workforce Education</b>	–	Georgia	–	New Mexico	Arkansas Idaho <sup>2</sup> Louisiana North Carolina Oklahoma	Alabama	–
<b>Driver Education</b>	–	Idaho <sup>2</sup> Tennessee	Mississippi	Alabama Arkansas Georgia New Mexico	Florida Oklahoma West Virginia	Kentucky	Idaho

<sup>1</sup> 2004 bid year based on actual participation

<sup>2</sup> Selected titles

Providing Solutions

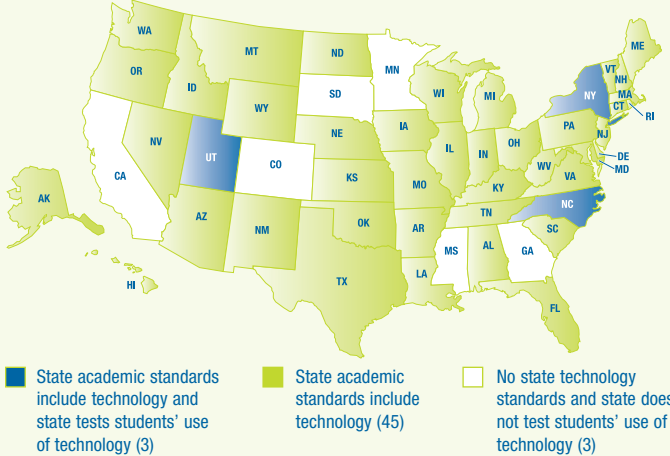
**TECHNOLOGY FOR THE PRE-K–12 CLASSROOM**

Students need a robust skill set to participate successfully in an increasingly technology-driven and competitive workplace. As shown in the map below, most state academic standards include technology, however, only three also assess the students' use of technology. A study of teenage students shows that they are incorporating the Internet into their school research projects and other school-related tasks.

Digital products enhance the effectiveness of education by engaging the students to interact with the material, enabling educators to individualize instruction, monitor student performance, and manage their workload more effectively. By making instruction more targeted and hence effective, the School Education Group's technology-based products are poised to fulfill the educational standards mandated by *No Child Left Behind* (NCLB).

**Student Knowledge of Technology: State Standards and Assessments**

(number of states)

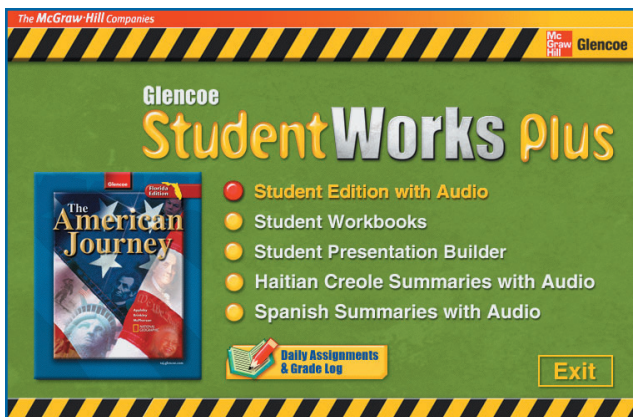


Source: Education Week Research Center, "Technology Counts 2005"

**School-related Use of the Internet by Teenage Students**

Used the Internet for school research	94%
Used the Internet as the major source for their most recent school project	71%
Used a class website set up by school or class	58%
Downloaded a study guide	34%
Created a Web page for a school project	17%

Source: Pew Internet & American Life Project (September 2001). *The Internet & Education: Findings of the Pew Internet & American Life Project* by Amanda Lenhart, Maya Simon, and Mike Graziano. Washington, D.C. Available at <http://www.pewinternet.org/reports/toc.asp?Report=39>



**Electronic Access to Textbooks and Workbooks**

**StudentWorks Plus**

CD-ROM-based product

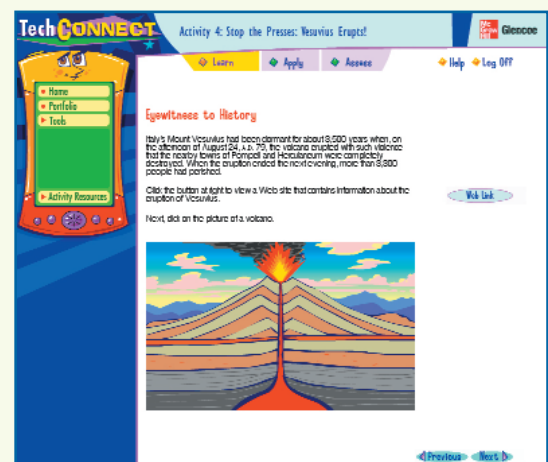
- Glencoe textbooks and associated worksheets on a CD-ROM for almost all Glencoe titles; reduces weight of students' backpacks
- Adds multimedia features beyond the textbook, such as audio files and animations (provided in English and Spanish)
- Provides direct links to student study materials on [www.glencoe.com](http://www.glencoe.com)
- Student workbooks can be printed directly from the CD-ROM

**Technology Literacy**

**TechConnect**

[www.techCONNECT.glencoe.com](http://www.techCONNECT.glencoe.com)

- Integrates technology into the classroom for middle school grades 6-8
- Students develop computer application skills as they master language arts, math, science, and social studies
- Activities reinforce core subject standards as students create assignments using computer applications such as word processing, spreadsheets, presentation software and more
- Helps students understand computer hardware and software as well as skills for safe, responsible technology use
- Fulfills technology literacy requirements of the *No Child Left Behind Act*
- Finalist in the Software & Information Industry Association's (SIIA) 20th Annual Codie Awards in the category, "Best Web-based Instructional Solution"

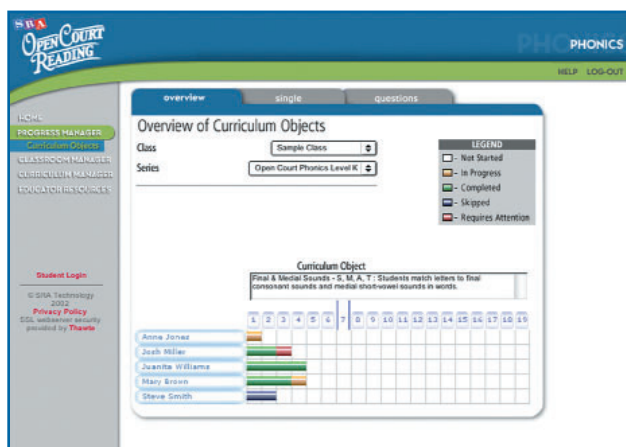
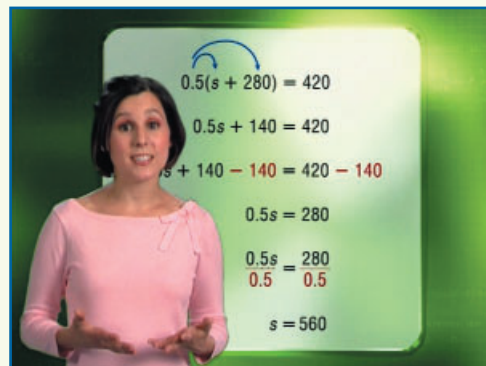


## Math Skills

### What's Math Got to Do With It?

VHS and DVD product

- *What's Math Got to Do With It?* is a Telly award-winning video series (picture at right) that relates real-world applications with units of study. The applications are engaging and relevant to students, showing interviews with people who share real-life situations of how they use math daily in their professions. Available for middle school grades (6-8) and for pre-algebra, algebra 1, and geometry
- *MindJogger Videoquizzes* can be bundled to supplement *What's Math Got to Do With It?* videos. *MindJogger Videoquizzes* review the content of each chapter in a fun game show format and help students prepare for tests



## Reading, Phonics and Intervention

### Open Court Reading Online Products

<http://tour.opencourtonline.com>

Online supplemental products enhance the deployment and use of *Open Court Reading*, a program for K-3 students, by supporting teachers and students

- **Open Court Reading Online Assessment** helps teachers diagnose student progress in the program and define a plan of action for each student based on prescriptive analysis. Assesses performance from student-level to the district-level in preparation for state testing standards and NCLB requirements
- **Open Court Reading Online Professional Development** includes 20 courses that reinforce a teacher's understanding and application of *Open Court Reading*. Uses best-practice video examples, instructor-led online discussion groups, and text resources
- **Open Court Reading Online Phonics** expands phonics instruction through nearly 300 multimedia activities. Online activities assess student progress, tailor instruction, and alert teacher in real-time when intervention is needed

## Early Childhood Reading and Math Instruction

### SRA Literacy Launcher

[www.LiteracyLauncher.com](http://www.LiteracyLauncher.com)

- A subscription-based online product for pre-K-2 which delivers early childhood reading and mathematics instruction and assessment activities
- Vivid photography, brilliant animation (picture at right), and voice instruction from children provide real-life situations in a multi-sensory experience
- Literacy curriculum covers letter recognition, spelling, capitalization, alphabetical order, meaning, vocabulary development, rhymes, and more. Math curriculum covers sequence, patterns, probability, comparisons, measuring, and more
- System provides real-time data on a student's progress which enable educators to intervene in a timely manner and relate progress to a state's standards



Assessment and Reporting Market

MEETING THE ASSESSMENT AND REPORTING NEEDS OF EDUCATORS, PARENTS, AND STUDENTS

The *No Child Left Behind Act* (NCLB) significantly increased the scope of the national testing market. Since the passage of NCLB, states and school districts have been developing plans to meet the law's requirements for standards, annual assessments, corrective actions, and annual state report cards.

NCLB makes the school system accountable for student achievement by requiring Adequate Yearly Progress (AYP). AYP is defined by identifying a starting point for the percentage of students performing at a certain level, then setting annual objectives and intermediate goals, with the final goal of all students reaching the proficient level. Each year states are required to disaggregate and report students' academic achievement by sub-group and must show AYP within each sub-group.

To measure students' academic achievement, schools use assessments that fall into two categories: summative and formative.

- Summative assessments are used as an annual benchmark to measure student progress or support other high-stakes decisions such as high school exit exams.
- Formative assessments are used to ensure that teachers have the information they need in the classroom to focus instruction – so that they can begin to close the achievement gap and ensure adequate yearly student progress.

Educational Testing Market Growth

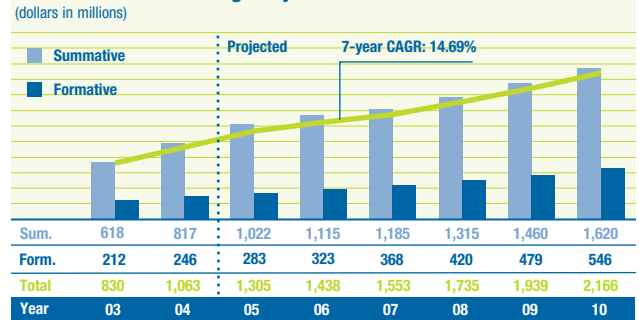
NCLB requires mandatory testing in reading and mathematics in grades 3–8 and in the 10th grade by the 2005/06 school year. In 2007/08, schools must begin testing in science at three different grade levels: 3–5, 6–9, and 10–12.

The Impact of *No Child Left Behind* on Annual Testing

Starting Year	Subject	Grades	Frequency
2005/06	Reading	3, 4, 5, 6, 7, 8, 10	Once a year
	Mathematics	3, 4, 5, 6, 7, 8, 10	Once a year
2007/08	Science	3-5, 6-9, 10-12	Once a year at three different grade levels

States and districts will require support in many aspects of assessment and accountability, particularly in benchmark testing, professional development, summative testing, and tracking student progress. As a result, the educational testing market is projected to grow to \$2.2 billion by 2010.

K-12 Educational Testing: Projected Market Growth



Sources: Eduventures, "K-12 Solutions Learning Markets & Opportunities 2004"

A PORTFOLIO OF ASSESSMENT AND REPORTING SERVICES

McGraw-Hill Education offers a portfolio of assessment and reporting solutions through leading brands including CTB/McGraw-Hill, McGraw-Hill Digital Learning, and The Grow Network/McGraw-Hill.

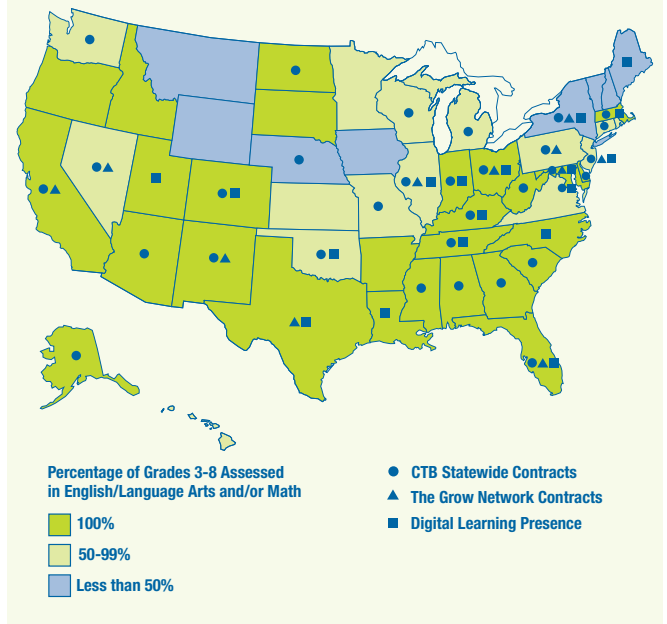
Industry-Leading Brands

CTB/McGraw-Hill has been an industry leading brand of both summative and formative testing products for eighty years. CTB serves students in more than 8,700 school districts in all 50 states and the Districts of Columbia, as well as through the U.S. Department of Defense system and in 46 countries. CTB publishes more than 100 copyrighted tests and support materials, develops and prints more than 200 custom assessment products, and provides assessments to more than 16 million students each year.

McGraw-Hill Digital Learning products help educators improve student learning outcomes through the effective use of data and technology.

The Grow Network/McGraw-Hill (Grow) provides an integrated suite of assessment reports and targeted instructional resources to families, teachers, and school leaders in 11 states, serving nearly 7 million students and more than 20 percent of students tested nationwide. Grow was established in 2000 and acquired by The McGraw-Hill Companies in 2004. Grow transforms teaching and learning by using assessment as a tool to support instruction.

McGraw-Hill Assessment and Reporting Programs



## USING TECHNOLOGY TO PROVIDE ASSESSMENT AND REPORTING SERVICES

### Online Formative Assessments Provide Student Achievement Data Throughout the Year

*Yearly ProgressPro™* is an online formative assessment program that provides teachers and administrators with ongoing student achievement data throughout the school year. By 2004, just one year after it was launched, *Yearly ProgressPro* had delivered nearly 2.5 million online assessment and exercises to 142,632 students in 27 states. McGraw-Hill Digital Learning is preparing to launch a comprehensive assessment solution for NCLB core subject areas of reading and mathematics.

### Transforming Assessment Results to Improve Classroom Instruction

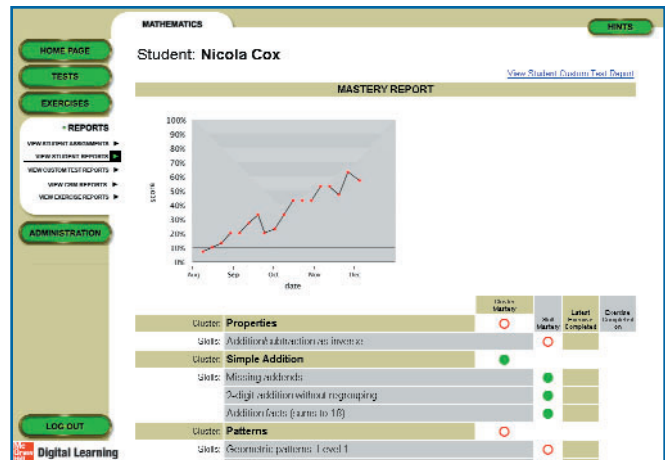
Grow's innovative system allows for flexible report design and high-volume report publishing within short timeframes, delivering reports to students, parents, teachers, and administrators. Grow has enhanced student reporting with the creation of personalized study guides, unique to each student's individual strengths and needs. Grow offers dynamic translation of its reporting as well as resources translated into nearly 20 languages.

### Expanded Online Assessment in Core Subject Areas

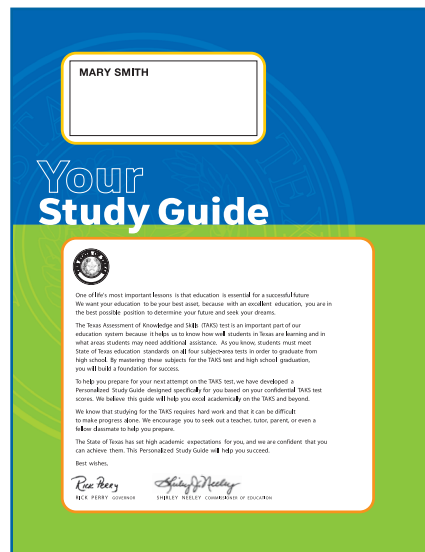
CTB's *i-know®* family of online assessments grew in 2004 to include online test content in five core subject areas – reading, language, mathematics, science, and social studies. Time-saving pre-made tests are available in reading and mathematics for grades 3–8 (NCLB core courses), and customizable banks of test questions are available for all five core subjects in grades 3–12. To enable teachers to accurately measure student progress over time, CTB also introduced specialized online “scaled” tests in reading and mathematics.

### Online Solutions for Learners of All Ages

In 2005, CTB is planning to introduce *TerraNova® Online*, the first online norm-referenced test, and *TABE Online*, the first adult basic skills assessment available via the Internet. These offerings complement the existing product portfolio of quality online solutions for learners of all ages.



*Yearly ProgressPro™* provides teachers and administrators with ongoing student achievement data throughout the school year



Grow's personalized study guides transform test data into insight for each student and help close the gap between standards, curricula and assessment, one child at a time.

## PROVIDING SOLUTIONS FOR NEW MARKET OPPORTUNITIES

### Programs to Support Early Reading First and Reading First

McGraw-Hill Education's family of research-based early learning assessments provides educators with a range of diagnostic and skill-development programs for pre-K through grade 3 and are on the *Early Reading First/Reading First* approved product lists in 24 states. *Fox in a Box®*, an early literacy assessment, provides summative diagnostic results that can be used with *TerraNova*, laying a smooth transition from pre-K diagnostic results to K–12 achievement.

### Providing Support for English-Language Learners

The increasing number of English-language learners in the U.S. poses unique challenges for educators striving to help all students reach high levels of achievement. In 2005, McGraw-Hill Education is launching a comprehensive new system of English-language proficiency products called *LAS Links*. *LAS Links* is an integrated system of assessments, instructional guidance, and support to improve learning for all English-language learners in grades K–12.

### Unique Needs of Urban School Districts

Urban school districts must cope with cultural and language diversity, limited English proficiency, socioeconomic factors, and lack of resources. As a result, testing needs are unique due to the complexity of assessment and reporting requirements.

McGraw-Hill Education's suite of online formative skill-building assessment programs helps measure and report individual student and group progress throughout the school year in relation to state academic achievement standards. Additional instructional resources are key to each district's success in meeting Adequate Yearly Progress goals. These include Grow's study guides and professional development programs.

### New Quality Goals for Teachers' Professional Development

NCLB places particular emphasis on developing effective use of technology to support instruction and improve teacher understanding of assessments and assessment results. McGraw-Hill Education provides professional development tools, from teacher-support materials for achievement tests to early learning training.

Higher Education Market

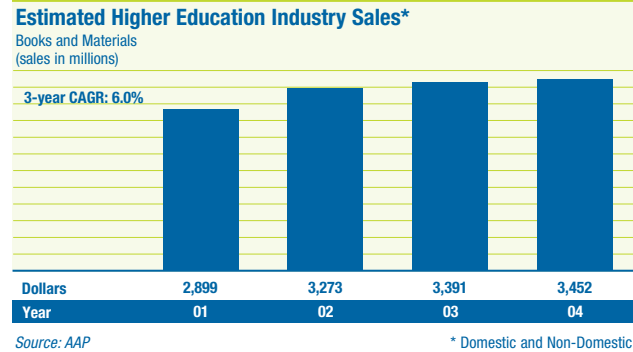
**EXPANDING OPPORTUNITIES IN HIGHER EDUCATION**

The need for knowledge to ensure economic success, growing enrollments driven by the Baby Boom Echo and increases in global enrollment, and the greater use of technology are key factors in the higher education market.

The convergence of content and technology is leading to the creation of a new generation of products. These innovations can improve classroom management for instructors and enrich the learning experience for students.

Leveraging content to provide online learning is the latest step MHP is taking to expand opportunities in higher education. In 2005, MHP will introduce nearly 40 online courses. These courses offer streaming video, animation, and personalized assessment. The courseware may be used as a complete online course or as part of a regular course with both classroom and online instruction. There is flexibility for instructors and students and the opportunity to give educational institutions new options for providing instruction.

See the table below and the next page for MHP's growing lineup of online content and courses, assessment tools, mobile resources, and course management systems for the college and university market.



**INCREASING THE VALUE PROPOSITION FOR THE HIGHER EDUCATION MARKET**

The Higher Education group is increasing the value proposition for the higher education market by increasing the use of technology to provide digital content, mobile resources, course management, and online assessment.

E-LEARNING SOLUTIONS	INSTRUCTOR BENEFIT	STUDENT BENEFIT
<b>DIGITAL CONTENT</b> <i>Online content keeps books current long after the publication date and offers students an interactive way to study</i>		
<p><b>Primis Online</b> <a href="http://www.mhhe.com/primis/online">www.mhhe.com/primis/online</a></p> <ul style="list-style-type: none"> <li>Proprietary platform has a database of 1,500,000 pages of content, including 1,500 full texts, business cases, articles, reading collections, and lab manuals</li> </ul>	<ul style="list-style-type: none"> <li>Instructors have total control over textbook content</li> <li>Can easily include own material in the custom text</li> <li>Immediately preview custom text online</li> </ul>	<ul style="list-style-type: none"> <li>An accurate, complete version of a professor's course material</li> <li>Save money; buy only required materials</li> </ul>
<p><b>e-Books</b></p> <ul style="list-style-type: none"> <li>Electronic version of over 1,500 McGraw-Hill titles</li> </ul>	<ul style="list-style-type: none"> <li>Students have immediate access to textbook at a reduced cost</li> </ul>	<ul style="list-style-type: none"> <li>Download e-Book to PC or view online</li> <li>Enables electronic note taking and research links</li> <li>Purchase online from MHHE's e-bookstore</li> </ul>
<b>MOBILE RESOURCES</b> <i>Flexible delivery of study materials outside of the classroom for busy students</i>		
<p><b>PowerWeb To Go</b> <a href="http://www.PowerWebToGo.com">www.PowerWebToGo.com</a></p> <ul style="list-style-type: none"> <li>Discipline-specific journal articles, news, and other current content that can be downloaded to students' PDAs</li> </ul>	<ul style="list-style-type: none"> <li>Current course material can be downloaded directly from a textbook website</li> </ul>	<ul style="list-style-type: none"> <li>Study anytime, anywhere using a PDA</li> <li>Instant mobile access</li> </ul>
<p><b>Study-to-Go</b></p> <ul style="list-style-type: none"> <li>Allows students to quickly access book-specific study aides on their PDA</li> </ul>	<ul style="list-style-type: none"> <li>Book-specific content can be downloaded directly from a textbook website</li> </ul>	<ul style="list-style-type: none"> <li>Access quizzes, key terms, and flashcards anytime, anywhere</li> <li>Self-grading quizzes provide instant feedback along with text references</li> </ul>
<b>COURSE MANAGEMENT SYSTEMS</b> <i>Powerful systems that house digital McGraw-Hill content for online courses</i>		
<p><b>Third-Party Delivery Systems</b></p> <ul style="list-style-type: none"> <li>Online Learning Centers can be delivered to higher education through PageOut or third-party platforms like Blackboard, WebCT, and e-College</li> </ul>	<ul style="list-style-type: none"> <li>Provides instructors control over their course content</li> <li>Offers flexibility to potential adopters for compatibility with their school's selected platform</li> </ul>	<ul style="list-style-type: none"> <li>Accessible via the Web; minimal system requirements</li> </ul>
<b>ONLINE ASSESSMENT</b> <i>These products target students who need help and make sure they keep pace with the rest of the class</i>		
<p><b>Classroom Performance System (CPS)</b></p> <ul style="list-style-type: none"> <li>With wireless connectivity and student handheld devices, classroom lectures achieve a new level of interactivity</li> </ul>	<ul style="list-style-type: none"> <li>Take attendance quickly and effectively</li> <li>Give quizzes in class and instantly provide grades</li> <li>Gauge student understanding of lectures on the fly</li> </ul>	<ul style="list-style-type: none"> <li>Use handheld device to respond to lecture questions</li> <li>Receive instant feedback</li> </ul>
<p><b>SimNet XPert™</b> <a href="http://www.mhhe.com/it/simnetxp/">www.mhhe.com/it/simnetxp/</a></p> <ul style="list-style-type: none"> <li>Award-winning learning and assessment software for students learning software applications and computer concepts</li> </ul>	<ul style="list-style-type: none"> <li>Single solution for all introductory IT courses</li> <li>Efficient and effective delivery of computer-based learning and proficiency-based assessments</li> </ul>	<ul style="list-style-type: none"> <li>Students can prove proficiency in a realistic, simulated interface</li> <li>Includes student remediation features</li> </ul>
<p><b>EZ Test</b></p> <ul style="list-style-type: none"> <li>Easy-to-use desktop test generator used for creating paper tests from either book-specific test banks or author questions using templates</li> </ul>	<ul style="list-style-type: none"> <li>Accommodates numerous types of questions</li> <li>Can easily create multiple versions of any test</li> <li>Easily export tests for use with course management systems</li> </ul>	<ul style="list-style-type: none"> <li>Receive instant grades and feedback from instructor</li> </ul>

## GROWING MARKET FOR ONLINE LEARNING

Online learning is one of the most dynamic segments of the higher education market. For-profit post-secondary institutions, whose enrollments are growing faster than the overall higher education market, are in the vanguard, attracting a growing number of

students to their new online courses. Enrollment in fully-online distance education has a projected compound annual growth rate of 34% for 2000-2007 (see chart on p. 23).

### Types of Online Courses

Course Content Delivered Online	Type of Course	Typical Description
0%	Traditional	Courses with no online technology. Content is delivered in writing and orally.
1-29%	Web Facilitated	Course which uses Web-based technology to facilitate what is essentially a face-to-face course. Uses a course management system (CMS) or Web pages to post the syllabus and assignments.
30-79%	Blended/Hybrid	Course that blends online and face-to-face delivery. Substantial proportion of the content is delivered online, typically uses online discussions and typically has some face-to-face meetings.
80%+	Online	A course where most or all of the content is delivered online. Typically has no face-to-face meetings.

Source: The Sloan Consortium, "Entering the Mainstream: The Quality and Extent of Online Education in the United States, 2003 and 2004"

### How a Blended/Hybrid Course Works

There is a growing use of blended/hybrid courses – a blend of traditional classroom instruction with online sessions. In blended courses, the students meet in a classroom and online. Blended/hybrid courses combine face-to-face instruction with online delivery of content and feature streaming video, animation, and personalized assessment. Blended courses are evolving, but most include the traditional components: the instructor, the syllabus, and a textbook.

Traditional	Online
<b>Instruction and Assessment</b> <ul style="list-style-type: none"> <li>• Class lectures</li> <li>• Group discussions and activities</li> <li>• Small-group work</li> <li>• Face-to-face meetings with instructor</li> <li>• Flip chart or chalkboard</li> <li>• Raise hand for surveys</li> <li>• PowerPoint slides</li> <li>• Classroom proctored exams and quizzes</li> </ul>	<ul style="list-style-type: none"> <li>• Scheduled audio and video lectures</li> <li>• Web meeting technology enables interaction: Yes/No, raise hand, online feedback, text chat, electronic whiteboard</li> <li>• Threaded e-mail discussions</li> <li>• Bulletin boards/discussion forums</li> <li>• Online breakout rooms monitored by instructor</li> <li>• Online surveys and evaluations</li> <li>• Online quizzes and exams</li> <li>• e-Submission of reports and assignments</li> </ul>
<b>Student Resources</b> <ul style="list-style-type: none"> <li>• Textbook or e-Book</li> <li>• Class notes from lectures</li> <li>• Lecture materials, handouts from professor</li> <li>• Reprints of news and journal articles</li> <li>• Lab materials</li> </ul>	<ul style="list-style-type: none"> <li>• Textbook or e-Book for viewing online or downloading to PC</li> <li>• Electronic notetaking</li> <li>• Lecture materials posted by instructor</li> <li>• Discipline-specific news articles and essays online for reading and research</li> <li>• Online tutorials and interactive practice questions</li> <li>• Simulated lab activities</li> </ul>
<b>Instructor's Course Administration</b> <ul style="list-style-type: none"> <li>• Assign coursework in class</li> <li>• Post grades on bulletin board; return graded tests</li> <li>• Report grades to administration</li> </ul>	<ul style="list-style-type: none"> <li>• Assign coursework online</li> <li>• Post grades to online gradebook</li> <li>• Track student and class progress online</li> </ul>

### McGraw-Hill Online Courses

- American Government
- Anatomy and Physiology (one semester)
- Basic Math (Pre-Algebra)
- Business Communication
- Business Math
- Business Statistics
- Chemistry (Allied Health)
- Developmental English
- Elementary Algebra
- English Literature
- Financial Accounting
- Freshman Composition I
- Freshman Composition II
- General Biology (non-majors one semester)
- Human Anatomy and Physiology Sem 1
- Human Anatomy and Physiology Sem 2
- Intermediate Algebra
- Introduction to Business
- Introduction to Psychology
- Introduction to Sociology
- Managerial Accounting
- Medical Assisting 1
- Medical Assisting 2
- Organizational Behavior
- Principles of Accounting I
- Principles of Accounting II
- Principles of Economics I (macro)
- Principles of Economics II (micro)
- Principles of Management
- Principles of Marketing
- Statistics
- Student Success
- U.S. History I
- U.S. History II
- Western Civilization I
- Western Civilization II

Professional Markets

**FINDING GROWTH IN CONSUMER MARKETS**

The Higher Education, Professional and International (HPI) Group is a leading global publisher of print and electronic products – meeting the needs of consumers in business, health, language, science, computing, technical, and medical – that provides anytime, anywhere access to professional products. The HPI Group publishes and distributes more than 1,000 titles a year.

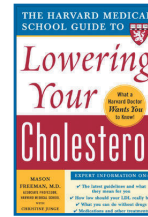
A market leader in professional finance and investment books, McGraw-Hill is expanding its personal finance line to help consumers better manage their money and investments.



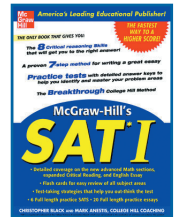
McGraw-Hill is the leading real estate investing publisher. The Company's best-selling books position it at the forefront of this booming trend.



McGraw-Hill serves the growing consumer health segment through strategic relationships with the Harvard Medical School and American Diabetes Association and through market-leading health titles for the aging Baby Boomer demographic.



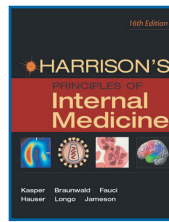
Building on the global prominence of the McGraw-Hill brand, the HPI Group successfully entered the test prep market in 2004 and will be extending its test prep series in 2005.



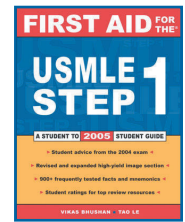
**DEEPENING HPI'S RELATIONSHIP IN PROFESSIONAL MARKETS**

McGraw-Hill's HPI Group serves the professional medical, scientific, technical, and computer communities through strong global brands.

Harrison's Principles of Internal Medicine is the world's best-selling medical reference. The global launch of the 16th edition surpassed prior edition sales in many countries and overseas sales outpaced a solid increase domestically.



McGraw-Hill extended its dominant position in the medical certification publishing segment which was led by the release of its best-selling First Aid for the USMLE Step 1.

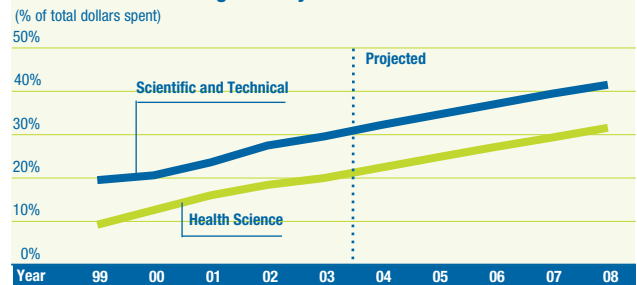


**PROVIDING REAL-TIME ACCESS TO CONTINUALLY UPDATED, SUBSCRIPTION-BASED CONTENT**

Access Medicine 2.0 (www.AccessMedicine.com) is an extensive suite of cross-searchable online medical information products used by nearly all U.S. medical schools and in over 42 countries. Access Medicine is a complete digital learning system that provides lifetime learning for medical students, residents, and physicians. Users can:

- Access 50,000 pages of updated content from 25 top medical titles
- Research from the desktop or at the point-of-care through a mobile PDA device. Doctors can e-mail topics for discussion
- Earn Continuing Medical Education (CME) credits via online audio lectures
- Perform ongoing self-assessment via a test bank of 3,800 USMLE questions and answers

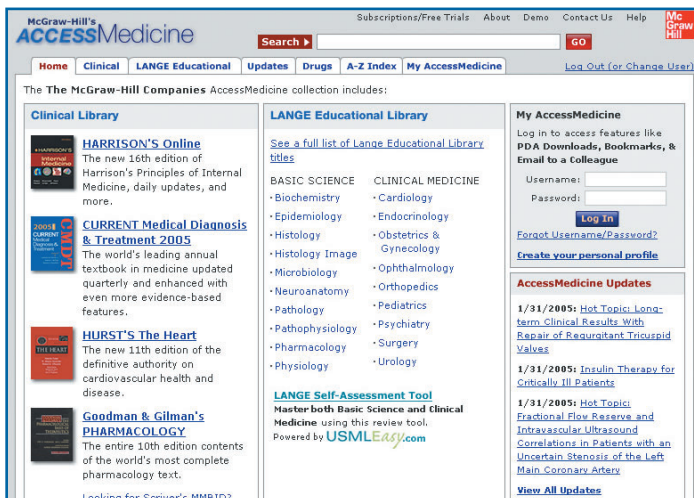
**Professional Publishing Industry Sales for Online Services**



Sources: Veronis Suhler Stevenson, PQ Media LLC, Book Industry Study Group, Simba Information

Access Science (www.AccessScience.com) includes the contents of the Encyclopedia of Science and Technology, 9th ed., and features daily science news updates and an interactive science "Q&A." Powerful search and text highlighting features have led to a growing list of statewide adoptions, including Alabama, Georgia, Maine, Maryland, and Ohio. In Denmark, both Access Science and Access Medicine are included in the Danish National Library Authority, a consortium of Danish libraries.

Digital Engineering Library launched in January, 2005 (www.DigitalEngineeringLibrary.com). The site provides access to over 150 McGraw-Hill engineering titles in the form of a fully-searchable, taxonomically-organized electronic database. Access is available through institutional subscriptions and pay-per-view to individual engineers.



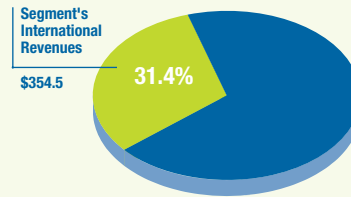
**GROWING INTERNATIONAL SALES**

The global market opportunities in higher education continue to improve, marked by growing enrollments and a worldwide need to develop a more educated workforce.

In 2004, McGraw-Hill Education's international sales grew to \$354.5 million, up 8.3% over 2003.

**2004 Foreign Source Revenue\***

Total Company: \$1,130.4 million  
(dollars in millions)



\* Foreign source revenue includes international sales by U.S. operations

**The Globalization of Higher Education**

According to the International Finance Corporation, 2 million university students, or around 2% of the world's total 100 million higher education students, were studying outside their home country in 2003. This development has influenced educational policies in Europe, Asia, and Australia.

**Why the Bologna Process is Important**

Recognizing that higher education has become a trans-national phenomenon, the European Union initiated the Bologna Process in 2000 to develop a common structure for the continent's higher education system. By 2010, universities throughout the European Union will confer 3-year Bachelor's degrees on their undergraduates and 2-year Master's degrees. This common structure will replace a multitude of very specific national degrees. To make European university education more compatible and transferable globally, many of these courses will be taught in English.

The internationalization of higher education is not limited to Europe. Non-European countries realize that the international community of higher education students is attracted to opportunities in English-speaking countries. Australia and New Zealand have experienced an increase in foreign student enrollment. Asian centers such as Taiwan and Hong Kong have also seen an increase in their foreign student enrollment since they provide English-language instruction.

**The Outlook for Asia**

The bigger opportunity in Asia continues to be rising higher education enrollments in mainland China and India. Enrollment in Chinese educational institutions, especially online institutions, has grown significantly over the past years. To take advantage of opportunities in Asia, McGraw-Hill in December 2004 made an equity investment in PRCEDU Corporation, the leading online education service provider for Chinese universities and academic institutions. PRCEDU has formed partnerships with premier higher education institutions to extend their reach by offering online degrees to students who are eager to improve their skills but unable

to enroll in traditional site-based colleges. China continues to experience significant growth in university enrollments.

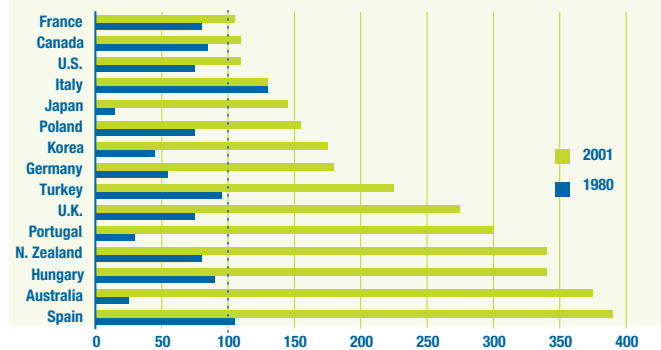
**New Opportunities in Spain, Mexico**

Education reforms in Mexico and Spain also represent new opportunities. Both countries are seeking to reform K-12 education. Spain has targeted September 2007 as the deadline to implement the proposed reforms. The expected changes to the existing curriculum will require new materials in both elementary and high school grades. Additionally, the Spanish education reforms aim to strengthen the vocational-technical part of secondary education, an area of strength for The McGraw-Hill Companies.

Education reform in Mexico is targeted at comprehensive curriculum reform in K-12 education. The reforms will predominantly affect Mexico's public school sector. Mexico operates a national adoption method and McGraw-Hill is well positioned to both maintain its share in the senior high school market and expand in the junior high school market.

**Growth of Foreign Students in Selected Countries Over the Last 20 Years**

(1990=100, index levels of enrollment)



Sources: UNESCO for 1980 and 1990, except for Japan (Ministry of Education), OECD education database for 2001

**Publishing from A – Z**

McGraw-Hill Higher Education, Professional and International (HPI) distributes internationally U.S.-originated higher education, school, professional, technical, and medical products in all key global markets. These product offerings are supplemented by local translations, adaptations, and the development of complementary local products in more than 50 languages.

**Languages Published**

Albanian	Catalan	French	Indonesian	Mandarin long-form	Serbian
Arabic	Croatian	Georgian	Italian	Mandarin short-form	Swedish
Armenian	Czech	German	Japanese	Marathi	Tamil
Assamese	Danish	Greek	Korean	Mongolian	Thai
Bahasa Indonesian	Dutch	Gujarati	Latvian	Norwegian	Turkish
Basque	English	Hebrew	Lithuanian	Oriya	Ukrainian
Bengali	Estonian	Hindi	Macedonian	Portuguese	Vietnamese
Bosnian	Farsi	Hungarian	Malay	Polish	Zulu
Bulgarian	Finnish	Icelandic	Malayalam	Spanish	

Standard & Poor's

GLOBAL DEBT MARKETS

The issuance of new debt continues to increase throughout the world. The drivers that support the long-term trend in capital market development and growth – disintermediation, securitization and globalization – remain favorable well into the future.

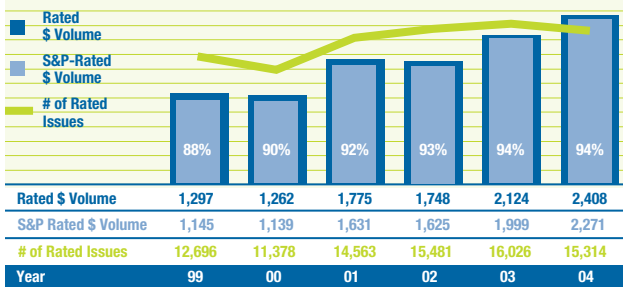
U.S. Debt Market

In 2004, the size of the rated debt market in the U.S. totaled \$2.4 trillion, with Standard & Poor's rating 94% of this debt issuance.

(Annual figures; dollar volume in billions)

Rated U.S. Debt Market <sup>(d)</sup>

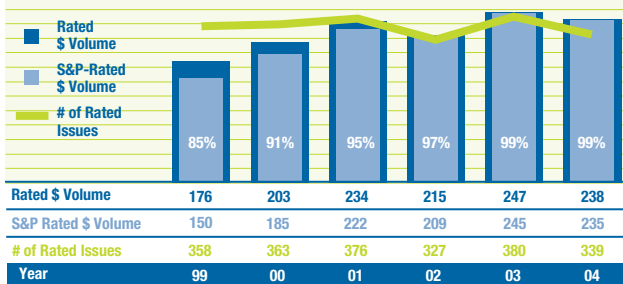
S&P penetration rate as a % of rated dollar volume



Source: Thomson Financial Securities Data, Harrison Scott Publications, Standard & Poor's

Asset-Backed <sup>(b, d, f)</sup>

S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications, Standard & Poor's

Corporates <sup>(c, d)</sup>

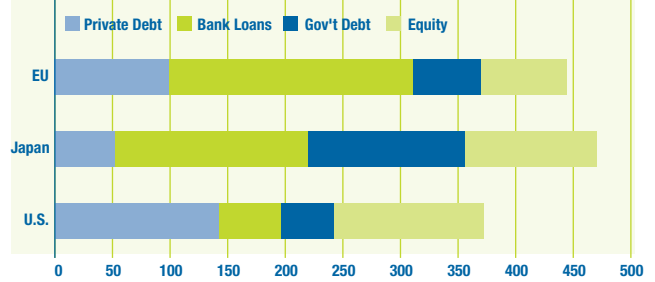
S&P penetration rate as a % of rated dollar volume



Source: Thomson Financial Securities Data

U.S. Has Disintermediated More than Other Countries

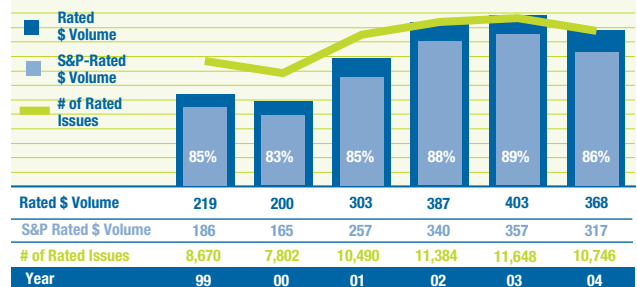
(assets as a percentage of GDP, 2003)



Source: International Monetary Fund, Statistical Appendix, "Selected Indicators on the Size of the Capital Markets, 2003"

Municipals <sup>(a)</sup>

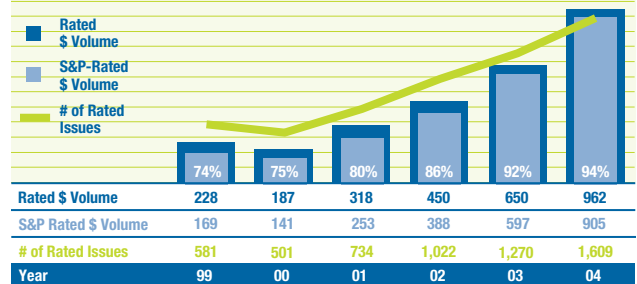
S&P penetration rate as a % of rated dollar volume



Source: Thomson Financial Securities Data

Mortgage-Backed <sup>(b, d, e)</sup>

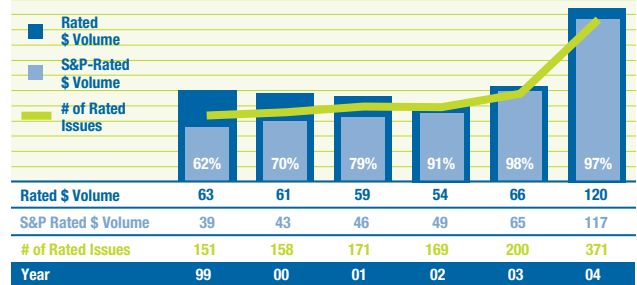
S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications, Standard & Poor's

Collateralized Debt Obligations (CDOs) <sup>(b, d)</sup>

S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications, Standard & Poor's

(a) Excludes student loans and private placements  
(b) Excludes confidential transactions

(c) Includes industrial and financial services issuers. Also includes Rule 144a (private placements), MTN takedowns, convertibles, and preferred

stocks. Excludes sovereign issuers, private placements (except Rule 144a issues), retail notes, commercial paper, and all agency issues

(d) Data by domicile of issuance/issuer  
(e) Excludes agency deals. Includes home equity loans  
(f) Excludes asset-backed commercial paper and letters of credit

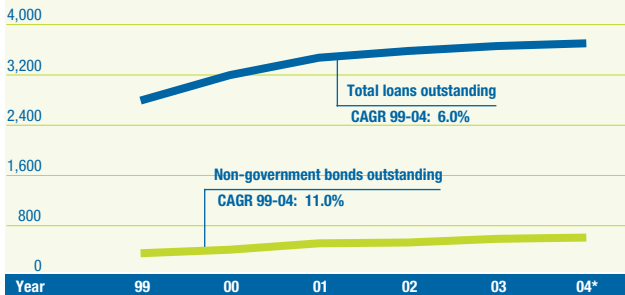
**EUROPE: S&P'S TARGETED MARKET FOR HIGH GROWTH**

In 2004, rated debt issuance in Europe was over \$1.4 trillion, up 19% from 2003. Standard & Poor's utilized its strong European network to capitalize on the significant growth in the region.

Standard & Poor's 2004 market penetration was 85% for all rated debt and showed strong gains across every structured finance asset class.

**Disintermediation in Europe Is Growing**

(in Euro billions)

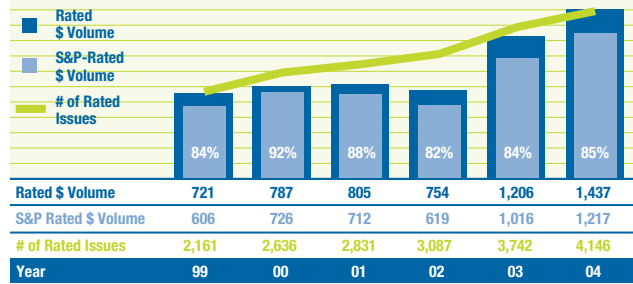


Source: European Central Bank

\* Data as of 3Q04

**Rated European Debt Market (c)**

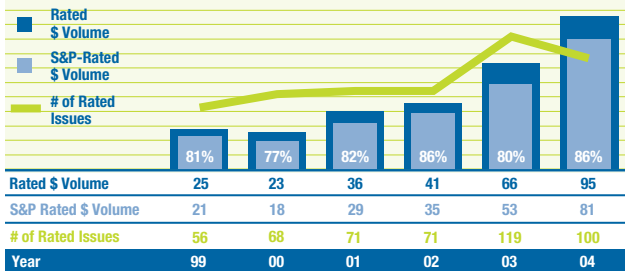
(Annual figures; US dollar volume in billions) S&P penetration rate as a % of rated dollar volume



Source: Thomson Financial Securities Data, Harrison Scott Publications, Standard & Poor's

**European Asset-Backed (a, c)**

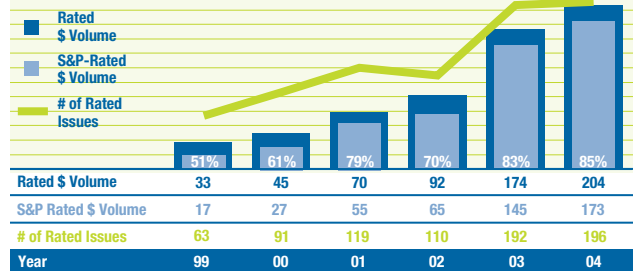
(Annual figures; US dollar volume in billions) S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications, Standard & Poor's

**European Mortgage-Backed (a, c)**

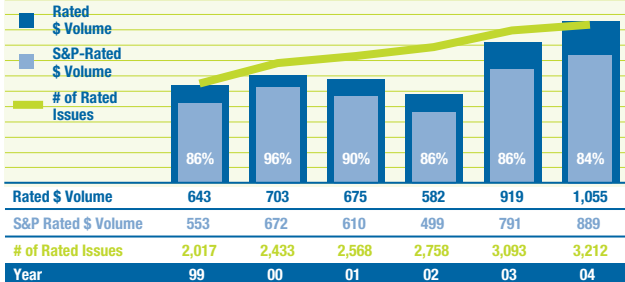
(Annual figures; US dollar volume in billions) S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications, Standard & Poor's

**European Corporates (b, c)**

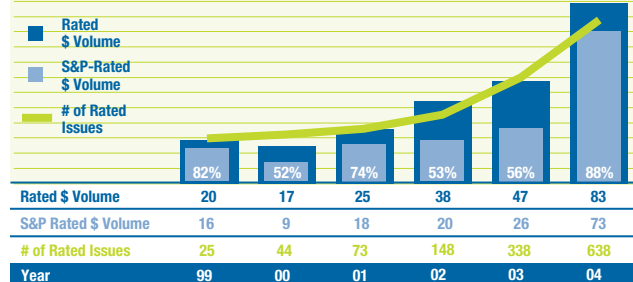
(Annual figures; US dollar volume in billions) S&P penetration rate as a % of rated dollar volume



Source: Thomson Financial Securities Data

**European Collateralized Debt Obligations (CDOs) (a, c)**

(Annual figures; US dollar volume in billions) S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications, Standard & Poor's

(a) Excludes confidential transactions

(b) Includes industrial and financial services issuers. Also includes Rule 144a (private placements), MTN takedowns, convertibles, and preferred

stocks. Excludes sovereign issuers, private placements (except Rule 144a issues), retail notes, commercial paper, and all agency issues

(c) Data by domicile of issuance/issuer

**CRISIL LIMITED**

In June 2005, Standard & Poor's became the majority shareholder of CRISIL Limited, India's leading provider of credit ratings, financial news and risk and policy advisory services. The majority position will enable Standard & Poor's to integrate CRISIL's operations with Standard & Poor's and more fully leverage opportunities both in India and abroad. CRISIL, with its talented

analytical pool and strong management, will play an integral role in the Standard & Poor's global network, especially in the Asia Pacific region. Standard & Poor's began its affiliation with CRISIL in 1996 and strengthened the relationship in 1997 when Standard & Poor's acquired its initial equity stake in CRISIL.

Standard & Poor's

NON-TRADITIONAL PRODUCTS AND SERVICES

Standard & Poor's continues to successfully diversify its business and reduce dependency on new issue volume in the bond markets by leveraging its expertise into non-traditional products and services, such as corporate credit ratings, bank loan ratings, and rating evaluation services. These areas tap into growing sensitivity

to risk and increased regulatory and public concern about the ability of financial markets to manage risk adequately. Globally, non-traditional products account for nearly 20% of revenue in the area of ratings. Below are some of Standard & Poor's non-traditional products and services.

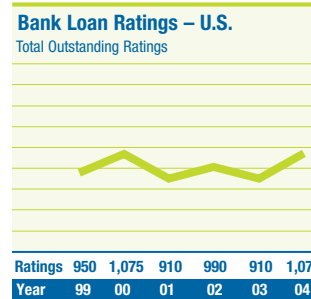
Non-Bond Ratings

Financial Strength Ratings, Counterparty Ratings, and Corporate Credit Ratings:

An opinion of an entity's overall creditworthiness and capacity to pay its financial obligations. These ratings do not apply to specific financial obligations

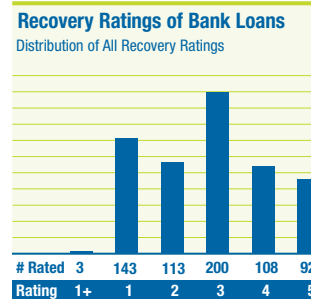
**Bank Loan Ratings:** An evaluation of a syndicated loan based on the likelihood of ultimate repayment of the loan and on the recovery value in the case of default

**Recovery Ratings:** A stand-alone, transparent opinion of the likely recovery of a loan in the event of default; expressed on a numerical scale, not linked to or limited by the issuer's traditional corporate credit rating



\* Total for those organizations whose only rating is a Counterparty Rating

\* Total for those organizations whose only rating is a Corporate Credit Rating



December 2004-March 2005

Standard & Poor's Recovery Rating*	Indicative Recovery Expectations*
1+ Highest expectation of full recovery	100%
1 High expectation of full recovery	100%
2 Substantial recovery	80-100%
3 Meaningful recovery	50-80%
4 Marginal recovery	25-50%
5 Negligible recovery	0-25%

\* of Principal

Analytical Tools and Models

**CDO Evaluator:** Collateralized Debt Obligations (CDOs) represent one of the fastest growing asset classes that Standard & Poor's rates in structured finance. With over 2,500 active users, Standard & Poor's CDO Evaluator helps clients analyze cash flow and synthetic CDO structures. Utilizing a Monte Carlo simulation of defaults with correlation to estimate default rates for different portfolios, the CDO Evaluator model provides insight into the risk characteristics of a CDO transaction. By running thousands of simulations per second, the CDO Evaluator quickly produces statistics and benchmarks for even the most complex CDO structures, such as CDO squared and CDO cubed transactions.

**LEVELS:** Used to determine required credit enhancements for U.S. Residential Mortgage-Backed Securities transactions. The model utilizes residential mortgage loan characteristics and regional economic and borrowing data to deliver credit risk analysis required to price individual loans, manage portfolios, and structure securitizations. The model is licensed by issuers, investors, portfolio managers, and mortgage originators.

**Risk Solutions**

Risk Solutions focuses on developing and enhancing clients' internal credit rating systems and providing tools for their credit portfolio analysis. The solutions address all major components of an internal rating system, including tools and methodologies for the analysis of probability of default, loss given default, and exposure at default. Risk Solutions' integrated credit risk management solution leverages Standard & Poor's experience in credit assessment to help clients manage enterprise risk, economic and regulatory capital, active exposures, and risk pricing with confidence.

**Standard & Poor's Risk Solutions' Credit Risk Assessment Templates are frameworks that allow clients to assess obligor risk by incorporating the explicit risks inherent for an industry or geographic region. These templates include both quantitative and qualitative factors and generate a credit score in a letter grade form. While not a formal Standard & Poor's credit rating, the grade provides an estimation of default probability based on S&P's ratings methodology.**

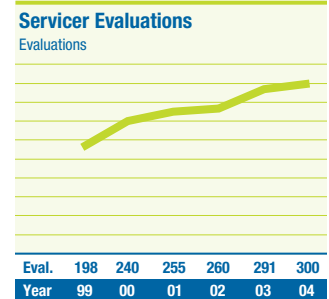
**Sample of Standard & Poor's Custom Credit Template**

Consumer Products			XYZ Corporation
Country:			Germany
Business Risk	Weight	Score (0-100)	Weighted Score
Industry Risk & Position	15%	35	5.3
Market Position	15%	35	5.3
Operating Efficiency	15%	30	4.5
Management	5%	40	2.0
Financial Risk			
Financial Policies	Weight	Score (0-100)	Weighted Score
Financial Policies	5%	35	1.8
Profitability	10%	30	3.0
Cash Flow	15%	30	4.5
Capital Structure	10%	35	3.5
Financial Flexibility	10%	25	2.5
<b>Corporate Credit Score</b>			<b>BB- 30</b>

**Evaluations**

**Rating Evaluation Services:** A confidential, specific, and indicative assessment of how potential acquisitions, debt issues, stock repurchases, recapitalizations, consolidations, and other actions will impact a company's creditworthiness and credit rating.

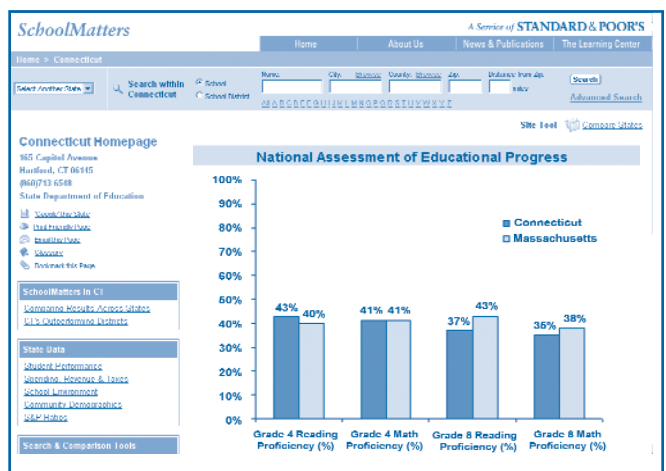
**Service Evaluations:** An independent, objective view of a company's ability to service loan and asset portfolios. The Service Evaluation rankings serve as consistent, objective benchmarks for assessing operational risk, which provide valuable transparency and enable global market participants to make informed decisions.



**School Evaluation Services:** Leveraging Standard & Poor's position as an independent and objective provider of analysis, School Evaluation Services (SES) provides a suite of analytical services and innovative online tools to help improve decision-making in public education. Benchmarks, trends, written reports, and unique indices are among the many Web-based features of SES that help parents, taxpayers, educators, and policymakers improve student achievement through better management of schools.

SES provides special features to help improve education decision-making, such as its Return on Resources™, an analysis of the relationship between educational spending and student performance. Education leaders in Michigan and Pennsylvania have been using SES analyses, benchmarks, and tools since 2001.

In March 2005, SES expanded its services to all 50 states, Puerto Rico, and the District of Columbia as part of the Education Data Partnership. Created to help transform the way education data are used to improve student performance, the Education Data Partnership is a collaboration between the Council of Chief State School Officers (CCSSO) and Standard & Poor's School Evaluation Services. The Education Data Partnership is funded through August 2006 by The Broad Foundation and the Bill & Melinda Gates Foundation.



**School Evaluation Services provides its suite of analytical services to all 50 states, the District of Columbia, and Puerto Rico to help policymakers, educators, and parents make better-informed decisions about public education.**

[www.schoolmatters.com](http://www.schoolmatters.com)

Standard & Poor's

**EMBEDDING STANDARD & POOR'S DATA INTO CLIENT WORKFLOWS**

Standard & Poor's is becoming an essential element in the workflow of the world's financial professionals by providing the market's most comprehensive and timely financial information.

**Unique Data and Distribution Services**

Standard & Poor's seamlessly delivers its proprietary company, securities, fund, and index data – via direct feed, online, analytical software solutions, and the Capital IQ Platform. Services include:

- **Compustat:** The industry benchmark for standardized fundamental data on 38,000 companies for institutional money managers and leading universities globally
- **Securities Information:** Packages credit market ratings and research
- **Securities Classifications:** Provides unique securities identification and cross-referencing systems
- **Securities Evaluations:** Creates and distributes securities descriptive data, yield curves, and end-of-day pricing on municipal,

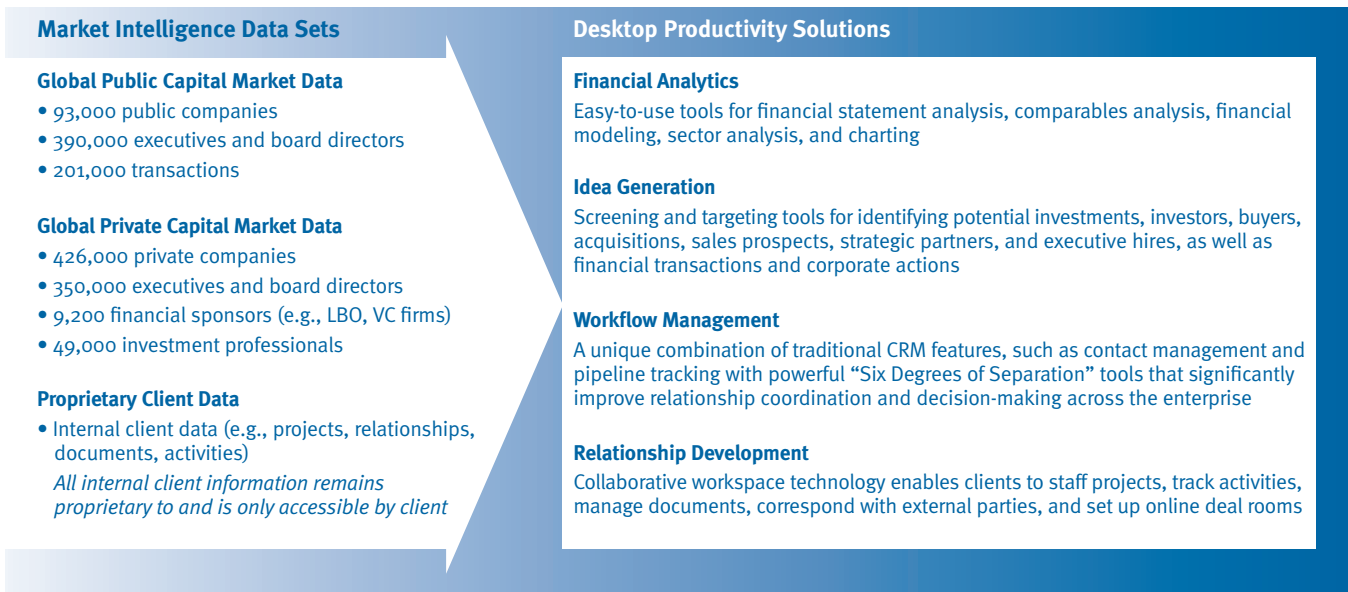
- corporate, and structured debt, as well as international equities
- **Fund Data:** Information on nearly 100,000 global funds, including mutual funds, pension-linked funds, insurance-linked funds, and hedge funds
- **Directory Services:** Directories, newsletters, and specialty print products consisting of business reference and research information on public and private companies
- **Index Alert:** Tracks changes that affect the composition and constituent weightings of S&P indices and reports corporate actions on index constituents

**Capital IQ**

The September 2004 acquisition of Capital IQ enabled S&P to combine Capital IQ's innovative technology and data platform and rapidly growing client base with Standard & Poor's industry-leading content covering fixed income, equities, indices, and mutual funds, as well as fundamental data from Compustat. Capital IQ was selected by the Software & Information Industry Association (SIIA) as a finalist in the 20th Annual Codie Awards for two awards: "Best Online Professional Financial Information Service" and "Best Solution Integrating Content Into An Application." It was also named the third fastest growing company in the New York region by the Deloitte Technology Fast 50 Program.

Capital IQ provides high-impact information and workflow solutions to over 900 leading financial institutions, advisory firms, and corporations. Its solutions are based on the Capital IQ Platform, a unique combination of global private and public capital market data and technology that enables end-users to draw deep market insights, generate better ideas, leverage relationships, and simplify workflows. Clients can deploy the Capital IQ Platform either as a standalone solution or seamlessly integrate its components into existing business applications and portals via systems integration and data feeds.

**The Capital IQ Platform integrates data sets and delivers market-leading desktop solutions that map to the workflow of financial professionals**



**ASSIRT Research**

In February 2005, Standard & Poor's acquired ASSIRT Research, a leading provider of fund data, ratings, and portfolio services to the Australian investment marketplace. ASSIRT Research has delivered objective data, research, analysis, and advisory services to the Australian managed funds industry since 1986. ASSIRT Research

is an ideal match for Standard & Poor's existing fund ratings business in Australia. The acquisition further strengthens Standard & Poor's ability to serve the Australian market's need for wealth management services and will accelerate S&P's growth into one of the world's largest managed fund markets.

## CREATING NEW INVESTMENT OPPORTUNITIES

Standard & Poor's is the leading, full-service provider of tradeable and investable index products and services, offering products for a wide array of investment and trading needs. Standard & Poor's flagship index series, including the S&P 500 and S&P Global 1200, are world-renowned as investable, liquid, and replicable offerings that are designed to serve as proxies for the markets they measure.

The S&P/Citigroup Broad Market Index series enables Standard & Poor's to offer comprehensive benchmarks as well as custom

indices on a global basis. This offering builds on the extensive index data, calculation, and analytical tools available in the investable indices Standard & Poor's has developed over the last 80 years.

While no one index serves the purpose of all investors, one index provider – Standard & Poor's – can serve the needs of all investors.

### Representative S&P Indices

Investable, liquid and replicable offerings designed to serve as proxies for the markets they measure:

- Committee-based methodology
- Focused coverage with fewer constituents
- Liquid and tradeable
- Efficient and investable
- Index products include futures, options, ETFs, and institutional index funds

### S&P's Indices

### Comprehensive S&P/Citigroup Indices

Broad market indices cover more than 8,500 companies in 52 local markets and represent approximately 97% of the world's market capitalization:

- Rules-based methodology
- Comprehensive, broad market coverage
- Wide opportunity set
- Performance benchmarks
- Index products include institutional index funds

## S&P Family of Indices

- **S&P Global Indices** include the S&P 500, the most widely followed U.S. equity benchmark with over \$1 trillion indexed and more than \$2.4 trillion benchmarked to it at year-end 2004; the S&P Global 1200, the world's first real-time, investable global equity index comprised of seven regional indices covering over 30 markets; and the S&P/Citigroup Indices, Standard & Poor's comprehensive suite of global benchmark indices
- **S&P Hedge Fund Indices** offer investors an investable benchmark that is representative of the broad range of major strategies that hedge funds employ. Since the introduction of the S&P Hedge Fund Index in 2003, nearly \$3 billion has been invested in the SPhinX Investment Program (which tracks the S&P Hedge Fund Index)
- **S&P Europe-Registered Funds Indices (S&P ERFI)** represent the universe of actively managed mutual funds that are available to European investors in France, Germany, Italy, and Spain

## Rapidly Growing Our Index Services

In 2004, Standard & Poor's continued to demonstrate its leadership in providing new tradeable portfolio indices and products for the global investment community:

- **S&P/CITIC 300:** Gauges the broad market performance of China's A-Shares universe which currently comprises over 1,200 stocks
- **S&P/CITIC 50:** Represents the largest and most liquid China A-Shares
- **S&P 500 O-Strip:** An index of the 74 NASDAQ-listed stocks in the S&P 500 Index
- **S&P Europe-Registered Funds Indices:** Represents actively managed mutual funds available to investors in France, Germany, Italy and Spain
- **S&P Long/Short Equity Index:** Expands the five Equity Long/Short funds represented in the S&P Hedge Fund Index
- **S&P/Citigroup Global REIT Index:** Represents all REITs included in the S&P/Citigroup Global Equity Index
- **S&P/TSX Canadian Bond Index:** Canada's first independent fixed-income index, developed in collaboration with CIBC World Markets and RBC Capital Markets, with TSX Inc. responsible for data distribution. Broadly represents the market performance of investment-grade bonds issued by Canadian companies and by issuers in the government sector

## How S&P Is Paid on Index Products and Services

Standard & Poor's generates revenue from:

- **Investment vehicles such as ETFs**, which are based on Standard & Poor's indices and generate revenue through fees based on trading volume and assets in the underlying fund
- **Index-related licensing fees**, which are either annual fees based on assets under management or flat fees for derivatives and structured products
- **Data sales**, which support index product management
- **Listed derivatives**, such as Index Futures and Options, which generate royalties based on trading volumes of derivatives contracts listed on the Chicago Mercantile Exchange, Chicago Board Options Exchange, and other exchanges

## Standard &amp; Poor's

## WORLD'S LEADING PROVIDER OF INDEPENDENT EQUITY RESEARCH

Standard & Poor's is the world's leading provider of independent equity research, providing opinions for investment advisors, investors, and institutions.

## Investment Research for Financial Advisors and Individual Investors

Key services include:

- **Standard & Poor's Stock Reports:** Covers more than 5,000 publicly-traded companies and presents an in-depth picture of each company's activities, development, performance and outlook
- **Advisor Insight:** Provides financial advisors with online access to S&P's research, analytic tools, and performance-driven investment advice
- **Standard & Poor's Interactive Stock Report:** Provides online access to sophisticated equity research based on S&P's STARS (Stock Appreciation Ranking System) analytical methodology
- **MarketScope:** Provides real-time commentary, recommendations and strategies, current opinions, and stock picks to more than 120,000 investment professionals daily
- **Standard & Poor's Research Notes:** Reports analysts' intraday recommendation changes through a direct feed into the computer networks of key brokerage and banking clients
- **The Outlook:** Standard & Poor's weekly consumer-oriented newsletter which has been providing investors with unbiased research for eight decades

## Investment Research for Institutions

Standard & Poor's institutional equity research products and capabilities support portfolio managers' investment assumptions and research practices. Product highlights include:

- **Standard & Poor's Institutional Research Reports:** Provides expanded analysis, including extensive company analysis, investment thesis, and detailed Standard & Poor's Core Earnings calculations, for more sophisticated investors
- **Global Equity Insights:** Provides Standard & Poor's monthly outlook on the global economy and investment markets, highlights of individual stocks, and STARS portfolio reviews
- **Investment Policy Committee (IPC) Notes:** Reports Standard & Poor's economic, fundamental, and technical outlook as well as recommended asset allocation
- **Special Studies:** Provides thematic research. Recent studies included the small-cap energy sector and Quality Trends based on Standard & Poor's Earnings & Dividend Quality Rankings

## PORTFOLIO ADVISORY SERVICES

Standard & Poor's facilitates investment decisions through new investment vehicles and services that leverage Standard & Poor's extensive data and analysis.

## Standard &amp; Poor's Investment Advisory Services LLC

Standard & Poor's Investment Advisory Services LLC (SPIAS), an affiliate of Standard & Poor's, develops and advises clients on investment strategies using S&P's STARS stock recommendations, fund evaluations, and other proprietary investment techniques. Additionally, SPIAS produces asset allocation model portfolios for

its institutional clients and suggests portfolio allocation strategies. SPIAS serves major firms around the world in banking, brokerage, and insurance as well as financial intermediaries and institutional investors. An example of a SPIAS product/service is the Standard & Poor's Portfolio Advisor platform.

## Standard &amp; Poor's Portfolio Advisor

S&P Portfolio Advisor is a Web-based platform that provides investment professionals with risk-based asset allocation tools, model portfolios, investment recommendations, and proposal generation for fee-based accounts. These include:

- **Objective Investment Analysis and Opinions:** S&P's extensive research and recommendations on thousands of funds and securities worldwide
- **Standard & Poor's Model Allocation Portfolios (MAPs):** Model portfolios with the power and flexibility to choose among different security types at the asset-class level
- **Portfolio Monitoring and Alerts:** Notification on market shifts, ranking changes, and when to rebalance portfolios with customizable portfolio monitoring tools
- **Proposal Generation Tools:** A proposal process with an easy-to-use, step-by-step proposal builder to create personalized investment plans for every client

Standard & Poor's Portfolio Advisor also features modular technology and a user-friendly interface that can be integrated with a client's existing trading and portfolio management systems.

**LEVERAGING GLOBAL INTEREST IN INDEPENDENT EQUITY RESEARCH**

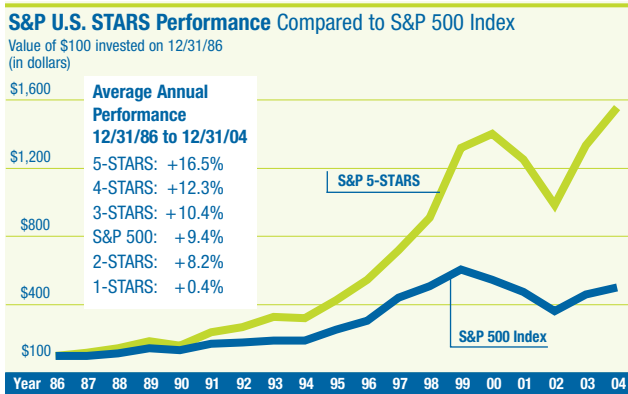
In a \$1.4 billion global agreement with federal regulators, 10 major Wall Street firms agreed to separate research and investment banking activities and to spend \$432.5 million on independent research over five years starting August 1, 2004. As a result of these changes, many firms have reduced the number of companies/industries they cover and/or undertaken major changes in research.

The transformation of equity research business models creates opportunities, beyond the settlement, for independent equity research firms to provide research and support services to the sell-side and buy-side. Standard & Poor's is working with settlement and non-settlement firms, both in the U.S. and abroad.

**Analytical Rigor**

**Qualitative Research**

Standard & Poor's has approximately 100 equity research analysts globally. Analysts provide investment recommendations using a proprietary measure called the Stock Appreciation Ranking System, or STARS, a ranking of the potential for future performance over the coming 12-month period. Over 1,800 companies are evaluated under this system ranging from an S&P 5-STARS Strong Buy ranking to a 1-STARS Strong Sell ranking.



Source: Standard & Poor's

**Quantitative Research**

Standard & Poor's provides quantitative evaluations for more than 6,000 equities including models that use artificial intelligence and incorporate historical numbers and growth projections.

- **Earnings and Dividend Ranking System:** The ranking reflects Standard & Poor's appraisals of growth and stability of earnings and dividends over the past 10 years
- **Fair Value Rank:** A quantitative model that incorporates profitability, relative value, and changes in future earnings estimates. This ranking is based on relational analyses of consensus earnings and growth forecasts
- **Investability Quotient (IQ):** The IQ indicates a stock's potential for medium- to long-term returns on a scale of 0 to 250 based on three proprietary performance measures: STARS, Earnings and Dividend Ranks, and Credit Ratings. The IQ calculations also draw from a proprietary statistical model that looks at valuation, profitability, risk and momentum factors, relative strength, liquidity, and volatility
- **Standard & Poor's Core Earnings:** S&P equity analysts rigorously evaluate the underlying earning power of the companies they analyze principally through the proprietary S&P Core Earnings data set and analytical methodology

**Nordea**

In 2004, Standard & Poor's announced an agreement to provide Nordea, the leading Nordic region bank, with all its fundamental equity research. Standard & Poor's provides in-depth institutional-level research coverage on more than 140 companies in Western Europe and the Nordic region. In addition, Standard & Poor's provides analyst support through daily morning calls and client servicing which enables Nordea to fulfill in-house equity research needs and support its clients with differentiated, value-added research.

**Vista Research**

In April 2005, Standard & Poor's acquired Vista Research, Inc., an independent primary research firm. Vista adds a new capability to Standard & Poor's suite of research products and information platforms by enabling institutional money managers access to a broad set of industry practitioners, consumers, and thought leaders in their respective fields. Through its network of top-quality industry contacts, Vista offers customers in-depth insights about issues and trends within such industry sectors as technology, media, telecommunications, energy, aerospace, and healthcare.

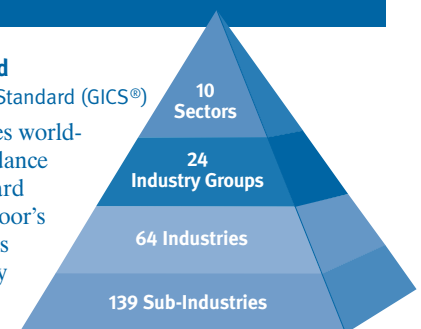
**LEADING THE WAY IN THOUGHT LEADERSHIP AND ANALYTICAL EXCELLENCE**

**Standard & Poor's Core Earnings**

In response to growing concern about company earnings reports, Standard & Poor's introduced a new methodology called Standard & Poor's Core Earnings. This methodology provides an alternative definition for evaluating corporate operating earnings of publicly-held companies in the U.S. and focuses on a company's underlying earnings power. The ultimate goal is to lead investors and analysts to a consensus on earnings calculations and bring more transparency and consistency to earnings analysis and forecasts.

**Creating a Global Standard**

Global Industry Classification Standard (GICS®) More than 25,000 companies worldwide are classified in accordance with GICS®, a global standard developed by Standard & Poor's and MSCI. Each company is classified at the sub-industry level.



Standard & Poor's

**RECORD-LEVEL ETFs LINKED TO S&P INDICES**

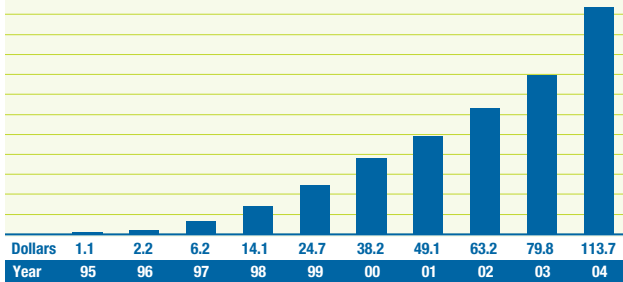
Exchange-Traded Funds (ETFs), which represent share ownership of an index fund but trade like shares of stock, have become the most popular securities on the American Stock Exchange. Standard & Poor's has been at the forefront of ETF development since the launch of the S&P 500 SPDR (Standard & Poor's Depository Receipts) in 1993, the S&P MidCap SPDR in 1995, and the Select Sector SPDRs in 1998. Assets in ETFs linked to S&P indices reached

record levels at year-end 2004, led by the S&P 500 SPDR, the largest ETF in the world.

Introduced on January 10, 2005, trading volume in options on SPDRs (SPY) totaled more than 7.0 million contracts, with an average volume of 126,373 contracts per day, in the first quarter of 2005.

**S&P Index-Based ETF Assets\***

(dollars in billions)

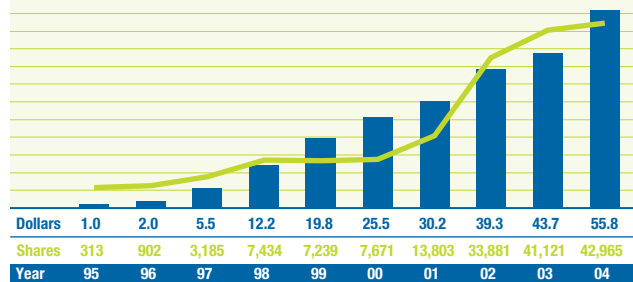


Source: Standard & Poor's

\* Reflects year-end data

**S&P 500 SPDR Trust Value/Average Daily Trading Volume**

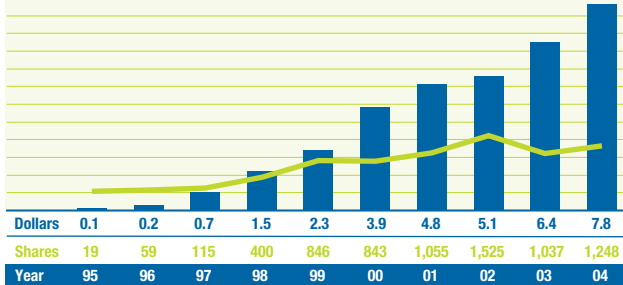
(dollars in billions) / (shares in thousands)



Source: American Stock Exchange

**MidCap SPDR Trust Value/Average Daily Trading Volume**

(dollars in billions) / (shares in thousands)

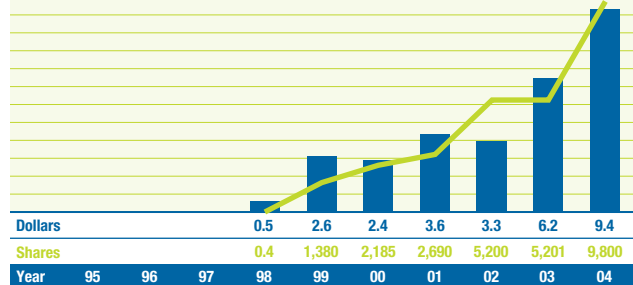


Source: American Stock Exchange

Note: MidCap SPDRs (MDY) started trading May 4, 1995

**Select Sector SPDR Trust Value/Average Daily Trading Volume**

(dollars in billions) / (shares in thousands)

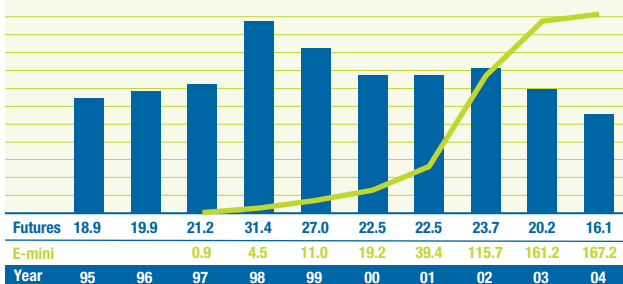


Source: American Stock Exchange

Note: Select Sector SPDRs started trading December 22, 1998

**S&P 500 Futures and "E-mini 500" Contracts Traded on the CME\***

(contracts in millions)



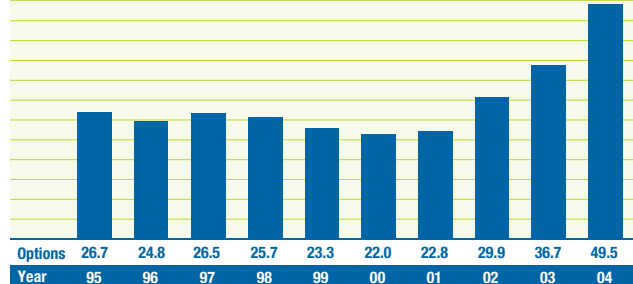
Source: Chicago Mercantile Exchange

\* Reflects year-end data

Note: E-mini 500 contracts started trading on September 9, 1997

**S&P 500 Option Contracts Traded on the CBOE\***

(contracts in millions)



Source: Chicago Board Options Exchange

\* Reflects year-end data

**LEADING PROVIDER OF INDEPENDENT FINANCIAL ADVISORY SERVICES**

Standard & Poor's Corporate Value Consulting (CVC) has been objectively advising clients on valuation and corporate finance issues for over 35 years. CVC provides financial advisory services for financial reporting and tax purposes; mergers, acquisitions, joint ventures, divestitures and corporate restructurings; capital allocation, project investment and capital structure decisions; and commercial and shareholder disputes.

CVC specializes in many industries with an emphasis on automotive, biotech, consumer products, energy, entertainment,

financial services, health care, industrial products, media, pharmaceuticals, technology, and telecommunications.

CVC has 350 professionals operating out of offices in 12 U.S. cities as well as two offices in Europe. In late 2003 CVC expanded its practice internationally, opening offices in Amsterdam and London. The addition of these European offices enables CVC to support U.S. companies with operations or investments in Europe, as well as European corporations doing business throughout the world.

**Scope of Financial Advisory Services****Corporate Finance Consulting**

Provides clients with impartial, ongoing advisory assistance in the consideration and implementation of a significant corporate change or action.

- Fairness Opinions
- Financial and Strategic Modeling Services
- Financial Engineering/ Derivative and Option Valuation
- Financial Projections
- Strategic Finance Services
- Transaction Advisory Services/Due Diligence

**Dispute Consulting & Forensic Advisory Services**

Assists law firms on behalf of their clients by providing in-depth valuation, financial, and economic analysis and insight needed to support business transactions, litigation, and disputes. Standard & Poor's CVC professionals are skilled at providing expert testimony and assisting with deposition and trial preparation.

- Bankruptcy
- Business Insurance Consulting
- Commercial and Shareholder Disputes
- Discovery Services
- Forensic and Investigative Services
- Intellectual Property
- Legal Business Solutions

**Financial Reporting & Tax Valuation**

Provides companies with an objective, independent opinion of value to meet market and regulatory requirements. Standard & Poor's CVC combines its accounting and tax expertise with leading valuation and corporate finance techniques to address sophisticated financial reporting, tax, and regulatory needs.

- Business Valuation
- Fresh Start Accounting
- Goodwill and Intangible Asset Impairment
- Intellectual Property Valuation
- Property Tax Consulting
- Purchase Price Allocations
- Stock Option/Derivative Valuation
- Tax Valuations
- Transfer Pricing

**Fixed Asset & Real Estate Valuation**

Provides valuations of fixed assets, including machinery and equipment, and real estate for financial and tax reporting purposes, structured finance transactions, litigation support, underwriting due diligence for lenders, site location and market feasibility studies.

- Cost Segregation
- Fixed Asset Consulting
- Machinery and Equipment Valuation
- Real Estate Transaction Due Diligence
- Real Estate Valuation and Consulting

BusinessWeek

**GROWING THE FRANCHISE**

BusinessWeek, a preeminent provider of business analysis, products and services, reaches a global audience of more than 5.8 million readers. Building on its 75-year history, BusinessWeek's priorities for 2005 include enhancing its position in core markets, expanding into attractive non-core markets through partnerships and joint ventures, and exploring new distribution channels.

BusinessWeek's key growth initiatives in 2004 included launching BusinessWeek SmallBiz in the U.S. and expanding BusinessWeek FashionWeek from Europe to Asia. In 2005 BusinessWeek will launch two local-language editions in Arabic and Russian to complement current editions in Chinese, Polish, and Bahasa for Indonesia. BusinessWeek Research Services was also developed in 2004 to provide research services to its current advertising clients and capture non-advertising marketing revenue.

BusinessWeek became the first major consumer magazine to initiate dual circulation audits in 2004 in an effort to encourage

the magazine industry to embrace technology and move to a system of better, faster disclosure. Business Publication Circulation (BPA) joins Audit Bureau of Circulations (ABC) in auditing BusinessWeek's circulation data.

**North America Advertising Pages**

2000-2004 Year	Pages	2004 Quarter	Pages	% of Year
2004	3,163.54	1Q	603.78	19%
2003	3,034.66	2Q	874.49	28%
2002	3,333.13	3Q	595.82	19%
2001	3,785.95	4Q	1,089.45	34%
2000	6,005.60	<b>Total</b>	<b>3,163.54</b>	<b>100%</b>

Source: Publishers Information Bureau (PIB)

**Top Advertising Categories, 2004**

Category	North America Edition		Europe Edition		Asia Edition	
	Revenue	% of 2004 Total	Revenue	% of 2004 Total	Revenue	% of 2004 Total
High Tech	\$128,103	35.0%	\$5,290	24.0%	\$3,852	21.4%
Finance/Insurance	63,656	17.4%	2,203	10.0%	1,331	7.4%
Automotive	36,578	10.0%	404	1.8%	1,215	6.8%
Industrial Materials	19,204	5.3%	2,045	9.3%	1,229	6.8%
Corporate*	18,447	5.0%	2,411	10.9%	1,270	7.1%
Consumer**	16,172	4.4%	919	4.2%	501	2.8%
Travel	15,790	4.3%	1,595	7.2%	2,895	16.1%
<b>Major Ad Categories</b>	<b>297,950</b>	<b>81.5%</b>	<b>14,867</b>	<b>67.5%</b>	<b>12,293</b>	<b>68.4%</b>
<b>All Others</b>	<b>67,611</b>	<b>18.5%</b>	<b>7,168</b>	<b>32.5%</b>	<b>5,690</b>	<b>31.6%</b>
<b>Total</b>	<b>\$365,561</b>	<b>100.0%</b>	<b>\$22,035</b>	<b>100.0%</b>	<b>\$17,983</b>	<b>100.0%</b>

Sources: Publishers Information Bureau (North America), Competitive Media Reporting (Asia and Europe)

\* Corporate not elsewhere classified for NA

\*\* Jewelry and watches for Europe and Asia

**Advertising Rates, 2005**

	N. America Edition <sup>1</sup>	% change vs. 2004	Europe Edition <sup>2</sup>	% change vs. 2004	Asia Edition <sup>2</sup>	% change vs. 2004	BW/China Edition <sup>3</sup>	% change vs. 2004
Rate Base	970,000	—	109,076	-2.0%	80,244	-4.2%	110,000	10.0%
4-Color Page Rate	\$106,500	3.1%	\$21,500	5.4%	\$15,500	4.4%	\$9,000	3.4%
B/W Page Rate	\$72,000	3.0%	\$14,500	5.0%	\$10,500	7.3%	\$13,400	3.1%

Note: Rate bases for Europe and Asia editions are equal to respective circulation figures as of Dec. 2004

**Print Subscription Rates, 2005**

	N. America Edition <sup>1</sup>	% change vs. 2004	Europe Edition <sup>2</sup>	% change vs. 2004	Asia Edition <sup>2</sup>	% change vs. 2004	BW/China Edition <sup>3</sup>	% change vs. 2004
Single Copy	\$4.95	—	Country specific	—	Country specific	—	10 RMB	—
Annual Subscription	\$59.97	—	\$109	—	\$90	—	120 RMB	—
3-Year Subscription	\$119.97	—	\$327	—	\$180	—	—	—

**Average Paid Circulation (12/31/2004)**

	N. America Edition <sup>1</sup>	% of total	Europe Edition <sup>2</sup>	% of total	Asia Edition <sup>2</sup>	% of total	BW/China Edition <sup>3,4</sup>	% of total
Subscription	956,851	97.1%	97,725	88.7%	73,999	91.7%	—	—
Single Copy	28,664	2.9%	12,433	11.3%	6,688	8.3%	—	—
<b>Total</b>	<b>985,515</b>	<b>100.0%</b>	<b>110,158</b>	<b>100.0%</b>	<b>80,687</b>	<b>100.0%</b>	<b>105,069</b>	<b>100.0%</b>

<sup>1</sup> Published 50x a year

<sup>2</sup> Published 45x a year

<sup>3</sup> Published 12x a year

<sup>4</sup> Paid/controlled (06/2004)

## EXTENDING THE *BUSINESSWEEK* BRAND

*BusinessWeek* has evolved and expanded over its 75-year history by delivering news and analysis in the frequency and format its audience requires. It has grown to include daily online news stories and a weekly television program and will continue to meet the evolving needs of both information users and advertisers.

### Print

*BusinessWeek* magazine

- Global Editions: North America, Europe, Asia
- Local-language Editions: China, Poland, Indonesia
- Demographic Edition: Manufacturing, Technology and Logistics
- Special Sections and Directories

*BusinessWeek SmallBiz*

*BusinessWeek FashionWeek* Supplement (Europe, Asia and China)

### Online

*BusinessWeek Online*

- Channels: *BusinessWeek* magazine, Top News, Investing, Global Biz, Technology, Small Biz, B-Schools, Careers
- *MBA Insider* (subscription-only premium service)

*BusinessWeek Digital*

Delivers the magazine to the desktop by e-mail

### Television

*BusinessWeek TV*

A nationally syndicated, weekly personal finance program

*BusinessWeek Business Reports*

Provides daily business information that is aired by local television stations

### Investor Education

Live workshops

1-on-1 coaching via telephone

Website subscription

Advanced courses (live and home-study)

Alumni workshops

### Ancillary

Conferences

Custom Events

Licensing

Custom Publishing

Reprints

Research Services



## Enhancing *BusinessWeek* in Core Markets: Small Business

- Successfully launched *BusinessWeek SmallBiz* magazine in 2004; won prestigious Neal Award for “Best Start-up Publication”
- *SmallBiz*’ frequency doubled to four issues in 2005 (spring, summer, winter, fall) from its initial launch of two issues in 2004 (controlled circulation: 500,000)
- *BusinessWeek Online*’s *SmallBiz* channel incorporates content from the magazine plus service-oriented content and tools such as success stories, online polls, and Smart Answers – an online “ask the expert” feature

## Delivering a Daily, Interactive Experience through *BusinessWeek Online*

- *BusinessWeek Online* delivers a daily, interactive experience through a powerful combination of online tools and real-time content including daily columnists, videos, polls, blogs, and Really Simple Syndication (RSS) feeds
- Focused on growing user- and advertiser-based revenue opportunities
- Compared to 2003, page views in 2004 increased 5% to 21 million and unique users increased 9.6% to 3 million



## Expanding Television Opportunity

- *BusinessWeek TV* is a weekly, personal finance and personal business program about earning, preserving, spending, and investing money. The program reaches 80% of all U.S. television households and is cleared in 141 out of 210 markets on a number of networks (mostly ABC)
- *BusinessWeek*’s *Business Reports* are daily, local news inserts providing television news teams with business information “live” from Wall Street
- *BusinessWeek*’s “Economia Review” on EuroNews and “BusinessWeek Asia” on STAR World provide a weekly roundup of important global stories from a business perspective with insights into the people, companies, and technologies changing the world of business

Business-to-Business Verticals

LEADING INFORMATION PROVIDERS TO KEY GLOBAL INDUSTRIES

The McGraw-Hill Companies' B2B verticals enhance the value of their industry-leading brands by leveraging their capabilities and infrastructure to best meet the needs of their customers and by examining opportunities in related markets. The B2B verticals have significant expertise in migrating product lines from traditional print- and ad-based business models to electronic- and subscription-based

business models. These business models leverage the latest technology to help markets and business networks function more effectively. They also use technology to deliver the tools and the timely, reliable, must-have information that customers need to increase business productivity. The verticals share a platform for leveraging best practices to drive overall unit efficiency and effectiveness.

McGraw-Hill Construction

McGraw-Hill Construction, a leading provider of information and intelligence solutions to the \$4 trillion global construction industry, helps design and construction professionals make better business decisions and grow their businesses. A trusted source for more than a century, McGraw-Hill Construction continues to be the industry standard for news, trends, analysis, and forecasts.

McGraw-Hill Construction Network®

McGraw-Hill Construction's content is the industry standard for building product manufacturers, contractors, distributors, and suppliers. Comprising the largest, most comprehensive database of more than 600,000 construction projects, McGraw-Hill Construction Network delivers an online, integrated information solution to manage business opportunities and workflow, including its new *Bid Management* module.

McGraw-Hill Construction Product Marketplace

The Product Marketplace connects architects, engineers, contractors, owners, and facility managers to building product manufacturers and their representatives globally. The Product Marketplace offers more than 61,300 building products from more than 10,000 building product manufacturers and reaches more than 500,000 end users – 87% of whom consider it their primary resource for product information.

McGraw-Hill Construction Media

McGraw-Hill Construction's industry-leading, award-winning publications profile major projects around the world and report and analyze critical business trends. *Architectural Record*, *Engineering News-Record*, *Design-Build*, *Constructor*, 12 regional construction publications, and *My House* for residential building, reach more than 1 million industry professionals. It also provides the industry-leading portal, [construction.com](http://construction.com)

McGraw-Hill Construction Research and Analytics

McGraw-Hill Construction's industry research, analysis, trends, and forecasts are based on more than 35 years of data in 3,000 counties and 22 market sectors. Customers use this data and research to benchmark competitive position, measure market share, reduce risk, and make more profitable decisions. The U.S. Department of Commerce also uses this data to calculate the "Value Put in Place," a component of the U.S. GDP.

Platts

Platts is the world's leading provider of essential energy information. For nearly a century, Platts has enabled energy markets to work efficiently and with integrity, and has helped individual market participants to make more profitable decisions. Platts' services help thousands of companies across many industries confidently support billions of dollars of transactions each year. Markets rely upon Platts as an unbiased, objective, and accurate source of essential information.

Energy Pricing and Risk Management

Platts offers historical, real-time and forward price assessments, and market analysis of energy and metals commodity markets delivered via electronic channels, newsletters, market reports, and databases. Platts' risk management solutions support portfolio hedging decisions, and provide independent assessments for auditing compliance purposes.

Energy Data and Analytics

Platts' Data and Analytics products support operational and strategic planning decisions related to the U.S. utility industry. Platts helps customers value power plant assets, benchmark against the competition, forecast energy prices, understand their customers and sales prospects, evaluate capital investment decisions, and support regulatory requirements.

Energy Conferences

Platts is the leading global provider of executive-level energy conferences that cover a broad range of topics and encompass state-of-the-art thinking in market fundamentals, operations, business development, and finance. Platts' premier energy conferences, such as Global Power Conference, and the prestigious Platts' Global Energy Awards have become major events for the energy industry.

Aviation Week

Aviation Week serves the global aviation, aerospace, and defense industries. More than one million industry professionals look to Aviation Week for industry news and analysis, data and analytics, and forecasting and marketing solutions. Customers include the world's leading aerospace and defense manufacturers, suppliers, airlines, militaries, and governments and agencies. Aviation Week delivers its proprietary content to customers via print, e-mail, and secure Internet access.

Publications

- *Aviation Week & Space Technology*
- *Business and Commercial Aviation*
- *Overhaul & Maintenance Magazine*
- *Aviation Week ShowNews*
- *World Aviation Directory & Aerospace Database*
- *International Aviation* (Chinese-language joint venture)
- *Air Transport Observer* (Russian-language joint venture)
- *Aviation Daily*
- *Aerospace Daily & Defense Report*
- *The Weekly of Business Aviation*

Intelligence Services

- Aviation Week Intelligence Network with Smart Links
- [AviationNow.com](http://AviationNow.com)

Strategic Media/Events

- Conferences & Exhibitions
- Custom Media
- Training and Professional Development
- Television & Video

## McGraw-Hill Construction

### New Marketplace

#### Expansion into Residential Construction

Leveraging the breadth and depth of its content and editorial excellence, McGraw-Hill Construction recently entered the residential market with the launch of *My House*, a national network of regional magazines and information resources to serve high-end homeowners and the design and building professionals who bring homeowners' dreams to life.

*My House* establishes a unique new resource that bridges "shelter" and "builder" media categories by serving all of the important decisionmakers in a homebuilding or renovation project: the homeowner, the architect, the builder, and the interior designer.

The first title in the network, *My House in the Mountain States*, debuted in Colorado, Utah, Wyoming, Idaho, and Montana in 2004. Additional *My House* editions will follow in other regions of the country over the next three years.

### Value-Added Solutions

#### McGraw-Hill Construction Network®

The McGraw-Hill Construction Network is the core product development platform for all future business development. The Network provides an online, integrated workflow solution for building product manufacturers, contractors, suppliers, and distributors.

McGraw-Hill Construction Network recently launched its *Bid Management* module – an online, embedded workflow tool that automates the bid management process, thereby saving contractors time and money. It is one example of how McGraw-Hill Construction continues to serve its customers' needs and help them work faster and smarter. Modules for owners and designers, among others, are planned for the future.

## Platts

### New Marketplace

#### Leveraging the Core

Platts' energy solutions support decisions affecting thousands of industry participants each day. Platts is continuously in touch with market makers around the globe, and is deeply embedded in customer business processes and decision support technologies. Platts leverages this position to develop unique perspectives on how to better meet customer needs and capitalize on emerging market trends. For example, Platts has positioned itself to facilitate and participate in the growth of developing energy markets including emissions and liquefied natural gas (LNG), and in fast growing regional markets like Russia and China.

### Value-Added Solutions

#### Leadership in Benchmarks and Transparency

As a market leader, energy industry participants look to Platts to set standards for creating fair and efficient markets. Platts continuously introduces innovative methodologies to improve the reliability and value of its price assessments. Platts' price assessments are used by major energy exchanges to clear trades and as industry benchmarks to price contracts.

## Aviation Week

### New Marketplace

#### Aviation Week Intelligence Network and AviationNow.com

The Aviation Week Intelligence Network (AWIN) links news and analysis with data and analytics through database searches and "smart links" to provide a tool that subscribers can use for decision support, planning, and business development. AWIN adds substantial value for users in small-, mid-, and large-sized companies seeking to target commercial and military aerospace opportunities and enables them to build on the base of large corporations and government agencies using AWIN.

AviationNow.com has increased the number of articles from its publications to provide a broader range of the latest developments in aviation, aerospace, and defense. The site's premium content is now available on a pay-per-article basis or through monthly or annual subscriptions.

### Value-Added Solutions

#### 360° Information and Marketing Solutions

Aviation Week is focused on providing total solutions for its customers' information and marketing needs. Aviation Week delivers decision-support and business development information through its publications and electronic services. It connects aviation, aerospace, and defense marketers with their customers through advertisements in print publications, electronic services, and custom media. Face-to-face marketing opportunities through conferences and exhibition sponsorships are also provided.

J.D. Power and Associates

**LEADING PROVIDER OF MARKETING INFORMATION SERVICES**

J.D. Power and Associates, founded in 1968, provides an independent source of marketing information to consumers and businesses worldwide. Today, J.D. Power and Associates' quality and customer satisfaction ratings and market research are recognized worldwide as industry performance benchmarks. By creating insight and value for its clients, J.D. Power and Associates' "must have" information has made it a part of the operational fabric at many of the world's major companies.

J.D. Power and Associates is the leading provider of marketing information services for the global automotive industry. More than 30% of its revenue comes from a strong and growing presence in other important industries, including finance, insurance, healthcare,

homebuilding, telecommunications, and energy. More than 20% of the revenue is generated by international operations.

J.D. Power and Associates does not review, judge, or test products and services itself. The firm's annual syndicated studies are based on actual customer satisfaction survey responses from millions of people around the world.

Brand recognition is high. Approximately 70% of U.S. consumers are aware of the J.D. Power and Associates name. Among those consumers, nearly 80% agree that J.D. Power and Associates is a credible source for quality information.

**Core Services**

J.D. Power and Associates offers five core services designed to help companies integrate the voice of the customer into their operations:

- **Syndicated Research:** Industry-wide customer satisfaction performance benchmark studies that are funded by J.D. Power and Associates to maintain credibility and objectivity. The results of the studies are sold to companies within the industries, and highlights of the results are published for consumers on a website ([www.jdpower.com](http://www.jdpower.com)) and in news releases.
- **Proprietary Research:** Company-specific tracking studies to monitor quality and customer satisfaction over time.
- **Power Information Network (PIN):** This is one of the most extensive retail sales transaction databases in the automotive industry. PIN's electronic tracking system gathers daily point-of-sale transaction data for new and used light vehicles. Over 250 observations are recorded for each vehicle transaction, including price, costs, profit, lease, and trade-in value. PIN's real-time information transforms the vehicle-specific data into business

analysis tools to help manufacturers optimize incentives and inventory management. Retailers can evaluate gross profit margins, monitor used car sales, and the advertising effectiveness of the dealership.

- **Brand Licensing:** Using a proven methodology and rigorous analysis, top-performing companies are identified and receive a J.D. Power and Associates Award of Excellence. These companies can enter into a licensing agreement to advertise the award. Extensive media coverage, coupled with fee-based ad claims, has helped to build the J.D. Power brand without requiring additional advertising or marketing expenditures.
- **Performance Improvement Consulting and Training:** Leverages longitudinal databases and identifies best practices from across industries to help companies bridge the gap between customer expectations and customer satisfaction for product development and sales/service.

**2004 Awards of Excellence**

Here is a sampling of awards J.D. Power and Associates presented to top-performing companies in 2004 for quality and customer satisfaction.

- Customer Service with Dealer Satisfaction Study  
**Lincoln**
- Rental Car Satisfaction Study  
**Enterprise**
- Internet Service Provider Residential Customer Satisfaction Study  
**Earthlink**
- Syndicated Residential Cable/Satellite TV Customer Satisfaction Study  
**Dish Network**
- U.S. Wireless Mobile Phone Evaluation Study  
**Sanyo**

- Wireless Customer Care Performance Study  
**T-Mobile**
- National Homeowners Insurance Study  
**Amica**
- Home Mortgage Study  
**USAA**
- Full-Service Investor Satisfaction Study  
**Legg Mason**
- Online Trading Investor Satisfaction Study  
**Scotttrade**
- Copier Customer Satisfaction Study  
**Imagistics**
- Digital Camera Satisfaction Study (\$200-\$399 and \$400-\$500 price range)  
**Kodak**
- Audit Firm Performance Study  
**Grant Thornton**

- Electric Utility Business Customer Satisfaction Study  
**MidAmerican Energy in the Midwestern U.S.**
- Electric Utility Residential Customer Satisfaction Study  
**Southern Company in the Southern U.S.**
- Global Airport Satisfaction Study  
**Hong Kong (HKG) for Large Airports**
- North America Hotel Guest Satisfaction Index Study  
**Four Seasons Hotels and Resorts for Luxury Hotel Chains**
- New Home Builder Customer Satisfaction Study  
**Pulte Homes, Platinum Award for Excellence in Customer Satisfaction Among the Largest Home Builder Corporations**
- Japan Printer Satisfaction Study  
**Fuji Xerox**



**Award of Excellence:** Each year, J.D. Power and Associates presents more than 300 awards to top-ranking companies that excel in quality and customer satisfaction. J.D. Power and Associates awards are referenced in an average of 600 local cable or national network television advertisements and more than 100 print advertisements every day across the United States. Public awareness helps industries set performance benchmarks and enables consumers to make more informed buying decisions.

#### **“Safe Harbor” Statement Under the Private Securities Litigation Reform Act of 1995**

This document includes certain forward-looking statements that are based upon current expectations regarding future events. Such statements may express expectations about the Company’s businesses, products and services, sales, expenses, cash flows, and operating and capital requirements. Actual results may differ materially from those in any forward-looking statements because such statements involve risks and uncertainties and are subject to change based upon various important factors. Such factors include, but are not limited to: the strength of the U.S. and global economy; Educational Publishing’s level of success in 2005 adoptions, academic enrollment and demographic trends; the level of educational funding (both domestically and internationally); the level of education technology investments; the strength of Higher Education, Professional and International publishing markets and the impact of technology on them; the level of educational reforms in the U.S. and abroad; possible amendments to the *No Child Left Behind Act*; the strength of the capital and equity markets (including trading volumes) in the U.S. and abroad; interest rate fluctuations; currency and foreign exchange volatility; the success of new product development and marketing across all of the Company’s businesses; the demand and market for debt securities and ratings, including mortgage- and asset-backed securities; the political and regulatory environment affecting Standard & Poor’s; the level of merger and acquisition activity in the U.S. and abroad; the strength of the domestic and international advertising markets (including political advertising); the volatility of the energy marketplace; the contract value of public works, manufacturing, and single-family unit construction; the level of investment by the construction, finance, automotive, healthcare, telecommunications, energy, and aviation industries; the effect of competitive products, services, and pricing; and the level of future cash flow, debt levels, product-related manufacturing expenses, pension expense, distribution expenses, postal rates, amortization and depreciation expense, income tax rates, capital, technology and other expenditures and prepublication cost investment.

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*The McGraw-Hill Companies*

Investor Relations  
1221 Avenue of the Americas  
New York, NY 10020-1095  
Tel 212 512 4321  
Fax 212 512 3840  
[investor\\_relations@mcgraw-hill.com](mailto:investor_relations@mcgraw-hill.com)  
[www.mcgraw-hill.com/investor\\_relations](http://www.mcgraw-hill.com/investor_relations)