

*The McGraw-Hill Companies*

**2006 INVESTOR  
FACT BOOK**

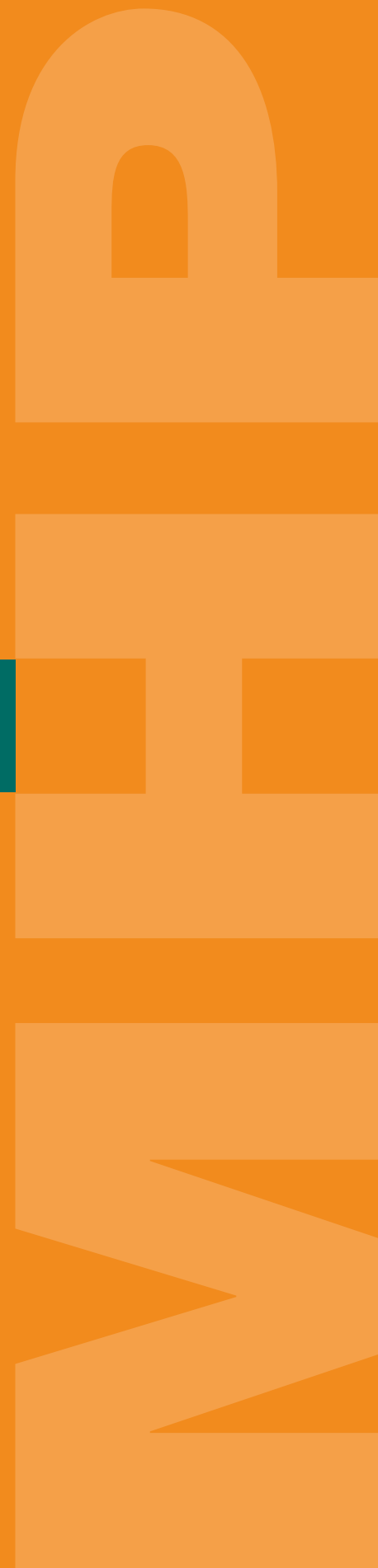


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## PRINCIPAL EXECUTIVES

### Harold McGraw III

Chairman, President and Chief Executive Officer

#### Corporate

**Robert J. Bahash**  
Executive Vice President and  
Chief Financial Officer

**Bruce D. Marcus**  
Executive Vice President and  
Chief Information 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

**David B. Stafford**  
Senior Vice President,  
Corporate Affairs and  
Executive Assistant to the  
Chairman and Chief Executive  
Officer

#### Operations

**Henry Hirschberg**  
President  
McGraw-Hill Education

**Kathleen A. Corbet**  
President  
Financial Services

**Glenn S. Goldberg**  
President  
Information & Media

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May 31, 2006

## COMMITTED TO CREATING SHAREHOLDER VALUE

The 2006 *Investor Fact Book* provides fundamental data on what The McGraw-Hill Companies has achieved and new information on key initiatives that will enable MHP to capitalize on the growing global need for knowledge.

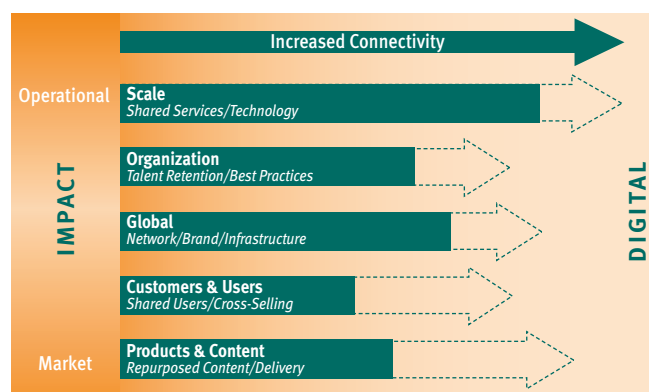
Achievement can be measured by another year of sustained growth in operating earnings, free cash flow, return on invested capital, and cash returned to shareholders. Over the last 10 years, MHP has outperformed the S&P 500, producing an annualized return of 19.0% versus 9.1% for the S&P 500.

Committed to building total shareholder value, MHP has returned more than \$5.0 billion in cash to shareholders through payment of dividends and share repurchases since 1996 including more than \$1.0 billion in the first quarter of 2006. Cash returned to shareholders through dividends and share repurchases grew at a compound rate of 18.9% between 1996 and 2005 (see table below).

As the need for global knowledge expands and intangible investments eclipse physical resources as the main driver of economic growth, The McGraw-Hill Companies is providing more proprietary, higher value-added content, analytics, and tools to both financial and non-financial industries. Technology substantially improves MHP's ability to leverage content and provide materials – anytime, anywhere. It also reduces the need to print, ship, or warehouse materials by removing time and distance from the distribution equation. Connected throughout by a robust telecommunications network, MHP is well positioned to address the growing global need for continuing education through knowledge-based market insights, transparency, intelligence, and digital interconnectivity.

## Increasing Operational Leverage

Scale and digital asset management are key to MHP's increased connectivity for greater operating leverage and market impact (see illustration below). The innovative use of technology is transforming the company and its markets. As content and technology converge to create new opportunities, MHP is using its scale to build a growing global organization with improved market penetration and operating impact. This approach is very different than it had been in the past. Today, it is about connecting content, digital assets, best practices, and talent across the organization on a global scale to grow revenue while reducing costs.



## FREE CASH FLOW

Years ended December 31  
(dollars in thousands)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
<b>Cash provided by operating activities</b>	\$1,559,890	\$1,063,472	\$1,382,345	\$1,142,391	\$1,099,581	\$720,754	\$746,368	\$796,484	\$390,498	\$473,336	\$440,719
Investment in pre-publication costs	(257,795)	(237,760)	(218,049)	(249,317)	(294,538)	(250,005)	(246,341)	(194,978)	(166,784)	(182,978)	(134,118)
Purchase of property and equipment	(120,232)	(139,003)	(114,984)	(70,019)	(116,895)	(97,721)	(154,324)	(178,889)	(78,724)	(63,313)	(58,776)
Additions to technology projects	(16,456)	(10,623)	(28,145)	(55,477)	(28,840)	(15,194)	(38,315)	(41,414)	(17,422)	(13,184)	(7,483)
Other adjustments, principally foreign exchange	(22,947)	10,019	14,115	13,817	(2,221)	(3,089)	(1,679)	(1,715)	(1,500)	(341)	(2,213)
Dividends paid to shareholders	(246,048)	(228,166)	(206,543)	(197,016)	(189,834)	(182,462)	(169,049)	(154,386)	(142,705)	(131,375)	(119,653)
Tax payment/(dividend) from divestitures (a, b, c)	–	172,000	(103,500)	–	–	–	–	–	150,000	–	–
<b>Free cash flow</b>	<b>\$896,412</b>	<b>\$629,939</b>	<b>\$725,239</b>	<b>\$584,379</b>	<b>\$467,253</b>	<b>\$172,283</b>	<b>\$136,660</b>	<b>\$225,102</b>	<b>\$133,363</b>	<b>\$82,145</b>	<b>\$118,476</b>

(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)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	9-year CAGR
MHP dividends paid	\$246.0	\$228.2	\$206.5	\$197.0	\$189.8	\$182.5	\$169.0	\$154.4	\$142.7	\$131.4	7.2%
MHP shares repurchased	677.7	409.4	216.4	183.1	176.5	167.6	173.8	105.6	79.9	63.3	30.1%
<b>Total</b>	<b>\$923.7</b>	<b>\$637.6</b>	<b>\$422.9</b>	<b>\$380.1</b>	<b>\$366.3</b>	<b>\$350.1</b>	<b>\$342.8</b>	<b>\$260.0</b>	<b>\$222.6</b>	<b>\$194.7</b>	<b>18.9%</b>
<i>MHP growth</i>	<i>44.9%</i>	<i>50.8%</i>	<i>11.3%</i>	<i>3.8%</i>	<i>4.6%</i>	<i>2.1%</i>	<i>31.8%</i>	<i>16.8%</i>	<i>14.3%</i>	<i>n/a</i>	
S&P 500 dividend	\$22.22	\$19.44	\$17.38	\$16.07	\$15.74	\$16.27	\$16.69	\$16.20	\$15.49	\$14.90	4.5%
<i>S&amp;P 500 growth</i>	<i>14.3%</i>	<i>11.9%</i>	<i>8.2%</i>	<i>2.1%</i>	<i>(3.3%)</i>	<i>(2.5%)</i>	<i>3.0%</i>	<i>4.6%</i>	<i>4.0%</i>	<i>n/a</i>	

Share Repurchase, Dividend, and Stock Split History

**ADVANCING TOTAL SHAREHOLDER VALUE**

The combination of an expanded share repurchase program and a record of increased dividends every year since 1974 demonstrates The McGraw-Hill Companies' commitment to advancing total shareholder value. Since 1996, MHP has returned more than \$5.0 billion to shareholders – including approximately \$924 million in 2005 and more than \$1.0 billion in the first quarter of 2006 – through share repurchases and increased dividends.

In January 2006, the MHP Board of Directors authorized a new stock repurchase program that will enable MHP to acquire up to 45.0 million shares, or approximately 12.1% of the Corporation's outstanding shares as of December 31, 2005. The Corporation repurchased 18.4 million shares in the first quarter of 2006 – 15.0 million shares from the 2006 program and 3.4 million shares remaining from the 2003 program. In April 2006 the Board authorized the repurchase of up to an additional 10.0 million shares in 2006.

The Board also approved a 10% increase in the regular quarterly cash dividend on the Corporation's common stock in January 2006. The 2006 annualized rate of \$0.726 per share represents an average compound annual dividend growth rate of 10.3% since 1974. MHP is one of fewer than 32 companies in the S&P 500 that has increased its dividend annually for the last 33 consecutive years.

**Share Repurchase Programs<sup>1</sup>**

Year	\$ in millions	Shares Purchased	Average Price	Diluted Weighted Average Year-End Shares Outstanding
2005	\$ 671.9	14,343,900	\$ 46.84	382,569,750
2004	\$ 400.6	10,000,000	\$ 40.06	385,823,700 <sup>2</sup>
2003	\$ 212.6	6,935,400	\$ 30.65	384,009,014
2002	\$ 195.6	6,409,200	\$ 30.52	389,146,638
2001	\$ 182.1	6,203,400	\$ 29.35	391,745,196
2000	\$ 167.7	6,235,200	\$ 26.90	392,143,250
1999	\$ 173.8	6,463,400	\$ 26.89	397,114,618
1998	\$ 105.6	5,348,000	\$ 19.75	398,208,132
1997	\$ 79.9	5,200,400	\$ 15.36	399,008,728
1996	\$ 63.3	5,451,600	\$ 11.61	399,483,608
1987	\$ 135.0	19,960,000	\$ 6.76	

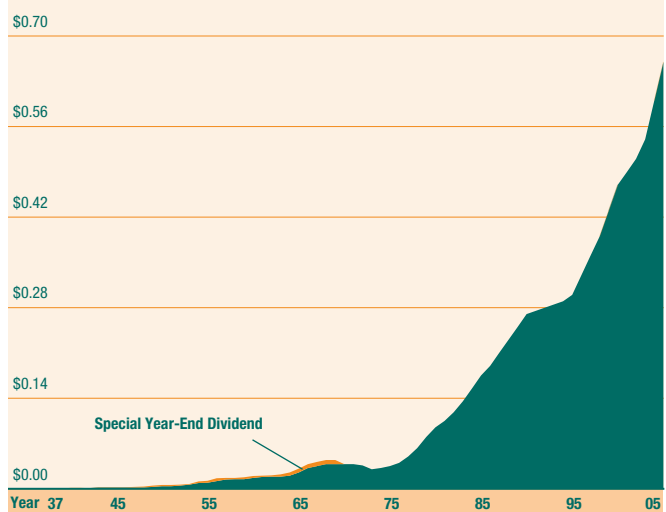
Note:

Shares repurchased are reported on a trade-date basis

<sup>1</sup> Adjusted for all stock splits through 2005. 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>2</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

**Common Stock Dividend History, 1937-2005**



Notes:

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 2005

**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

**MHP RATINGS HISTORY**

The McGraw-Hill Companies continues to maintain a strong financial position even as it invests in new opportunities.

**Long-Term Notes**

	2005	2004	2003	2002	2001
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 assign a long-term debt rating to The McGraw-Hill Companies

**Commercial Paper Ratings**

	2005	2004	2003	2002	2001
Moody's	P1	P1	P1	P1	P1
Fitch	F1	F1	F1	F1	F1
S&P	A1	A1	A1	A1	A1

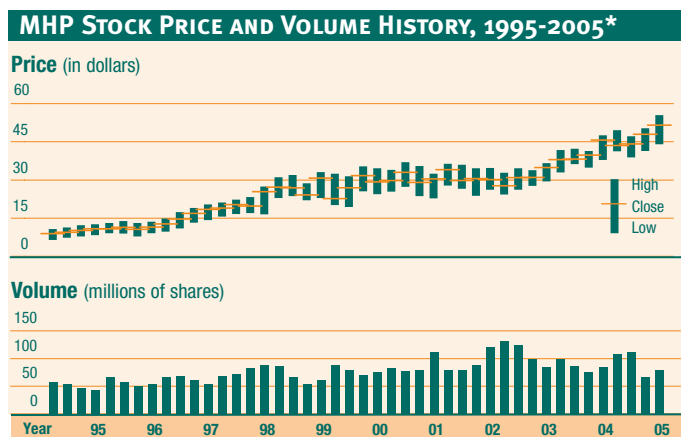
**QUARTERLY STOCK VALUATION DATA**

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
2005	4	53.970	45.600	51.630	78,045,900	23.26	19.66	22.25	16.69	15.28	16.33	1.39	1.29	1.36
	3	48.750	43.010	48.040	66,287,000	21.86	19.29	21.54	16.79	15.95	16.56	1.30	1.21	1.30
	2	45.675	40.510	44.250	111,714,000	21.91	19.43	21.22	16.88	15.73	16.49	1.30	1.24	1.29
	1	47.995	42.810	43.625	106,768,000	24.00	21.41	21.81	17.61	16.67	16.91	1.36	1.28	1.29
2004	4	46.055	39.425	45.770	83,969,000	23.74	20.32	23.59	17.94	16.11	17.91	1.32	1.26	1.32
	3	39.885	36.415	39.845	74,212,200	21.50	19.63	21.48	17.66	16.44	17.25	1.22	1.19	1.25
	2	40.670	37.825	38.285	85,443,000	23.11	21.49	21.75	18.52	17.32	18.36	1.25	1.24	1.18
	1	40.185	34.550	38.070	97,652,000	23.64	20.32	22.39	19.95	18.98	19.39	1.18	1.07	1.15
2003	4	35.000	30.995	34.960	84,799,800	21.21	18.78	21.19	20.34	18.21	20.33	1.04	1.03	1.04
	3	32.255	29.300	31.065	97,932,400	20.35	18.49	19.60	20.10	18.57	19.25	1.01	1.00	1.02
	2	33.075	27.730	31.000	124,260,600	21.62	18.12	20.26	20.74	17.32	19.91	1.04	1.05	1.02
	1	31.290	25.870	27.795	131,153,800	20.79	17.19	18.47	19.62	16.55	17.79	1.06	1.04	1.04
2002	4	33.150	27.755	30.220	120,239,200	22.25	18.63	20.28	20.73	16.70	19.11	1.07	1.12	1.06
	3	32.990	25.355	30.610	87,467,400	23.15	17.79	21.48	22.58	17.62	18.52	1.03	1.01	1.16
	2	34.365	28.150	29.850	78,497,800	25.74	21.09	22.36	27.60	22.92	23.80	0.93	0.92	0.94
	1	34.850	29.440	34.125	78,760,600	27.23	23.00	26.66	30.20	27.57	29.44	0.90	0.83	0.91
2001	4	30.900	24.350	30.490	110,203,800	24.92	19.64	24.59	30.21	26.43	29.55	0.82	0.74	0.83
	3	33.975	25.275	29.100	77,876,200	27.51	20.47	23.56	29.50	22.48	24.77	0.93	0.91	0.95
	2	35.435	28.920	33.075	76,444,200	30.29	24.72	28.27	27.98	23.22	26.03	1.08	1.06	1.09
	1	32.370	27.045	29.825	82,145,400	28.27	23.62	26.05	26.16	20.44	21.94	1.08	1.16	1.19
2000	4	33.000	26.000	29.313	75,829,400	27.73	21.85	24.63	25.92	22.34	23.52	1.07	0.98	1.05
	3	33.844	27.125	31.781	68,728,000	29.18	23.38	27.40	26.94	25.00	25.30	1.08	0.94	1.08
	2	29.938	20.938	27.000	77,756,800	26.49	18.53	23.89	27.47	24.09	26.17	0.96	0.77	0.91
	1	30.844	21.750	22.750	87,262,600	28.56	20.14	21.06	28.80	24.57	27.79	0.99	0.82	0.76
1999	4	31.563	24.500	30.813	59,725,800	30.94	24.02	30.21	28.37	23.87	28.43	1.09	1.01	1.06
	3	27.063	23.563	24.188	52,501,000	28.04	24.42	25.06	28.76	25.44	25.98	0.98	0.96	0.96
	2	30.375	25.219	26.969	66,502,200	33.94	28.18	30.13	29.36	27.28	29.29	1.16	1.03	1.03
	1	29.563	24.438	27.250	85,734,200	34.28	28.33	31.59	29.37	26.74	28.54	1.17	1.06	1.11
1998	4	25.828	18.063	25.469	87,647,200	30.30	21.19	29.88	28.12	20.86	27.77	1.08	1.02	1.08
	3	21.750	18.516	19.813	82,613,200	26.13	22.24	23.80	27.00	21.32	23.07	0.97	1.04	1.03
	2	20.750	18.188	20.375	71,664,398	26.60	23.32	26.12	25.40	24.05	25.38	1.05	0.97	1.03
	1	19.500	17.125	19.015	67,188,390	26.09	22.91	25.44	25.09	20.57	24.83	1.04	1.11	1.02
1997	4	18.844	15.781	18.500	52,370,784	25.64	21.47	25.17	22.41	19.43	22.05	1.14	1.11	1.14
	3	17.406	14.750	16.922	60,297,190	24.18	20.49	23.50	22.05	20.43	21.66	1.10	1.00	1.09
	2	15.719	12.469	14.703	67,458,780	24.37	19.33	22.80	21.17	17.21	20.77	1.15	1.12	1.10
	1	13.281	11.219	12.781	65,728,781	21.34	18.02	20.53	19.56	17.45	18.11	1.09	1.03	1.13
1996	4	12.063	10.625	11.531	53,179,585	19.30	17.00	18.45	18.76	16.85	18.23	1.03	1.01	1.01
	3	11.469	9.313	10.656	49,273,985	20.17	16.37	18.74	17.54	15.38	17.44	1.15	1.06	1.07
	2	12.313	10.515	11.438	56,819,585	22.54	19.25	20.94	17.35	15.90	17.08	1.30	1.21	1.23
	1	11.547	10.672	10.844	64,942,368	21.53	19.90	20.22	17.28	15.53	16.79	1.25	1.28	1.20
1995	4	10.953	9.875	10.891	42,547,200	20.62	18.59	20.50	16.52	15.16	16.34	1.25	1.23	1.25
	3	10.594	9.422	10.219	45,867,200	18.96	16.86	18.29	15.98	14.77	15.92	1.19	1.14	1.15
	2	9.703	8.906	9.484	52,342,376	18.61	17.09	18.20	15.76	14.30	15.58	1.18	1.20	1.17
	1	9.172	7.953	8.969	56,463,984	17.98	15.59	17.59	15.30	13.76	15.07	1.18	1.13	1.17

\* Data reflects the 2-for-1 stock split completed on May 17, 2005. All prior periods have been restated to reflect the 2005 split

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

Source: Standard & Poor's Compustat



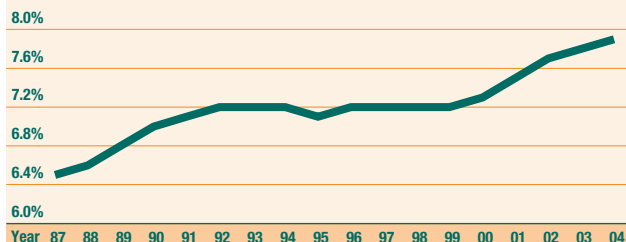
Source: Standard & Poor's Compustat

**THE WORLD IS GOING OUR WAY**

Education, finance, and information—the focus of The McGraw-Hill Companies—have each been growing as a share of GDP over the past 15 years (see charts below). The growth in these sectors reflects a broader trend in the U.S. economy’s shift toward intangible investments—new product development in financial and non-financial information, the building of brand equity, and human capital. The continued growth of intangible investments will play a key role in maintaining U.S. competitiveness and create new opportunities for The McGraw-Hill Companies.

**Education spending has risen to 7.9% of U.S. GDP**

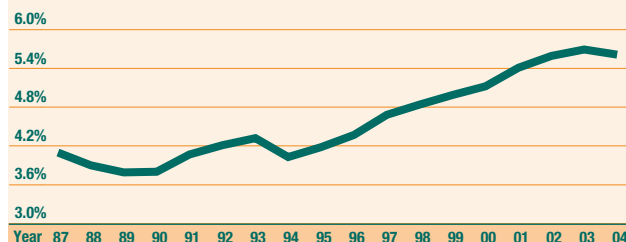
(spending as a percent of U.S. GDP)



Source: U.S. Department of Education

**Financial sector has risen to 5.6% of U.S. GDP**

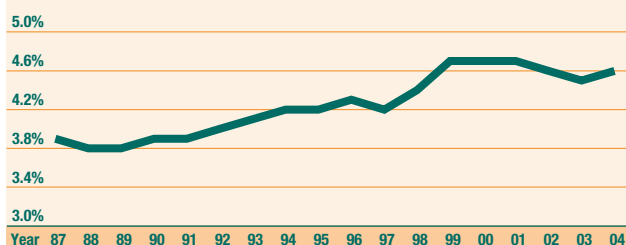
(value-added as a percent of U.S. GDP)



Source: Bureau of Economic Analysis

**Information sector has risen to 4.6% of U.S. GDP**

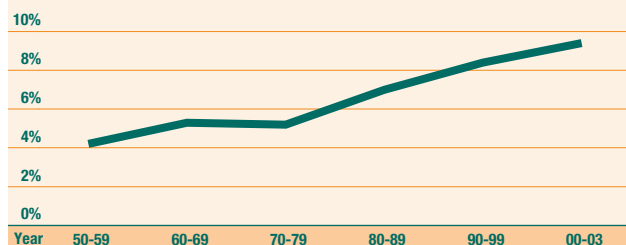
(value-added as a percent of U.S. GDP)



Source: Bureau of Economic Analysis

**Growth of investment in intangibles**

(business intangibles as a share of U.S. GDP)

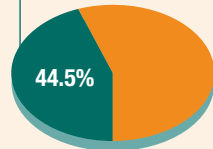


Source: Federal Reserve, University of Maryland

**MCGRAW-HILL EDUCATION**

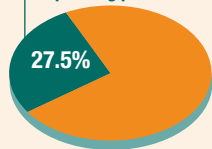
**2005 Revenue**

\$2.7 billion  
44.5% of total revenue



**2005 Operating Profit**

\$410.0 million  
27.5% of total 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**

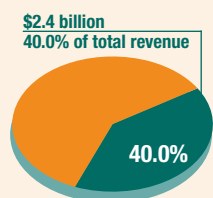
(dollars in millions)	2005 <sup>(a)</sup>	2004 <sup>(b)</sup>	2003 <sup>(b)</sup>
Revenue	\$ 2,672	\$ 2,396	\$ 2,349
Profit	\$ 410	\$ 340	\$ 322
Profit Margin	15.4%	14.2%	13.7%

**Breakout of MHE Revenue**

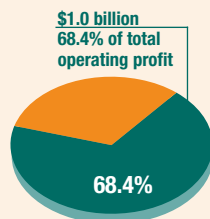
(dollars in millions)	2005	2004 <sup>(b)</sup>	2003 <sup>(b)</sup>
School Education Group	\$ 1,515	\$ 1,279	\$ 1,282
Higher Ed/Prof/Int'l Group	\$ 1,157	\$ 1,117	\$ 1,067

## FINANCIAL SERVICES

### 2005 Revenue



### 2005 Operating Profit



### Standard & Poor's

#### Key markets:

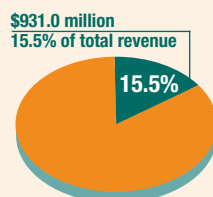
Worldwide customers include debt issuers, investors, intermediaries, corporations, government agencies, financial institutions, portfolio managers, brokers, financial advisors, fund managers, and securities traders.

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

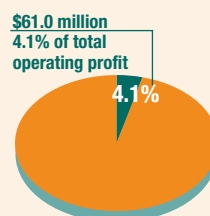
(dollars in millions)	2005 <sup>(c)</sup>	2004	2003
Revenue	\$ 2,401	\$ 2,055	\$ 1,769
Profit	\$ 1,019	\$ 839	\$ 668
Profit Margin	42.5%	40.8%	37.7%

## INFORMATION & MEDIA

### 2005 Revenue



### 2005 Operating Profit



### Business-to-Business Group

#### Key markets:

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

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

(dollars in millions)	2005 <sup>(d)</sup>	2004	2003
Revenue	\$ 931	\$ 800	\$ 773
Profit	\$ 61	\$ 119	\$ 110
Profit Margin	6.5%	14.9%	14.2%

### Breakout of I&M Revenue

(dollars in millions)	2005	2004	2003
B2B Group	\$ 819	\$ 686	\$ 670
Broadcasting	\$ 112	\$ 114	\$ 103

### Broadcasting Group

#### ABC affiliates:

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

#### Azteca America affiliates (low-powered stations):

KZCS-TV (Colorado Springs), KZCO-TV (Denver), KZFC-TV (Fort Collins, CO), KZSD-TV (San Diego)

#### Key markets:

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

Notes for Segments at a Glance (pages 4 and 5):

#### McGraw-Hill Education

- (a) Operating profit reflects the impact of a \$9.0 million pre-tax restructuring charge
- (b) 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 per year in 2004 and 2003

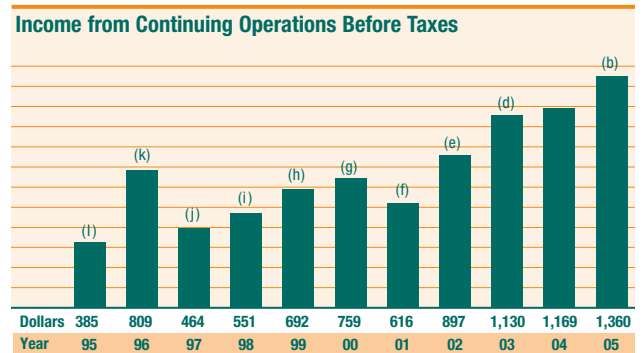
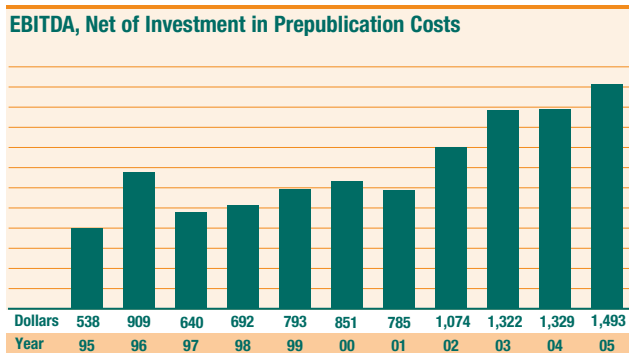
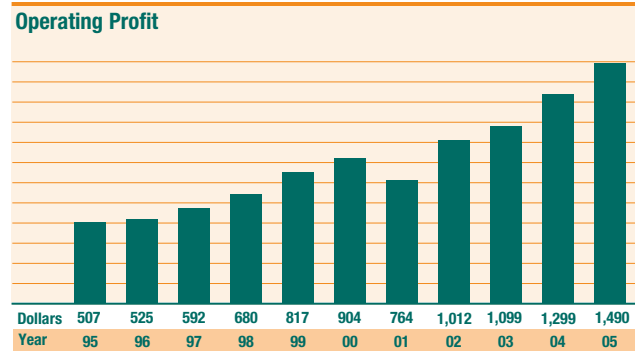
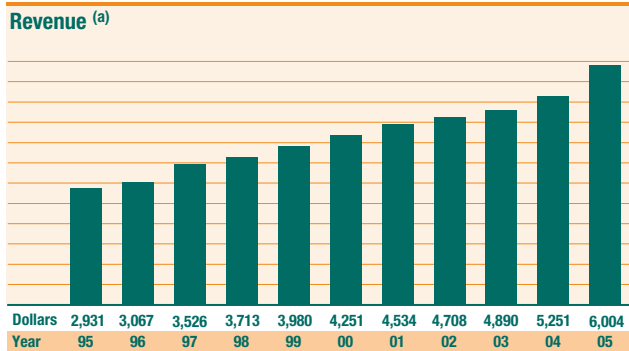
#### Financial Services

- (c) Operating profit reflects the impact of a \$6.8 million pre-tax gain on the sale of Corporate Value Consulting and a \$1.2 million pre-tax restructuring charge

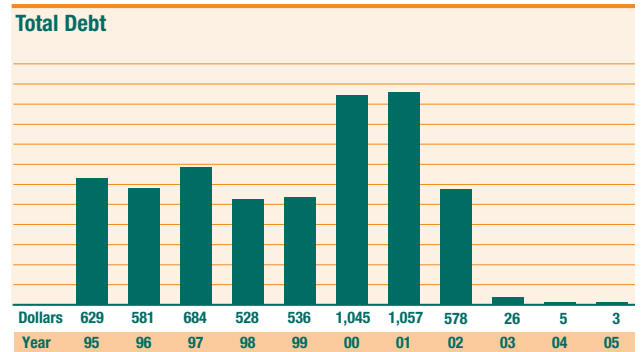
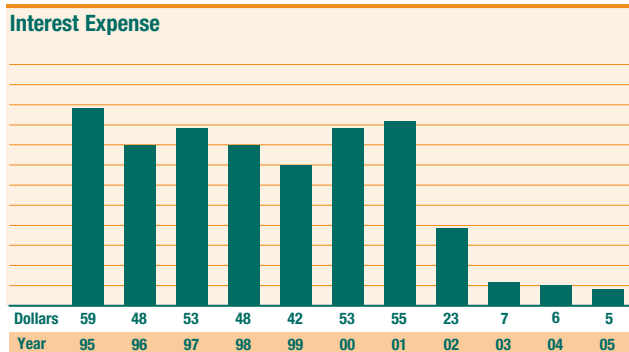
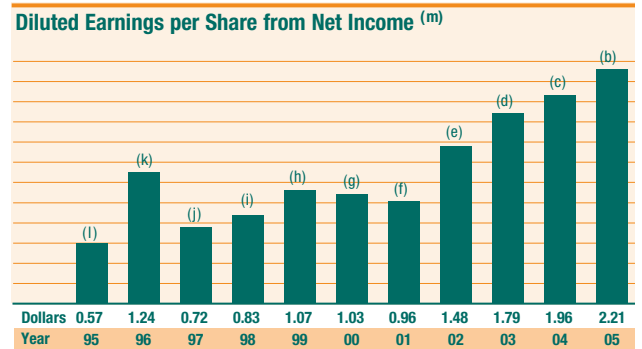
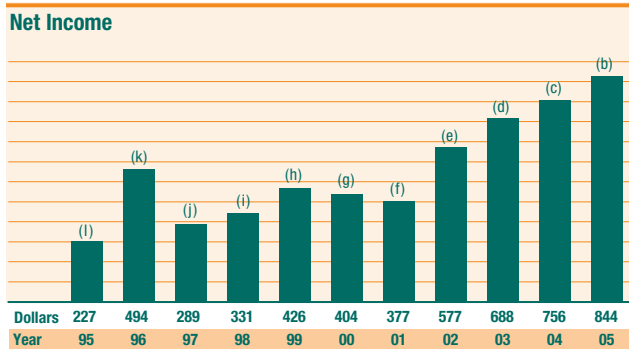
#### Information & Media

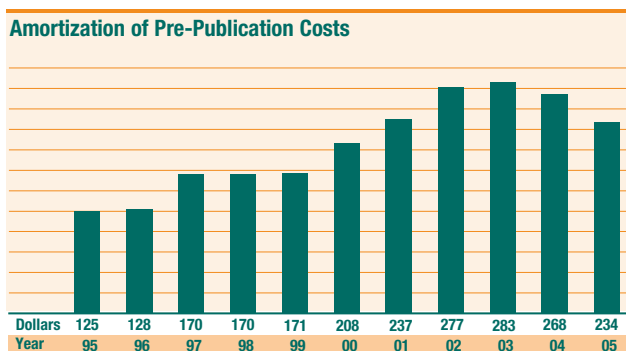
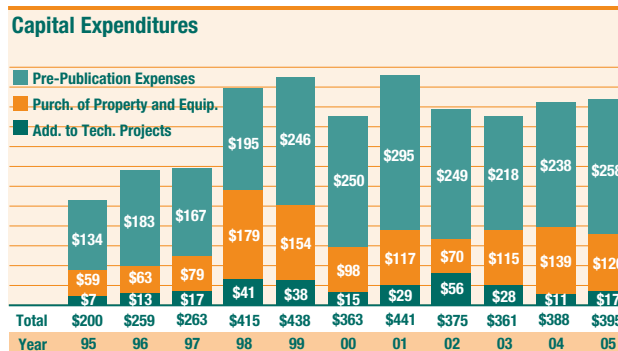
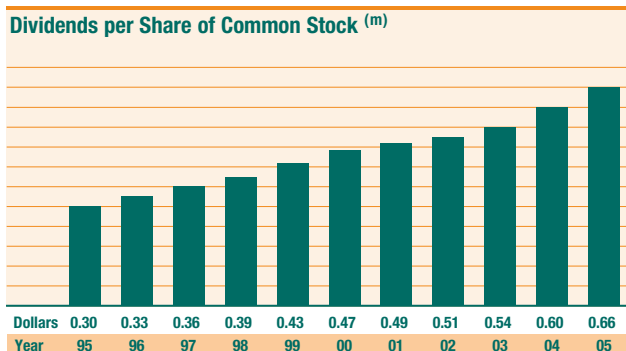
- (d) The acquisition of J.D. Power and Associates contributed \$144.7 million to the Business-to-Business Group's revenue within the Information & Media segment. Operating profit reflects the impact of a \$5.5 million pre-tax loss on the sale of the Healthcare Information Group and a \$10.2 million pre-tax restructuring charge

(dollars in millions, except per share data)



Please refer to EBITDA reconciliation table on page 16

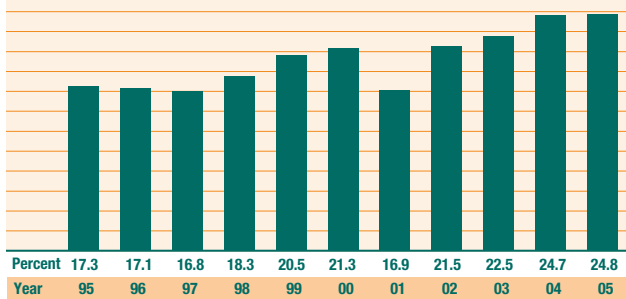




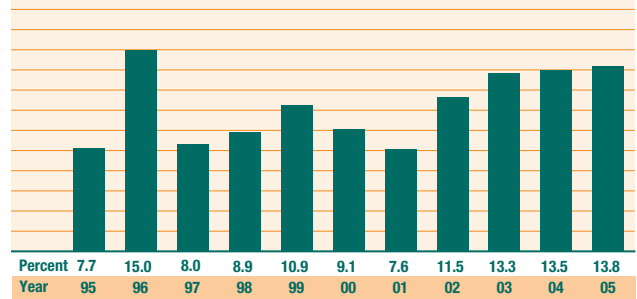
Notes for Eleven-Year Financial Trends (pages 6 and 7):

- Certain prior year amounts have been reclassified for comparability purposes
- (a) In 2004, all revenue in prior periods was 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) Includes a \$6.8 million pre-tax gain (\$4.2 million after-tax, or \$0.01 per diluted share) on the sale of the Corporate Value Consulting business, a \$5.5 million loss (\$3.5 million after-tax) on the sale of the Healthcare Information Group, and a \$23.2 million pre-tax charge (\$14.6 million after-tax, or \$0.04 per diluted share) for restructuring. Net income includes a \$10.0 million (\$0.03 per diluted share) increase in income taxes on the repatriation of funds
  - (c) Includes a non-cash benefit of approximately \$20.0 million (\$0.05 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 \$20.0 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%
  - (d) Includes a pre-tax gain on sale of real estate of \$131.3 million (\$58.4 million after-tax, or \$0.15 per diluted share)
  - (e) 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
  - (f) Includes impact of the following items: a \$159.0 million pre-tax charge for restructuring and asset write-down (\$112.0 million after-tax, or \$0.29 per diluted share), a \$6.9 million pre-tax gain on the sale of real estate (\$0.01 per diluted share), an \$8.8 million pre-tax gain on the sale of DRI (\$26.3 million after-tax, or \$0.07 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-tax, or \$0.06 per diluted share)
  - (g) Includes a \$16.6 million gain on sale of Tower Group International (\$10.2 million after-tax, or \$0.03 per diluted share) and the cumulative effect on prior years of changes in accounting of \$68.1 million (\$0.17 per diluted share) for the adoption of SAB 101, "Revenue Recognition in Financial Statements"
  - (h) Includes a \$39.7 million gain on the sale of the Petrochemical publications (\$24.2 million after-tax, or \$0.06 per diluted share)
  - (i) Includes a \$26.7 million gain on sale of a building (\$16.3 million after-tax, or \$0.04 per diluted share) and a \$16.0 million provision (\$9.8 million after-tax, or \$0.02 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-tax, or \$0.01 per diluted share) on the early extinguishment of debt
  - (j) Includes a provision of \$33.2 million (\$19.9 million after-tax, or \$0.05 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-tax, or \$0.05 per diluted share)
  - (k) 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-tax, or \$0.65 per diluted share) and a one-time charge of \$25.0 million (\$14.9 million after-tax, or \$0.04 per diluted share) for integration costs
  - (l) 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
  - (m) All per share data have been restated to reflect the Company's two-for-one stock split completed on May 17, 2005

Operating Profit Margin

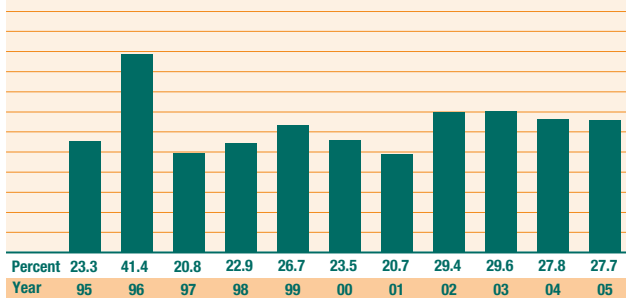


Return on Average Assets\*

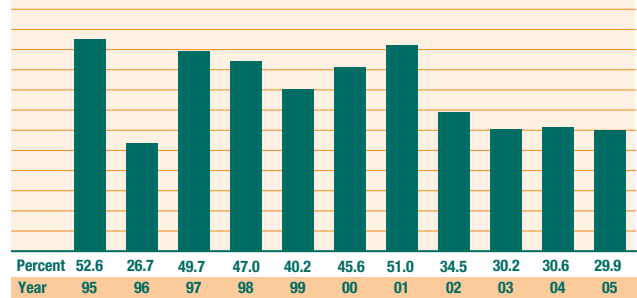


\* Certain prior year amounts have been reclassified for comparability purposes

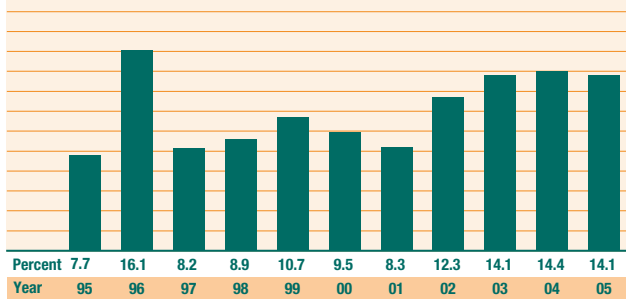
Return on Average Shareholders' Equity



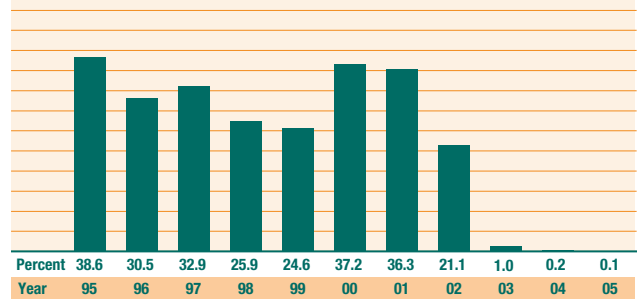
Dividend Payout (as a percentage of current year's earnings)



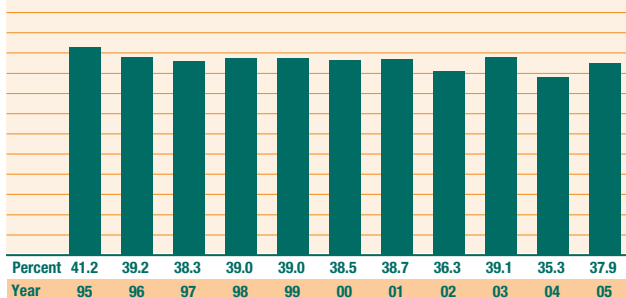
Net Income Margin



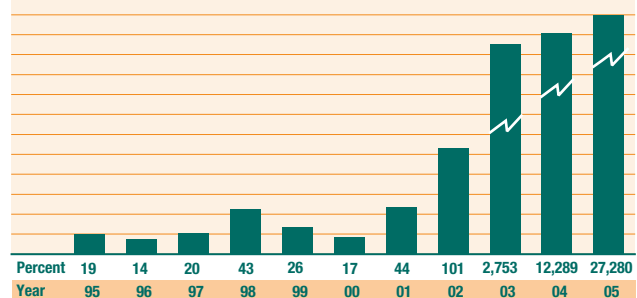
Total Debt to Capitalization



Tax Rate



Free Cash Flow to Debt



Please see free cash flow table on page 1

<b>RETURN ON INVESTED CAPITAL</b>											
(dollars in millions)	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Income from continuing operations before extraordinary item and cumulative adjustment	\$844.3	\$756.4	\$687.8	\$572.0	\$377.7	\$467.0	\$422.2	\$336.4	\$286.3	\$492.1	\$226.5
Post-tax adjustments for one-time items <sup>(1)</sup>	20.4	(20.0)	(58.4)	(2.0)	103.4	(10.2)	(24.2)	(6.5)	(0.3)	(245.6)	0.6
Post-tax interest adjustment <sup>(2)</sup>	43.3	44.6	46.6	47.6	67.8	63.1	61.1	51.8	46.2	37.3	42.6
<b>Adjusted earnings before interest, after tax</b>	<b>\$908.0</b>	<b>\$781.0</b>	<b>\$676.0</b>	<b>\$617.6</b>	<b>\$548.9</b>	<b>\$519.9</b>	<b>\$459.1</b>	<b>\$381.7</b>	<b>\$332.2</b>	<b>\$283.8</b>	<b>\$269.7</b>
Present value of operating lease obligations (average)	\$1,207.1	\$1,273.5	\$1,303.9	\$1,141.2	\$931.6	\$829.1	\$795.0	\$667.5	\$368.3	\$207.7	\$217.4
Short-term & long-term debt (average)	4.2	15.7	302.3	817.4	1,051.0	790.9	532.0	606.0	632.9	605.0	695.7
Shareholders' equity (average)	3,048.8	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
Cash (average)	(714.7)	(688.1)	(376.9)	(55.9)	(28.4)	(4.8)	(8.5)	(7.6)	(4.1)	(6.8)	(9.2)
<b>Average invested capital</b>	<b>\$3,545.4</b>	<b>\$3,371.9</b>	<b>\$3,590.7</b>	<b>\$3,912.6</b>	<b>\$3,761.7</b>	<b>\$3,320.0</b>	<b>\$2,897.2</b>	<b>\$2,717.6</b>	<b>\$2,355.7</b>	<b>\$1,966.8</b>	<b>\$1,842.0</b>
<b>Return on invested capital</b>	<b>25.6%</b>	<b>23.2%</b>	<b>18.8%</b>	<b>15.8%</b>	<b>14.6%</b>	<b>15.7%</b>	<b>15.8%</b>	<b>14.0%</b>	<b>14.1%</b>	<b>14.4%</b>	<b>14.6%</b>

<sup>(1)</sup> Adjustment to income from continuing operations to exclude all one-time items discussed in the notes below

<sup>(2)</sup> After-tax interest expense, adjusted for implied interest on capitalized operating lease obligations

#### Notes for Eleven-Year Key Ratios (pages 8 and 9):

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 page eight:

2005: Includes a \$6.8 million pre-tax gain (\$4.2 million after-tax, or \$0.01 per diluted share) on the sale of the Corporate Value Consulting business and a \$23.2 million pre-tax charge (\$14.6 million after-tax, or \$0.04 per diluted share) for restructuring. Includes a \$10.0 million (\$0.03 per diluted share) increase in income taxes on the repatriation of funds

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 \$20.0 million (\$0.05 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 \$20.0 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 \$0.15 per diluted 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 \$0.29 per diluted share). A \$26.3 million after-tax gain (\$8.8 million pre-tax, or \$0.07 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 \$0.06 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. Also included in income from continuing operations is a \$6.9 million pre-tax gain on the sale of real estate (\$4.2 million after-tax, or \$0.01 per diluted share)

2000: \$16.6 million pre-tax gain (\$10.2 million after-tax) 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 (\$24.2 million after-tax) on the sale of the Petrochemical publications

1998: \$26.7 million pre-tax gain (\$16.3 million after-tax) on the sale of a building; \$16.0 million pre-tax charge (\$9.8 million after-tax) 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 (\$19.9 million after-tax) for the consolidation of office space in New York City; \$20.4 million pre-tax gain (\$20.2 million after-tax) on the sale of Datapro Information Services

1996: \$418.7 million pre-tax gain (\$260.5 million after-tax) on the exchange of Shepard's/McGraw-Hill for the Times Mirror Higher Education Group and a \$25.0 million pre-tax charge (\$14.9 million after-tax) for integration costs

1995: \$26.8 million pre-tax provision (\$15.7 million after-tax) for best-practices initiatives; \$23.8 million gain (\$15.1 million after-tax) on the sale of the topical publishing division of Shepard's/McGraw-Hill

REVENUE BY SEGMENT											
(dollars in millions)	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
<b>McGraw-Hill</b>											
<b>Education<sup>(c)</sup></b>	\$2,671.7	\$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
% increase/(decrease)*	11.5%	2.0%	0.3%	2.3%	12.3%	14.1%	7.6%	3.0%	23.1%	3.6%	6.3%
% of total revenue	44.5%	45.6%	48.0%	49.8%	50.5%	48.0%	44.9%	44.7%	45.7%	42.7%	43.1%
<b>Financial Services</b>											
	\$2,400.8	\$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
% increase/(decrease)*	16.8%	16.2%	13.7%	11.3%	16.0%	3.6%	12.2%	18.1%	14.6%	8.7%	5.3%
% of total revenue	40.0%	39.2%	36.2%	33.0%	30.8%	28.3%	29.2%	27.9%	24.9%	25.0%	24.1%
<b>Information &amp; Media</b>											
	\$931.1	\$799.7	\$772.6	\$809.5	\$846.1	\$1,007.6	\$1,030.0	\$1,015.6	\$1,035.8	\$990.9	\$962.4
% increase/(decrease)*	16.4%	3.5%	(4.6%)	(4.3%)	(16.0%)	(2.2%)	1.4%	(2.0%)	4.5%	3.0%	7.3%
% of total revenue	15.5%	15.2%	15.8%	17.2%	18.7%	23.7%	25.9%	27.4%	29.4%	32.3%	32.8%
<b>Total revenue<sup>(a)</sup></b>											
	\$6,003.6	\$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
% increase/(decrease)*	14.3%	7.4%	3.9%	3.8%	6.7%	6.8%	7.2%	5.3%	15.0%	4.6%	6.4%

\* % increase/(decrease) over prior year

Notes for Revenue and Operating Profit by Segment (pages 10 and 11):

- Certain prior year amounts have been reclassified for comparability purposes. All per share amounts have been restated to reflect the Company's two-for-one stock split, completed on May 17, 2005
- (a) 2005 income from continuing operations before taxes on income includes the following items: a \$6.8 million pre-tax gain (\$4.2 million after-tax, or \$0.01 per diluted share) on the sale of the Corporate Value Consulting business, a \$5.5 million loss (\$3.5 million after-tax) on the sale of the Healthcare Information Group, and a \$23.2 million pre-tax charge (\$14.6 million after-tax, or \$0.04 per diluted share) for restructuring
- (b) 2005 includes a \$10.0 million (\$0.03 per diluted share) increase in income taxes on the repatriation of funds
- (c) 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
- (d) 2004 includes a non-cash benefit of approximately \$20.0 million (\$0.05 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 \$20.0 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%
- (e) In 2003, the Company adopted the Discontinued Operations presentation, outlined in SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Revenue and operating profit of S&P ComStock and the 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 \$0.15 per diluted share), and an \$81.1 million loss on the planned disposition of the juvenile retail publishing business (\$57.3 million after-tax loss, or \$0.15 per diluted 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 the juvenile retail publishing business and 1999-1995 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
- (f) 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 \$0.15 per diluted share)
- (g) 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
- (h) 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
- (i) 2000 income from continuing operations before taxes reflects a \$16.6 million gain on the sale of Tower Group International
- (j) 1999 income from continuing operations before taxes on income reflects a \$39.7 million gain on the sale of the Petrochemical publications
- (k) 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
- (l) 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
- (m) 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
- (n) 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
- (o) 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 \$155.0 million of the Company's 9.43% Notes during the third quarter

OPERATING PROFIT BY SEGMENT											
(\$ in millions, except per share data)	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
<b>McGraw-Hill Education</b>	\$410.2	\$340.1	\$321.8	\$333.0	\$273.3	\$307.7	\$273.7	\$202.1	\$187.7	\$151.9	\$162.6
% increase/(decrease)*	20.6%	5.7%	(3.4%)	21.8%	(11.2%)	12.4%	35.4%	7.6%	23.6%	(6.6%)	29.3%
% of total	27.5%	26.2%	29.3%	32.9%	35.8%	34.0%	33.5%	29.7%	31.7%	29.0%	32.0%
<b>Financial Services</b>	\$1,019.2	\$839.4	\$667.6	\$560.8	\$425.9	\$383.0	\$358.2	\$338.7	\$245.2	\$241.5	\$214.7
% increase/(decrease)*	21.4%	25.7%	19.0%	31.7%	11.2%	6.9%	5.8%	38.1%	1.5%	12.5%	6.5%
% of total	68.4%	64.6%	60.7%	55.4%	55.7%	42.4%	43.8%	49.8%	41.4%	46.0%	42.3%
<b>Information &amp; Media</b>	\$60.6	\$119.3	\$109.8	\$118.0	\$65.0	\$212.9	\$185.5	\$139.3	\$158.9	\$131.4	\$130.2
% increase/(decrease)*	(49.2%)	8.6%	(7.0%)	81.6%	(69.5%)	14.8%	33.2%	(12.3%)	20.9%	1.0%	8.0%
% of total	4.1%	9.2%	10.0%	11.7%	8.5%	23.6%	22.7%	20.5%	26.9%	25.0%	25.7%
<b>Total operating profit</b>	\$1,490.0	\$1,298.8	\$1,099.2	\$1,011.8	\$764.2	\$903.6	\$817.4	\$680.1	\$591.8	\$524.8	\$507.5
% increase/(decrease)*	14.7%	18.2%	8.6%	32.4%	(15.4%)	10.6%	20.2%	14.9%	12.8%	3.4%	13.3%
Unusual charges <sup>(m)</sup>	—	—	—	—	—	—	—	—	—	(25.0)	—
Gain on exchange of Shepard's/McGraw-Hill <sup>(m)</sup>	—	—	—	—	—	—	—	—	—	418.7	—
General corporate income/(expense) <sup>(f)</sup>	(124.8)	(124.1)	38.2	(91.9)	(93.0)	(91.4)	(83.3)	(80.7)	(75.3)	(62.1)	(63.6)
Interest expense	(5.2)	(5.8)	(7.1)	(22.5)	(55.1)	(52.8)	(42.0)	(48.0)	(52.6)	(47.6)	(58.8)
<b>Income from continuing operations before taxes on income<sup>(a, f, g, h, i, j, k, l, n)</sup></b>	1,360.0	1,168.9	1,130.3	897.4	616.1	759.4	692.1	551.4	463.9	808.8	385.1
Provision for taxes on income <sup>(b, d)</sup>	515.7	412.5	442.5	325.4	238.4	292.4	269.9	215.0	177.6	316.7	158.7
Income from continuing operations before extraordinary item and cumulative adjustment	844.3	756.4	687.8	572.0	377.7	467.0	422.2	336.4	286.3	492.1	226.4
<b>Discontinued operations</b>											
Net earnings/(loss) from discontinued operations <sup>(e)</sup>	—	(0.6)	(0.1)	4.8	(0.7)	4.9	3.4	2.9	2.4	1.4	0.4
<b>Income before extraordinary item and cumulative adjustment</b>	844.3	755.8	687.7	576.8	377.0	471.9	425.6	339.3	288.7	493.5	226.8
Early extinguishment of debt, net of tax <sup>(o)</sup>	—	—	—	—	—	—	—	(8.7)	—	—	—
Cumulative effect on prior years of changes in accounting <sup>(o)</sup>	—	—	—	—	—	(68.1)	—	—	—	—	—
<b>Net income</b>	\$844.3	\$755.8	\$687.7	\$576.8	\$377.0	\$403.8	\$425.6	\$330.6	\$288.7	\$493.5	\$226.8
<b>Basic earnings per share</b>											
Income from continuing operations before extraordinary item and cumulative adjustment	\$2.25	\$1.99	\$1.81	\$1.48	\$0.97	\$1.21	\$1.07	\$0.85	\$0.72	\$1.24	\$0.57
Discontinued operations <sup>(e)</sup>	—	—	—	0.01	—	0.01	0.01	0.01	0.01	—	—
Income before extraordinary item and cumulative adjustment	\$2.25	\$1.99	\$1.81	\$1.49	\$0.97	\$1.22	\$1.08	\$0.86	\$0.73	\$1.24	\$0.57
Extraordinary item and cumulative adjustment <sup>(o)</sup>	—	—	—	—	—	(0.18)	—	(0.02)	—	—	—
Net income	\$2.25	\$1.99	\$1.81	\$1.49	\$0.97	\$1.04	\$1.08	\$0.84	\$0.73	\$1.24	\$0.57
<b>Diluted earnings per share</b>											
Income from continuing operations before extraordinary item and cumulative adjustment	\$2.21	\$1.96	\$1.79	\$1.47	\$0.96	\$1.19	\$1.06	\$0.84	\$0.71	\$1.24	\$0.57
Discontinued operations <sup>(e)</sup>	—	—	—	0.01	—	0.01	0.01	0.01	0.01	—	—
Income before extraordinary item and cumulative adjustment	\$2.21	\$1.96	\$1.79	\$1.48	\$0.96	\$1.20	\$1.07	\$0.85	\$0.72	\$1.24	\$0.57
Extraordinary item and cumulative adjustment <sup>(o)</sup>	—	—	—	—	—	(0.17)	—	(0.02)	—	—	—
Net income	\$2.21	\$1.96	\$1.79	\$1.48	\$0.96	\$1.03	\$1.07	\$0.83	\$0.72	\$1.24	\$0.57

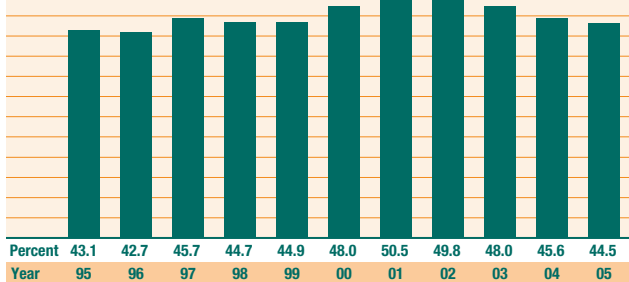
\* % increase/(decrease) over prior year

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

**MCGRAW-HILL EDUCATION**

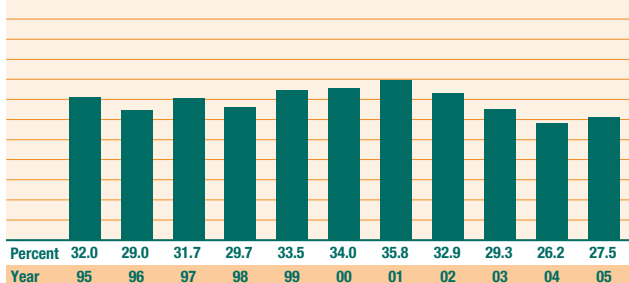
**Percent of Total Revenue**

McGraw-Hill Education



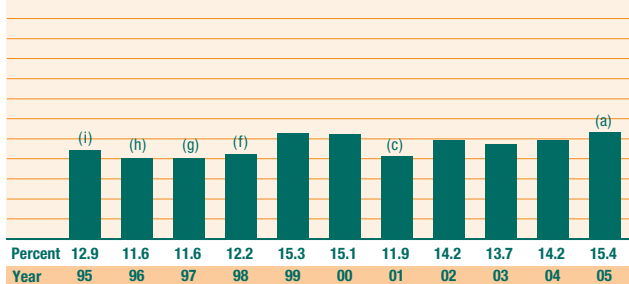
**Percent of Total Operating Profit**

McGraw-Hill Education



**Operating Profit Margin**

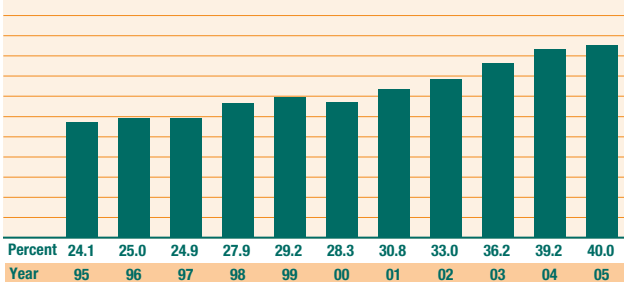
McGraw-Hill Education



**FINANCIAL SERVICES**

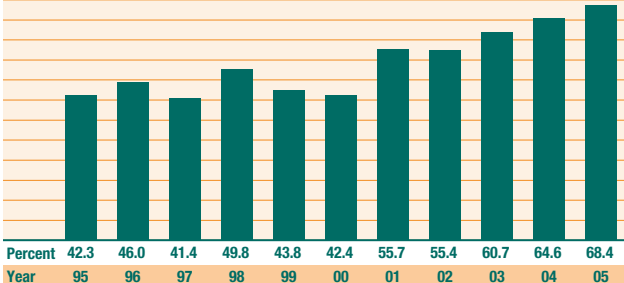
**Percent of Total Revenue**

Financial Services



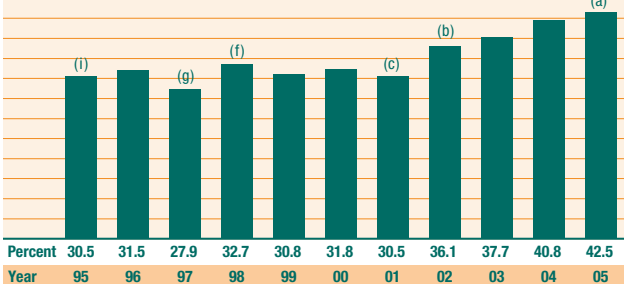
**Percent of Total Operating Profit**

Financial Services



**Operating Profit Margin**

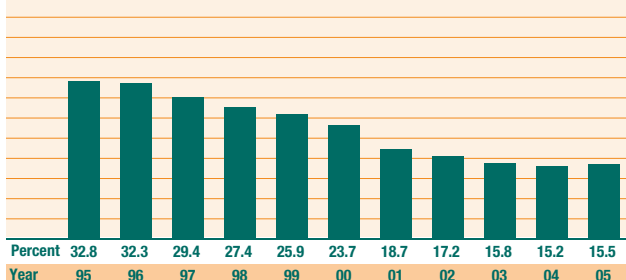
Financial Services



## INFORMATION & MEDIA

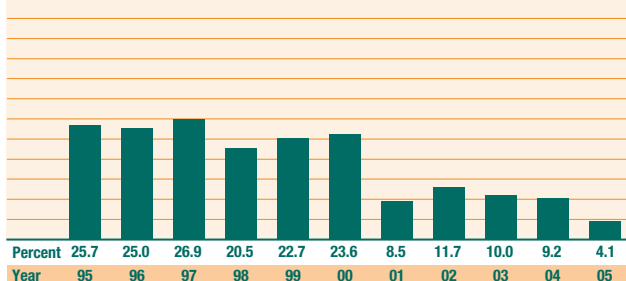
### Percent of Total Revenue

Information &amp; Media



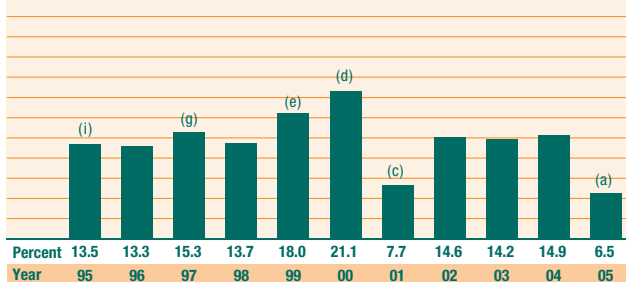
### Percent of Total Operating Profit

Information &amp; Media



### Operating Profit Margin

Information &amp; Media



Notes for Segment Trends (pages 12 and 13):

- (a) Operating margin for 2005 reflects a \$6.8 million pre-tax gain (\$4.2 million after-tax, or \$0.01 per diluted share) on the sale of the Corporate Value Consulting business, a \$5.5 million loss (\$3.5 million after-tax) on the sale of the Healthcare Information Group, and a \$23.2 million pre-tax charge (\$14.6 million, or \$0.04 per diluted share) for restructuring. The pre-tax restructuring charge by segment is as follows: McGraw-Hill Education – \$9.0 million; Financial Services – \$1.2 million; Information & Media – \$10.2 million; and Corporate – \$2.8 million
- (b) 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)
- (c) Operating margins for 2001 reflect the following items: a \$159.0 million provision for restructuring and asset write-down (\$112.0 million after-tax, or \$0.29 per diluted share), a \$6.9 million pre-tax gain on the sale of real estate (\$0.01 per diluted share), an \$8.8 million pre-tax gain on the sale of DRI (\$26.3 million after-tax, or \$0.07 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-tax, or \$0.06 per diluted share)
- (d) Operating margin for 2000 reflects a \$16.6 million gain on the sale of Tower Group International
- (e) Operating margin for 1999 reflects a \$39.7 million gain on the sale of the Petrochemical publications
- (f) 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
- (g) 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
- (h) Operating margin for 1996 excludes the impact of the gain on the exchange of Shepard's/McGraw-Hill and the one-time integration charge
- (i) 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

2005 QUARTERLY REVENUE AND OPERATING PROFIT BY SEGMENT										
(dollars in thousands, except earnings per share) favorable/(unfavorable)	2005 vs. 2004	2005 vs. 2004	2005 vs. 2004	2005 vs. 2004	2005 vs. 2004	2005 vs. 2004	2005 vs. 2004	Total	2005 vs. 2004	
	1Q	2Q	3Q	4Q	Total					
<b>Revenue</b>										
McGraw-Hill Education	\$307,300	7.3%	\$628,647	14.8%	\$1,142,331	10.7%	\$593,454	12.1%	\$2,671,732	11.5%
Financial Services	547,281	19.9%	597,366	18.4%	605,751	20.5%	650,411	10.0%	2,400,809	16.8%
Information & Media	174,425	(1.3%)	230,264	18.6%	228,959	21.9%	297,453	23.4%	931,101	16.4%
<b>Total revenue</b>	<b>\$1,029,006</b>	<b>11.9%</b>	<b>\$1,456,277</b>	<b>16.9%</b>	<b>\$1,977,041</b>	<b>14.8%</b>	<b>\$1,541,318</b>	<b>13.2%</b>	<b>\$6,003,642</b>	<b>14.3%</b>
<b>Operating Profit</b>										
McGraw-Hill Education	\$(78,674)	(14.4%)	\$71,591	25.5%	\$380,847	17.8%	\$36,449	27.7%	\$410,213	20.6%
Financial Services	222,512	28.0%	258,286	20.6%	251,945	24.7%	286,458	14.9%	1,019,201	21.4%
Information & Media	4,746	(65.2%)	13,608	(45.2%)	12,437	(47.8%)	29,785	(47.8%)	60,576	(49.2%)
<b>Total operating profit</b>	<b>\$148,584</b>	<b>25.2%</b>	<b>\$343,485</b>	<b>16.0%</b>	<b>\$645,229</b>	<b>17.5%</b>	<b>\$352,692</b>	<b>5.3%</b>	<b>\$1,489,990</b>	<b>14.7%</b>
General corporate (expense)/income	\$(22,910)	(17.1%)	\$(29,512)	(4.9%)	\$(35,274)	9.7%	\$(37,130)	11.7%	\$(124,826)	(0.6%)
Interest expense	(698)	(59.8%)	(3,512)	62.5%	(2,808)	50.4%	1,816	N/M	(5,202)	(10.1%)
Income from continuing operations before taxes on income	124,976	39.9%	310,461	18.1%	607,147	17.9%	317,378	5.2%	1,359,962	16.3%
Provision for taxes on income	46,241	N/M	115,491	18.7%	225,858	18.5%	128,066	14.7%	515,656	25.0%
Income from continuing operations	\$78,735	3.2%	\$194,970	17.7%	\$381,289	17.5%	\$189,312	(0.4%)	\$844,306	11.6%
Earnings/(loss) from discontinued operations	—	N/M	—	N/M	—	N/M	—	N/M	—	N/M
<b>Net income</b>	<b>\$78,735</b>	<b>4.0%</b>	<b>\$194,970</b>	<b>17.7%</b>	<b>\$381,289</b>	<b>17.5%</b>	<b>\$189,312</b>	<b>(0.4%)</b>	<b>\$844,306</b>	<b>11.7%</b>
<b>Earnings per share:</b>										
<u>Basic earnings per share</u>										
Income from continuing operations	\$0.21	5.0%	\$0.52	18.2%	\$1.02	18.6%	\$0.51	2.0%	\$2.25	13.1%
Net income	\$0.21	5.0%	\$0.52	18.2%	\$1.02	18.6%	\$0.51	2.0%	\$2.25	13.1%
<u>Diluted earnings per share</u>										
Income from continuing operations	\$0.20	0.0%	\$0.51	18.6%	\$1.00	17.7%	\$0.50	2.0%	\$2.21	12.8%
Net income	\$0.20	0.0%	\$0.51	18.6%	\$1.00	17.7%	\$0.50	2.0%	\$2.21	12.8%

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	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 & Media	176,743	1.3%	194,104	2.5%	187,759	6.6%	241,131	3.7%	799,737	3.5%
<b>Total revenue</b>	<b>\$919,867</b>	<b>9.4%</b>	<b>\$1,245,962</b>	<b>4.8%</b>	<b>\$1,722,876</b>	<b>5.8%</b>	<b>\$1,361,833</b>	<b>10.6%</b>	<b>\$5,250,538</b>	<b>7.4%</b>
<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 & Media	13,651	9.4%	24,841	1.6%	23,808	23.3%	57,013	6.3%	119,313	8.6%
<b>Total operating profit</b>	<b>\$118,694</b>	<b>36.0%</b>	<b>\$296,101</b>	<b>17.7%</b>	<b>\$549,085</b>	<b>12.7%</b>	<b>\$334,898</b>	<b>22.7%</b>	<b>\$1,298,778</b>	<b>18.2%</b>
General corporate (expense)/income	\$(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	\$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
<b>Net income</b>	<b>\$75,679</b>	<b>(20.7%)</b>	<b>\$165,626</b>	<b>16.6%</b>	<b>\$324,481</b>	<b>11.8%</b>	<b>\$190,037</b>	<b>18.8%</b>	<b>\$755,823</b>	<b>9.9%</b>
<b>Earnings per share:</b>										
<u>Basic earnings per share</u>										
Income from continuing operations	\$0.20	100.0%	\$0.44	18.9%	\$0.86	13.2%	\$0.50	(12.3%)	\$1.99	9.9%
Net income	\$0.20	(20.0%)	\$0.44	18.9%	\$0.86	13.2%	\$0.50	19.0%	\$1.99	9.9%
<u>Diluted earnings per share</u>										
Income from continuing operations	\$0.20	100.0%	\$0.43	16.2%	\$0.85	13.3%	\$0.49	(12.5%)	\$1.96	9.5%
Net income	\$0.20	(20.0%)	\$0.43	16.2%	\$0.85	11.8%	\$0.49	16.7%	\$1.96	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	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 & Media	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 & Media	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 (expense)/income	\$(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	\$0.10	25.0%	\$0.37	5.7%	\$0.76	7.0%	\$0.57	62.9%	\$1.81	22.3%
Net income	\$0.25	N/M	\$0.37	5.7%	\$0.76	5.6%	\$0.42	20.0%	\$1.81	21.5%
<u>Diluted earnings per share</u>										
Income from continuing operations	\$0.10	42.9%	\$0.37	8.8%	\$0.75	7.1%	\$0.56	60.0%	\$1.79	21.8%
Net income	\$0.25	N/M	\$0.37	5.7%	\$0.76	7.0%	\$0.42	20.0%	\$1.79	20.9%

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

Notes for Quarterly Revenue and Operating Profit by Segment (pages 14 and 15):

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. All per share data have been restated to reflect the Company's two-for-one stock split completed on May 17, 2005

2005: In the third quarter, operating profit at the Financial Services segment includes a \$6.8 million pre-tax gain (\$4.2 million after-tax, or \$0.01 per diluted share) on the sale of the Corporate Value Consulting business. In the fourth quarter, operating profit at the Information & Media segment includes a \$5.5 million loss (\$3.5 million after-tax) on the sale of the Healthcare Information Group. In the fourth quarter,

net income includes the impact of a \$23.2 million pre-tax charge (\$14.6 million after-tax, or \$0.04 per diluted share) for restructuring. The pre-tax restructuring charge by segment is as follows: McGraw-Hill Education – \$9.0 million; Financial Services – \$1.2 million; Information & Media – \$10.2 million; and Corporate – \$2.8 million. Net income in the fourth quarter also includes a \$10.0 million (\$0.03 per diluted share) increase in income taxes on the repatriation of funds

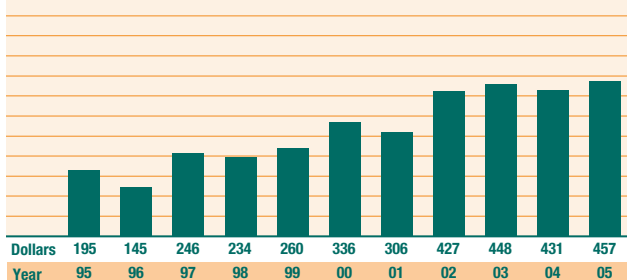
2004: The Company reclassified revenue in accordance with Emerging Issues Task Force 00-10, "Accounting for Shipping and Handling Fees and Costs," resulting in an increase in revenue of \$8.3 million, \$15.7 million, \$27.0 million and \$11.5 million in the first, second, third and fourth quarters of 2004, respectively; and 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

2004: Includes a non-cash benefit of approximately \$20.0 million (\$0.05 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 \$20.0 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%

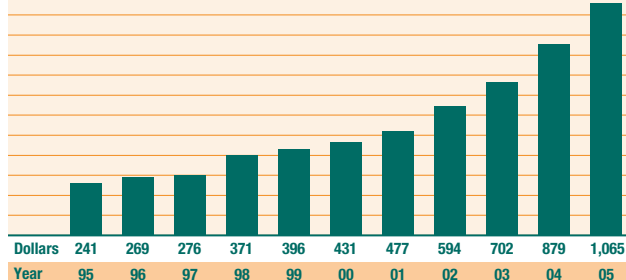
2003: In the fourth quarter, corporate expense includes a \$131.3 million pre-tax gain on sale of real estate (\$58.4 million after-tax gain, or \$0.15 per diluted share)

2002: In the third 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

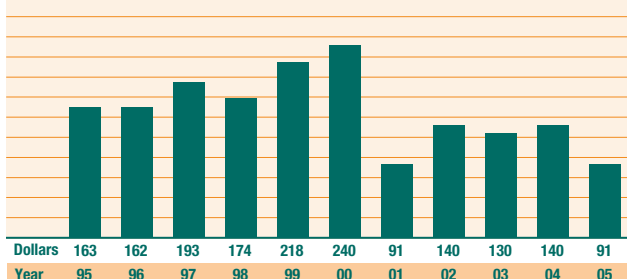
**McGraw-Hill Education, Net of investment in prepublication costs<sup>(c)</sup>**  
(dollars in millions)



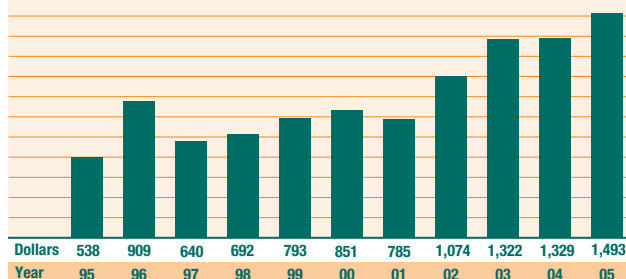
**Financial Services<sup>(c)</sup>**  
(dollars in millions)



**Information & Media**  
(dollars in millions)



**Total Company EBITDA, Net of investment in prepublication costs<sup>(c)</sup>**  
(dollars in millions)



**EBITDA, NET OF INVESTMENT IN PREPUBLICATION COSTS**

(dollars in thousands)	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
McGraw-Hill Education	\$ 410,213	\$ 340,067	\$ 321,751	\$ 332,949	\$ 273,339	\$ 307,672	\$ 273,667	\$ 202,076	\$ 187,722	\$ 151,921	\$ 162,604
Financial Services	1,019,201	839,398	667,597	560,845	425,911	383,025	358,155	338,655	245,150	241,479	214,707
Information & Media	60,576	119,313	109,841	118,052	65,003	212,921	185,551	139,352	158,879	131,397	130,145
<b>Total operating profit</b>	<b>\$ 1,489,990</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>
Unusual (loss)/gain <sup>(a)</sup>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (68,122)	\$ -	\$ (8,716)	\$ -	\$ 393,731	\$ -
Corporate (expense)/income <sup>(b)</sup>	(124,826)	(124,088)	38,185	(91,934)	(93,062)	(91,380)	(83,280)	(80,685)	(75,342)	(62,073)	(63,570)
Depreciation <sup>(c)</sup>	106,750	92,268	82,827	86,818	85,748	84,812	80,348	75,538	71,689	69,673	65,748
Amortization of intangibles <sup>(c)</sup>	44,235	32,470	32,973	36,270	84,108	63,508	54,366	51,310	48,814	37,971	37,334
Amortization of prepublication costs <sup>(c)</sup>	234,276	267,743	282,505	277,081	236,620	207,806	170,653	169,542	170,333	128,271	124,944
Investment in prepublication costs <sup>(c)</sup>	(257,795)	(237,760)	(213,954)	(246,577)	(293,002)	(249,333)	(246,341)	(194,978)	(166,784)	(182,978)	(134,118)
<b>EBITDA</b>	<b>\$ 1,492,630</b>	<b>\$ 1,329,411</b>	<b>\$ 1,321,725</b>	<b>\$ 1,073,504</b>	<b>\$ 784,665</b>	<b>\$ 850,909</b>	<b>\$ 793,119</b>	<b>\$ 692,094</b>	<b>\$ 640,461</b>	<b>\$ 909,392</b>	<b>\$ 537,794</b>

Notes for EBITDA, Net of investment in prepublication costs:

(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 \$155.0 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

(c) Amounts have been adjusted to exclude the juvenile retail publishing business and S&P ComStock, which are included in discontinued operations

ACQUISITIONS			DIVESTITURES			
<b>2005</b>	<b>\$460,852,000</b>				<b>\$131,310,000</b>	
	CRISIL Limited (58.5% interest after acquisition of additional 49.07% interest)	FS	J.D. Power and Associates	I&M	Corporate Value Consulting	FS
	Vista Research, Inc.	FS	TurnLeaf Solutions	MHE	Healthcare Information Group	I&M
	ASSIRT Pty Limited	FS	Azteca America affiliate low-powered TV stations (KZCS, KZFC, KZCO in Colorado from Syncom Media Group, Inc. and KZSD in San Diego from Una Vez Mas San Diego)*	I&M	Standard & Poor's Securities, Inc.	FS
	Taiwan Ratings Corporation (51% interest after acquisition of additional 1% interest)	FS	USDTV	I&M		
	TheMarkets.com (2.76% interest)	FS				
<b>2004</b>	<b>\$303,351,000</b>				<b>\$46,142,000</b>	
	Center for Business Intelligence (energy conference business only)	I&M	Capital IQ, Inc.	FS	Landoll, Frank Schaffer and related juvenile retail publishing businesses	MHE
	Grow.net, Inc.	MHE	PRCEDU Corporation (8.7% interest)	MHE	J.J. Kenny Drake, Inc.	FS
<b>2003</b>	<b>\$1,800,000</b>				<b>\$497,658,000</b>	
	FriedWire, Inc.	I&M			Rock-McGraw, Inc. (45% interest)	Corporate
					S&P ComStock	FS
<b>2002</b>	<b>\$19,310,000</b>				<b>\$23,136,000</b>	
	Open University Press	MHE	Clear Learning	MHE	MMS International	FS
	Reality Based Learning	MHE	EA Ratings	FS	Lifetime Learning	MHE
	Bredex Corporation	MHE			CAP	I&M
<b>2001</b>	<b>\$333,234,000</b>				<b>\$29,979,000</b>	
	Mayfield Publishing Company	MHE	Financial Times Energy	I&M	Data Resources Inc.	FS
	Charter Research Corporation	FS	Visual Education Corp.	MHE	Rational Investors	FS
	Frank Schaffer Publications	MHE	BizNet TV, Inc.	I&M		
	Corporate Value Consulting	FS	Uniscore, Inc.	MHE		
<b>2000</b>	<b>\$703,719,000</b>				<b>\$138,150,000</b>	
	Tribune Education	MHE	MPI Interactive – eBuilder, Inc.	I&M	Tower Group International	I&M
	BuildPoint Corporation	I&M	Thomas Murray Network Management Ltd.	FS		
	Canadian Bond Rating Service	FS				
	Portfolio Management Data, LLC	FS				
<b>1999</b>	<b>\$67,100,000</b>				<b>\$64,734,000</b>	
	Appleton & Lange, Inc	MHE	Micropal France	FS	Petrochemical Publications ( <i>Chemical Engineering, Modern Plastics, Modern Plastics International</i> )	I&M
	IFIS, Inc.	FS	Thesys Information, Ltd.	FS	Libri Italia SRL (School titles only)	MHE
	Rational Investors, Inc.	FS	Emerging Markets Data Base	FS		
<b>1998</b>	<b>\$25,428,000</b>				<b>\$28,600,000</b>	
	Xebec Multimedia Solutions, Ltd.	MHE			Information Technology and Communications Group ( <i>BYTE, Data Communications, LAN Times, tele.com, NSTL</i> )	I&M
	Optical Data Corporation	MHE				
<b>1997</b>	<b>\$85,698,000</b>				<b>\$54,521,000</b>	
	Argentina Ratings	FS	Micropal Group, Ltd	FS	London House	MHE
	Fund Research, Ltd.	FS	Taiwan Ratings Corp. (50% interest)	FS	McGraw-Hill School Systems	MHE
	Thomson Technical List	MHE	CRISIL Limited (9.6% interest)	FS	Datapro Information Services	I&M
	Published Image	FS				
<b>1996</b>	<b>\$516,195,000</b>				<b>\$491,383,000</b>	
	Times Mirror Higher Education Group	MHE	Healthcare Informatics/ InfoCare Magazine	I&M	Shepard's/McGraw-Hill	MHE
	Open Court Publishing	MHE			Global Finance	FS
	Tata Publishing Co.	MHE			College BRAVO titles	MHE
	Cavalier Shipping Co.	I&M			Healthcare Management Group	I&M
<b>1995</b>	<b>\$36,246,000</b>				<b>\$34,828,000</b>	
	ADEF (50% interest)	FS	College Titles	MHE	Ryerson French-Language Division	MHE
	Hospital Practice	I&M	FAME List	I&M	Hazardous Waste Strategies	I&M
	UCB Canada	I&M	BidFax	I&M	SRA Technology Training	MHE
					Shepard's Topical	MHE

Note:

MHE McGraw-Hill Education  
 FS Financial Services  
 I&M Information & Media

\* Some station's call letters were changed after acquired:  
 KZCO-TV was previously KCIN-TV; KZSD-TV was previously KSDF-TV

**INTERNATIONAL OPERATIONS BY REGION AND SEGMENT**

Revenue from foreign sources grew by 18.3% to \$1,337.8 million in 2005 and represented 22.3% of The McGraw-Hill Companies' total revenue last year. Favorable foreign exchange rates accounted for \$6.0 million of top-line revenue in 2005.

Europe continues to be the most important contributor to The McGraw-Hill Companies' foreign revenue, producing 56.8% of the total in 2005. Of all the foreign regions, Asia grew the fastest, increasing foreign revenue by 28.1%. Europe, Canada and Latin America grew by 17.2%, 12.6% and 6.6%, respectively.

**Financial Services**

Financial Services continues as the Company's biggest and fastest growing international business. Standard & Poor's foreign revenue grew at 20.1% in 2005 to \$771.2 million, 57.6% of the Company's total foreign revenue. Unfavorable foreign exchange rates resulted in a \$1.1 million decrease in revenue in this segment.

Since 1995, foreign revenue in this segment has grown at a compound annual rate of 18.1%.

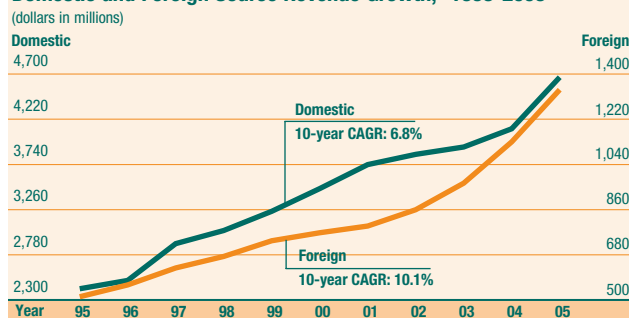
**McGraw-Hill Education**

McGraw-Hill Education's foreign revenue grew by 8.5% to \$384.8 million in 2005, or 28.8% of the total foreign revenue. Favorable foreign exchange rates accounted for \$8.1 million of the revenue increase in 2005.

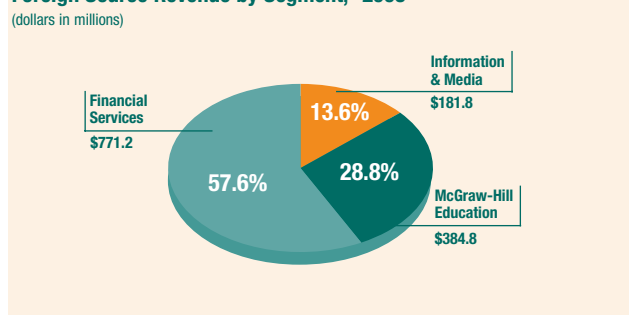
**Information & Media**

The Information & Media segment accounted for \$181.8 million, or 13.6% of the Company's total foreign revenue in 2005. Foreign exchange rates negatively impacted revenue growth by \$1.0 million.

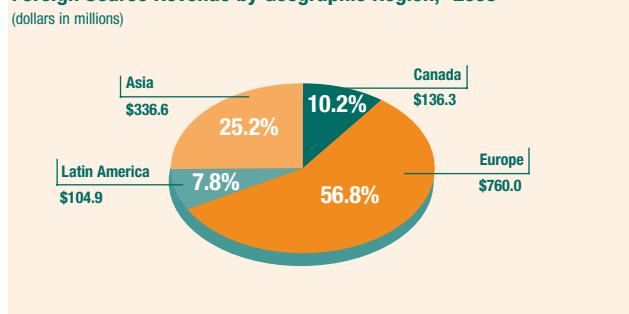
**Domestic and Foreign Source Revenue Growth,\* 1995-2005**



**Foreign Source Revenue by Segment,\* 2005**



**Foreign Source Revenue by Geographic Region,\* 2005**



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

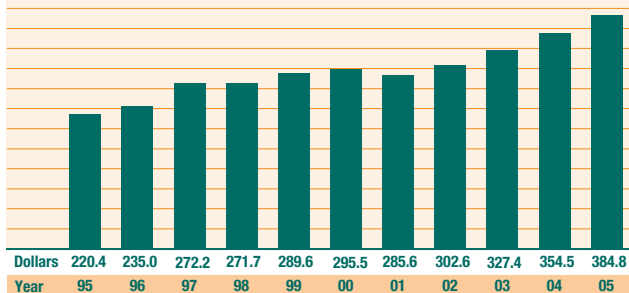
**WORLDWIDE OFFICES**

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	Greece	Japan
	Colombia	Italy	Malaysia
	Costa Rica	Portugal	New Zealand
	Dominican Republic	Russia	People's Republic of China
	Guatemala		Philippines
	Panama		Singapore
	Peru		South Korea
	Puerto Rico		Taiwan
	Venezuela		Thailand

## FOREIGN SOURCE REVENUE BY SEGMENT,\* 1995-2005

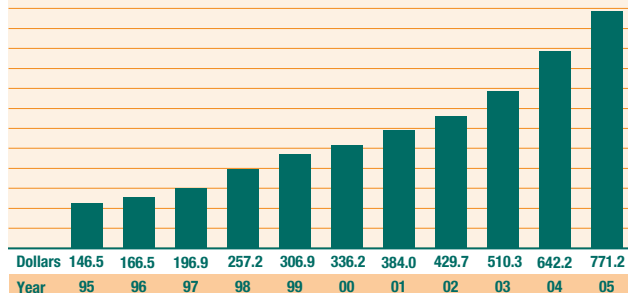
### McGraw-Hill Education

(dollars in millions)



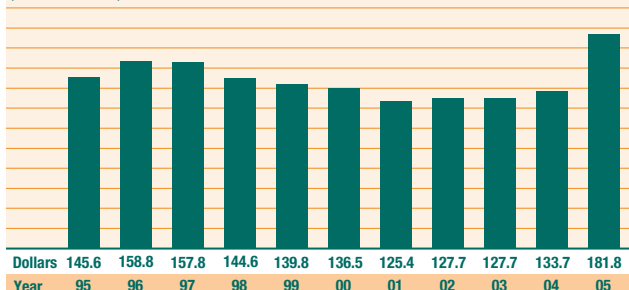
### Financial Services

(dollars in millions)



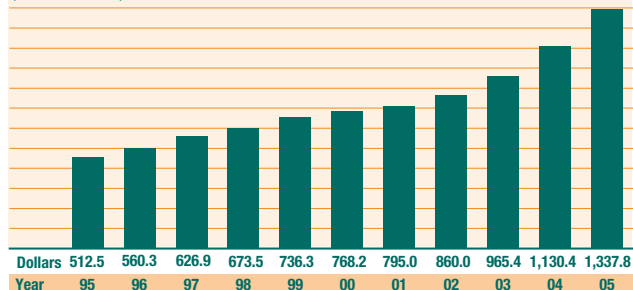
### Information & Media

(dollars in millions)



### Total Company

(dollars in millions)



## SUMMARY OF DOMESTIC AND FOREIGN SOURCE REVENUE, 1995-2005

(dollars in millions)	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	10-year CAGR
<b>Revenue</b>												
Domestic	\$4,665.8	\$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	\$2,418.3	6.8%
Foreign*	1,337.8	1,130.4	965.4	860.0	795.0	768.2	736.3	673.5	626.9	560.3	512.5	10.1%
<b>Total</b>	<b>\$6,003.6</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>\$3,979.8</b>	<b>\$3,712.7</b>	<b>\$3,526.0</b>	<b>\$3,066.6</b>	<b>\$2,930.8</b>	<b>7.4%</b>

### Revenue by Segment

Domestic												
McGraw-Hill Education	\$2,286.9	\$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	\$1,043.0	8.2%
Financial Services	1,629.6	1,413.1	1,258.8	1,126.0	1,014.3	868.8	856.7	779.8	681.3	600.1	558.5	11.3%
Information & Media	749.3	666.0	644.9	681.8	720.7	871.1	890.2	871.0	878.1	832.1	816.8	(0.9%)
<b>Total</b>	<b>\$4,665.8</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>\$2,418.3</b>	<b>6.8%</b>
Foreign*												
McGraw-Hill Education	\$384.8	\$354.5	\$327.4	\$302.6	\$285.6	\$295.5	\$289.6	\$271.7	\$272.2	\$235.0	\$220.4	5.7%
Financial Services	771.2	642.2	510.3	429.7	384.0	336.2	306.9	257.2	196.9	166.5	146.5	18.1%
Information & Media	181.8	133.7	127.7	127.7	125.4	136.5	139.8	144.6	157.8	158.8	145.6	2.2%
<b>Total</b>	<b>\$1,337.8</b>	<b>\$1,130.4</b>	<b>\$965.4</b>	<b>\$860.0</b>	<b>\$795.0</b>	<b>\$768.2</b>	<b>\$736.3</b>	<b>\$673.5</b>	<b>\$626.9</b>	<b>\$560.3</b>	<b>\$512.5</b>	<b>10.1%</b>

### Number of Employees

Domestic	13,486	13,122	12,736	13,180	13,566	13,339	13,032	12,599	12,669	13,374	13,032
Foreign	6,114	4,131	3,332	3,325	3,569	3,422	3,344	3,298	3,021	2,846	2,420
<b>Total</b>	<b>19,600</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>	<b>15,452</b>

### Notes:

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

Years restated for discontinued operations

Revenue reflects reclassification for adoption of Emerging Issues Task Force 00-10 "Accounting for Shipping and Handling Fees and Costs" in 2004

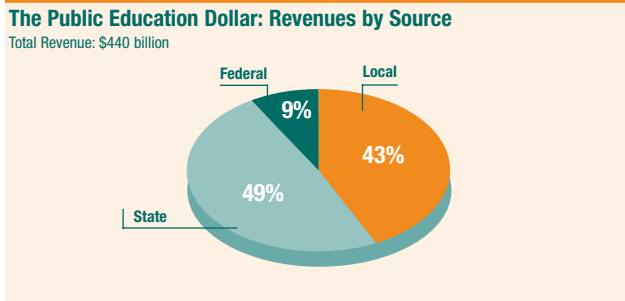
Trends in Pre-K–12 Education

**THE CHANGING EDUCATION MARKETPLACE**

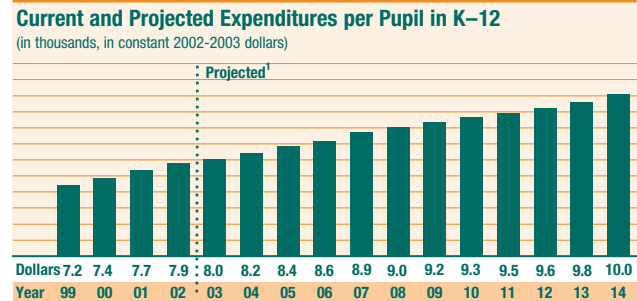
*No Child Left Behind* (NCLB) introduced sweeping changes that have affected every public school in the United States. NCLB’s goal is to close the student achievement gap and get every child to grade level by the 2013-14 school year. To meet this requirement, educators are putting more focus on reading and math and turning to intervention products to help underperforming students. Educators are also increasingly employing technology to enhance learning and increase student achievement.

**EDUCATION FUNDING AND EXPENDITURES PER PUPIL**

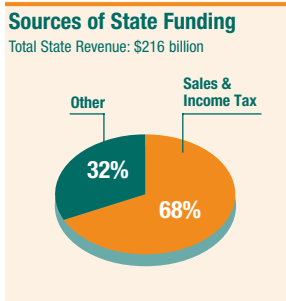
Of the approximately \$440 billion in federal, state, and local funding for public education in the 2002–03 school year, 92 percent was provided by state and local governments. More than two-thirds of the \$216 billion funded by the states came from sales and income tax. At the local level, property taxes accounted for 65%, or \$122 billion, of the \$188 billion local funding amount. States spent an average of \$8,044 for every student in 2002–03. This represents a 4 percent increase from the previous school year. Expenditures per student are projected to increase to \$10,000 by 2014.



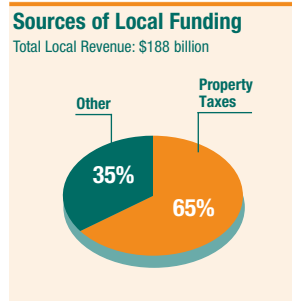
Source: U.S. Department of Education, National Center for Education Statistics, Common Core of Data, "National Public Education Financial Survey, 2002-03"



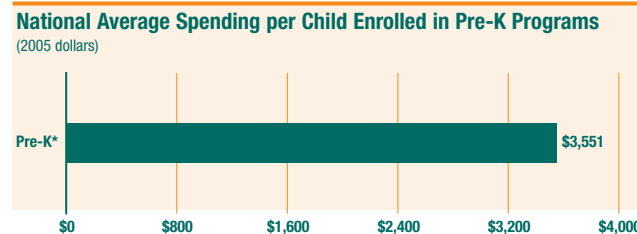
Source: U.S. Department of Education, National Center for Education Statistics, "Projections of Education Statistics to 2014" <sup>1</sup> Middle range of projections cited



Source: U.S. Census Bureau, "Public Education Finances Report: 2003"



Source: U.S. Census Bureau, "Public Education Finances Report: 2003"



Source: National Institute for Early Education Research, "The State of Preschool: 2005 State Preschool Yearbook"

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

**PRE-K EDUCATION: IMPROVING SCHOOL READINESS**

A study conducted by the *National Institute for Early Education Research* provides strong evidence that quality pre-school programs produce broad gains in children’s learning and development at kindergarten entry – progress that can be expected to yield greater school success and later improvements in reading and math. The 2004 study measured the academic effects of five high-quality state-funded pre-K programs. The children who attended the pre-school programs made significant gains in nearly all measures of learning regardless of ethnic background or economic circumstances. Participants included 5,278 children in 1,320 pre-school and kindergarten classrooms in Michigan, New Jersey, Oklahoma, South Carolina, and West Virginia.

Source: National Institute for Early Education Research, "The Effects of State Pre-Kindergarten Programs on Young Children’s School Readiness in Five States," December 2005

Gains were made in key areas:

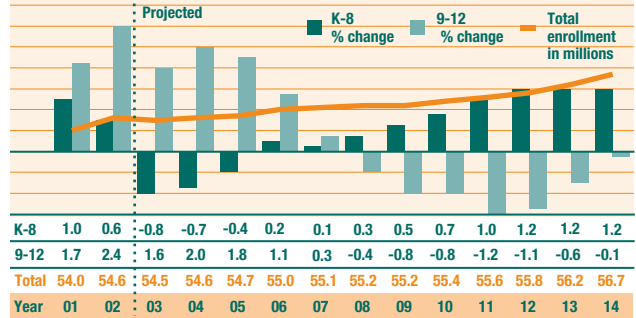
- **Vocabulary:** Children’s average vocabulary scores increased 8 percent.
- **Early Math Skills:** Children’s average math scores increased 13 percent. Skills tested included basic number concepts, simple addition and subtraction, telling time, and counting money.
- **Print Awareness:** Children’s average print awareness scores increased 39 percent. Children who attended a state-funded pre-school program before entering kindergarten knew more letters, more letter-sound associations, and were more familiar with words and book concepts.

### PRE-K-12: GROWING ENROLLMENTS

School enrollments are on the rise. According to the latest projections by the National Center for Education Statistics, 56.7 million students will be enrolled in grades K-12 by 2014. Enrollment in pre-K reached approximately 950,000 children in the 2003-2004 school year. The trend toward full-day kindergarten is also growing and demonstrates the increased recognition that early childhood education improves school readiness and improves the development of verbal and math skills – both keys to future academic success.

### Enrollment in Elementary and Secondary Institutions

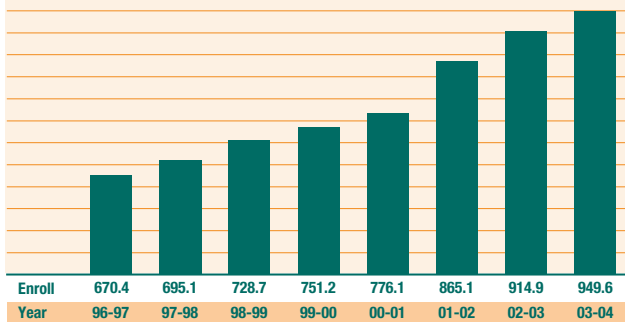
(% change; enrollment in millions)



Source: U.S. Department of Education, National Center for Education Statistics, "Projections of Education Statistics to 2014"

### Public School Pre-Kindergarten Enrollment, 1996-2004

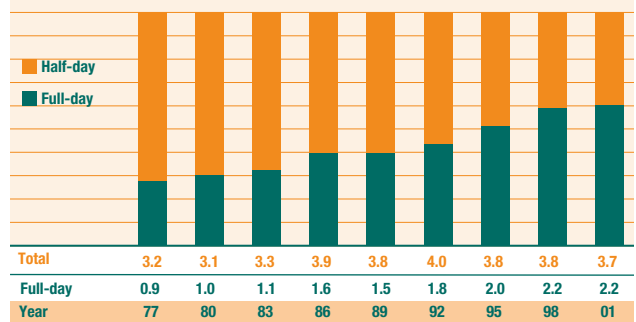
(number of students in thousands)



Source: U.S. Department of Education, National Center for Education Statistics, Common Core of Data

### Kindergarten Enrollment Trends

(number of students in millions)



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

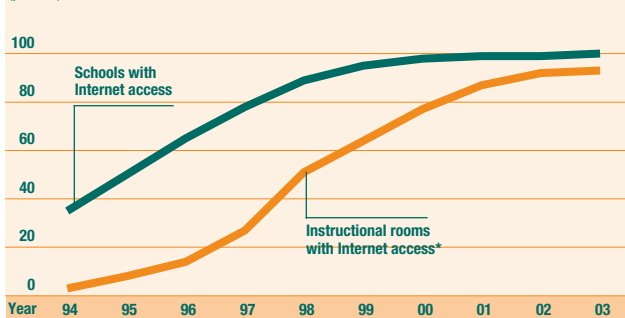
### ACCESS TO TECHNOLOGY IS IMPROVING IN K-12 EDUCATION

Technology is playing an increasingly important role in education. The use of computers in schools is substantially changing the way students learn and how they are taught. From 1994 to 2003, the percentage of public schools with access to the Internet increased from 35 to 100 percent, and the proportion of instructional rooms

with Internet access increased from 51 percent to 93 percent. The number of students per computer has also improved over the last ten years. In 2003, the ratio of students to instructional computers with Internet access in public schools was 4.4 to 1, a decrease from the 12.1 to 1 ratio in 1998, when it was first measured.

### Internet Access in U.S. Public Schools and Classrooms

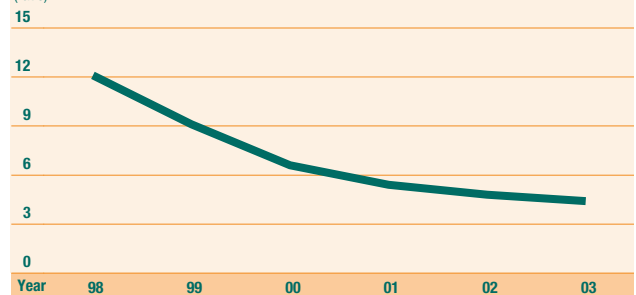
(percent)



Source: U.S. Department of Education, National Center for Education Statistics, Fast Response Survey System, Internet Access in U.S. Public Schools and Classrooms: 1994-2003; and unpublished data

### Ratio of Public School Students to Instructional Computers with Internet Access

(ratio)



Source: U.S. Department of Education, National Center for Education Statistics, Fast Response Survey System, Internet Access in U.S. Public Schools and Classrooms: 1994-2003; and unpublished data

Trends in Education

**READING AND MATH: TEACHING THE COMPLETE SPECTRUM**

With annual testing in reading and math now mandatory under the *No Child Left Behind Act*, student performance is getting increased scrutiny. In this environment, McGraw-Hill Education's goal is to provide educators with the solutions they need to help improve student achievement. With investments in new and revised programs like *Treasures*, *Jamestown Reading Navigator*, and *Real Math*, McGraw-Hill Education is strengthening the broadest and most complete lineup in the marketplace.

**READING (Programs in orange are new or major revisions for 2006-2008)**

Literacy-Based		Balanced Basal			Skills-Based			
Breakthrough to Literacy	Wright Group Core Literacy	Macmillan Reading Treasures	Glencoe Middle School Reading	Glencoe H.S. Literature	Jamestown Signature Reading	Open Court Reading	Jamestown Reading Navigator (Intervention)	Direct Instruction
		Macmillan Treasure Chest for ELL Macmillan Leveled Readers Program Macmillan Reading Triumphs (Intervention)					Kaleidoscope (Intervention)	
<b>Literacy-Based</b>		<b>Balanced Basal</b>			<b>Skills-Based</b>			
These programs work well in districts where students begin formal schooling with basic skills acquired at home or in academic pre-schools. Reading programs in this category develop language learning through literature.		The traditional basal program is effective with most students.			These programs have proven to be especially effective with students who come from disadvantaged backgrounds, have limited proficiency in English, or have special needs. Lesson plans are highly structured.			

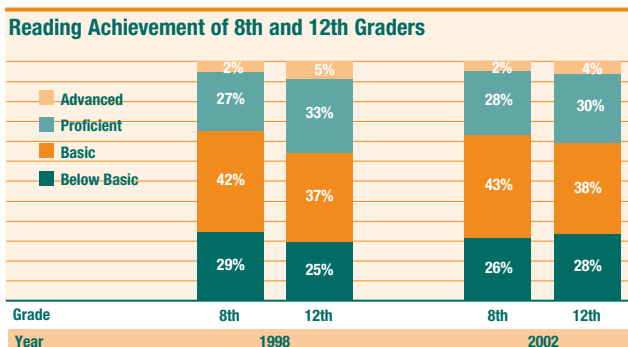
**MATH (Programs in orange are new or major revisions for 2006-2008)**

Reform-Based		Balanced Basal			Skills-Based		
Growing with Math Pre-K-5	Impact Math 6-8	Macmillan Math Pre-K-6	Glencoe Math 6-12	Math Intervention 1-12	Math Matters 9-11	SRA Real Math K-6	Connecting Math Concepts K-8
Everyday Math K-6	MathScape 6-8					SRA Number Worlds Pre-K-6 (Intervention)	
	Core Plus 9-12						
	UCSMP Math 6-12						
<b>Reform-Based</b>		<b>Balanced Basal</b>			<b>Skills-Based</b>		
These math programs emphasize investigative problem-solving activities and work well in school districts where teachers have strong math backgrounds and effective staff development is in place. Most of these programs receive National Science Foundation funding.		Effective with most students, these programs are well suited for school districts that need flexible lesson plans to accommodate a variety of teaching styles and meet each student's individual needs.			These products have been designed for school districts where skill development is the most important aspect of the math program. Lesson plans are highly structured and often involve direct instruction.		

22

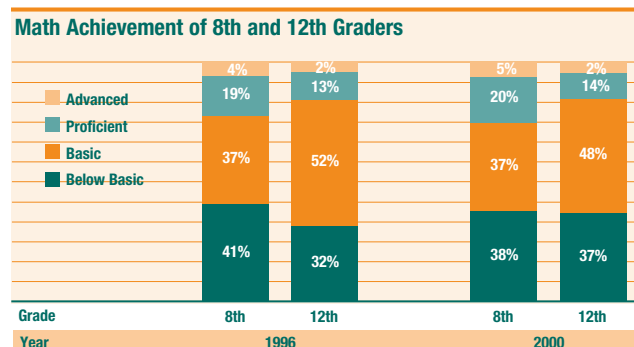
**THE NATION'S REPORT CARD™**

According to the National Association of Education Progress, two-thirds of America's eighth and twelfth grade students are not proficient in math or reading. The NAEP results are reported at achievement levels – performance standards showing what students should know and be able to do. In reading, the bulk of older struggling students can read the words but do not comprehend their meaning. In math, these students often lack a basic understanding of how to solve real-world problems. The achievement levels from lowest to highest are Basic (partial mastery of knowledge and skills fundamental for proficient work at a given grade), Proficient (solid academic performance; demonstrated competency over challenging subject matter), and Advanced (superior performance).



Source: U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics

Note: Detail may not sum due to rounding



Source: U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics

Note: Detail may not sum due to rounding

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

Four years after the enactment of the *No Child Left Behind Act*, states are putting in place rigorous new accountability systems and will implement reading and math assessments covering all students in grades 3–8 by the end of the 2005–06 school year. With many of the key elements of the law in place, states and school districts will

increasingly focus on making the substantial annual improvement in student achievement needed to reach the 100% proficiency goal by 2014. The Act’s stronger accountability requirements will result in additional assessment, testing, reporting, early childhood education, and intervention opportunities.

**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. *No Child Left Behind* comes up for reauthorization in 2007.

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	Year 6 Funding from Fed FY 2007 <sup>1</sup>	
Testing (State Assessments)	\$387.0 million	\$384.5 million	\$390.0 million	\$411.7 million	\$407.6 million	\$407.6 million	Annual testing in reading and math for grades 3–8 and once in high school; Annual testing in science at three grade levels
Reading First	\$900.0 million	\$993.5 million	\$1.024 billion	\$1.042 billion	\$1.029 billion	\$1.029 billion	Reading programs to ensure every child can read at or above grade-level by end of third grade
Early Reading First	\$75.0 million	\$74.5 million	\$94.4 million	\$104.2 million	\$103.1 million	\$103.1 million	Supports school readiness of pre-school-aged children, particularly from low-income families
Striving Readers	–	–	–	\$24.8 million	\$29.7 million	\$100.0 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	\$182.2 million	\$182.2 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	\$2.89 billion	\$2.89 billion	Funding to help states meet highly-qualified teacher requirement
State Grants for Innovative Programs	\$385.0 million	\$382.5 million	\$296.5 million	\$198.4 million	\$99.0 million	\$99.0 million	Administrative programs, including independent analysis to measure and report school district performance

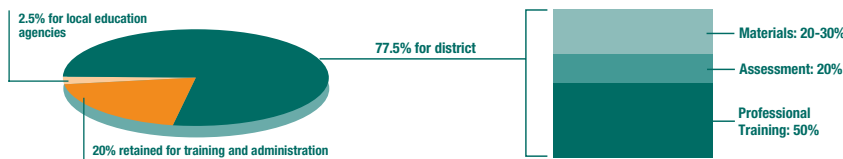
<sup>1</sup> Year 6 funding levels were proposed by President Bush in February 2006 as part of the 2007 Federal budget, which requires approval by Congress. New grants will be awarded to states between July and October 2006

Source: U.S. Department of Education

**FOLLOWING THE FUNDING FOR READING FIRST**

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

**State Level**

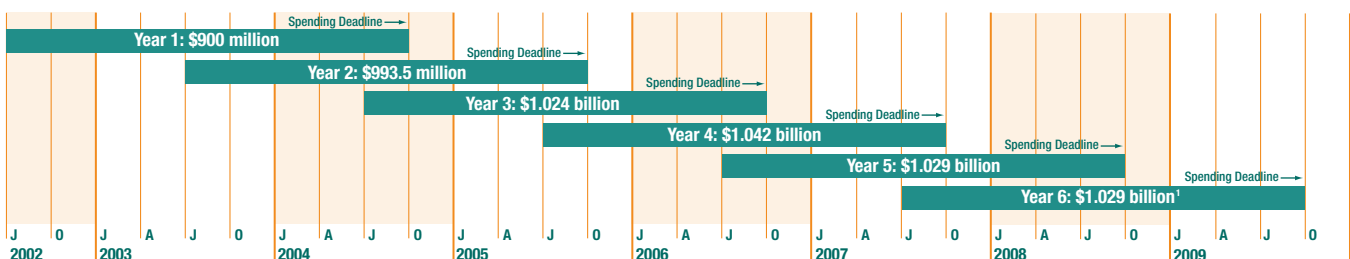


\* Estimated

**Performance Review**

- Department of Education requires annual reports.
- Three years after Reading First funding awarded, State Education Agency must submit midpoint progress report to U.S. Dept. of Education.

**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

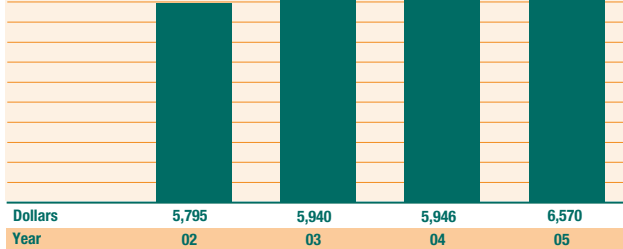
**PRE-K–12 SALES**

In 2005, sales of textbooks and educational materials for the pre-K–12 school market increased by 10.5% to \$6.6 billion, according to the Association of American Publishers (AAP).

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

(sales in millions)

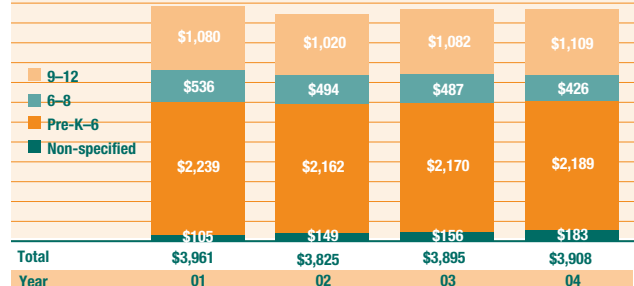
4-year CAGR: 4.3%



Note: Data has been restated to reflect the 2002 U.S. Economic Census  
 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–6)**

**Pre-K–6 Sales by State** (in thousands)

	2004	2003
1 California	\$ 227,333	\$ 299,764
2 New York	116,806	92,099
3 Florida	107,839	85,549
<b>Top 3 for 2004</b>	<b>\$ 451,978</b>	<b>\$ 477,412</b>
4 Texas	104,826	170,810
5 Illinois	77,720	86,050
6 New Jersey	76,708	69,752
7 Pennsylvania	74,178	78,492
8 Ohio	60,729	66,036
9 Virginia	53,654	47,317
10 North Carolina	50,824	36,834
<b>Top 10 for 2004</b>	<b>\$ 950,617</b>	<b>\$ 1,032,703</b>
11 Michigan	44,552	47,704
12 Georgia	42,931	83,120
13 Maryland	39,186	32,119
14 Indiana	36,648	37,829
15 Arizona	34,428	35,178
<b>Top 15 for 2004</b>	<b>\$ 1,148,362</b>	<b>\$ 1,268,653</b>
<b>All Others</b>	<b>\$ 494,654</b>	<b>\$ 408,396</b>
<b>Total Domestic U.S.</b>	<b>\$ 1,643,016</b>	<b>\$ 1,677,049</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 MARKET (6–8)**

**6–8 Sales by State** (in thousands)

	2004	2003
1 California	\$ 36,379	\$ 60,674
2 Florida	27,136	34,563
3 New York	19,476	22,226
<b>Top 3 for 2004</b>	<b>\$ 82,991</b>	<b>\$ 117,463</b>
4 Pennsylvania	18,353	17,592
5 New Jersey	14,535	12,838
6 Ohio	13,703	13,641
7 Maryland	13,520	6,516
8 Virginia	12,465	6,759
9 North Carolina	12,175	13,943
10 Indiana	10,742	9,956
<b>Top 10 for 2004</b>	<b>\$ 178,484</b>	<b>\$ 198,708</b>
11 Illinois	10,161	23,926
12 Michigan	9,202	11,240
13 Georgia	7,852	20,490
14 Arizona	6,784	6,721
15 Texas	6,725	38,099
<b>Top 15 for 2004</b>	<b>\$ 219,209</b>	<b>\$ 299,184</b>
<b>All Others</b>	<b>\$ 111,784</b>	<b>\$ 94,090</b>
<b>Total Domestic U.S.</b>	<b>\$ 330,992</b>	<b>\$ 393,275</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)**

**9–12 Sales by State** (in thousands)

	2004	2003
1 California	\$ 120,358	\$ 103,440
2 Florida	94,581	82,352
3 New York	61,208	63,180
<b>Top 3 for 2004</b>	<b>\$ 276,147</b>	<b>\$ 248,972</b>
4 Texas	52,127	130,225
5 Illinois	45,212	44,085
6 Pennsylvania	44,804	34,976
7 Georgia	38,961	19,941
8 New Jersey	38,376	32,135
9 Ohio	35,893	40,764
10 North Carolina	35,527	32,209
<b>Top 10 for 2004</b>	<b>\$ 567,048</b>	<b>\$ 583,308</b>
11 Virginia	28,260	35,571
12 Indiana	28,033	28,612
13 Tennessee	27,673	25,225
14 Maryland	26,091	19,573
15 Michigan	25,410	25,843
<b>Top 15 for 2004</b>	<b>\$ 702,514</b>	<b>\$ 718,133</b>
<b>All Others</b>	<b>\$ 330,816</b>	<b>\$ 291,716</b>
<b>Total Domestic U.S.</b>	<b>\$ 1,033,330</b>	<b>\$ 1,009,849</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

**Pre-K–6 Sales by Subject Category** (in millions)

	2004	2003
Reading/Literature	\$ 741	\$ 775
Mathematics	525	407
Language Arts/English	104	101
Science	96	111
Social Studies	89	208
Religion	32	31
Music	27	31
All Others	29	13
<b>Total</b>	<b>\$ 1,643</b>	<b>\$ 1,678</b>

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

**6–8 Sales by Subject Category** (in millions)

	2004	2003
Mathematics	\$ 122	\$ 77
Science	59	70
Language Arts/English	52	78
Social Studies	42	92
Reading/Literature	34	61
Foreign Language	16	14
Health	4	1
All Others	–	–
<b>Total</b>	<b>\$ 331</b>	<b>\$ 393</b>

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

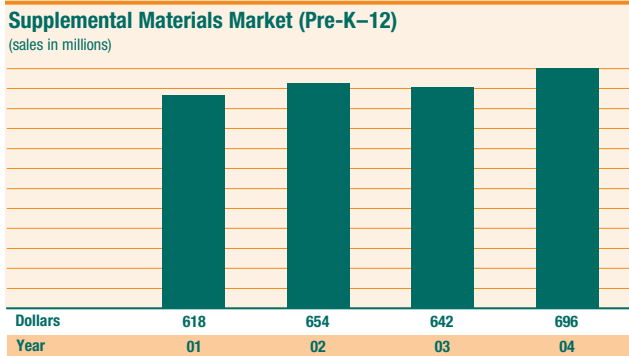
**9–12 Sales by Subject Category** (in millions)

	2004	2003
Mathematics	\$ 285	\$ 164
Science	174	171
Social Studies	159	278
Reading/Literature	115	125
Foreign Language	109	91
Business Education	53	59
Language Arts/English	52	38
All Others	87	85
<b>Total</b>	<b>\$ 1,033</b>	<b>\$ 1,010</b>

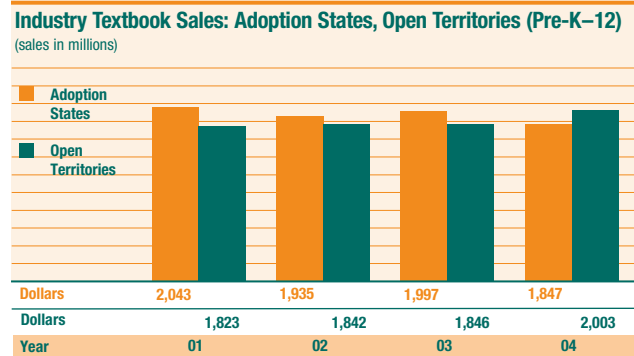
Source: AAP, as reported by 10 publishers. Excludes supplemental, non grade-specific basal, and non-domestic

### 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

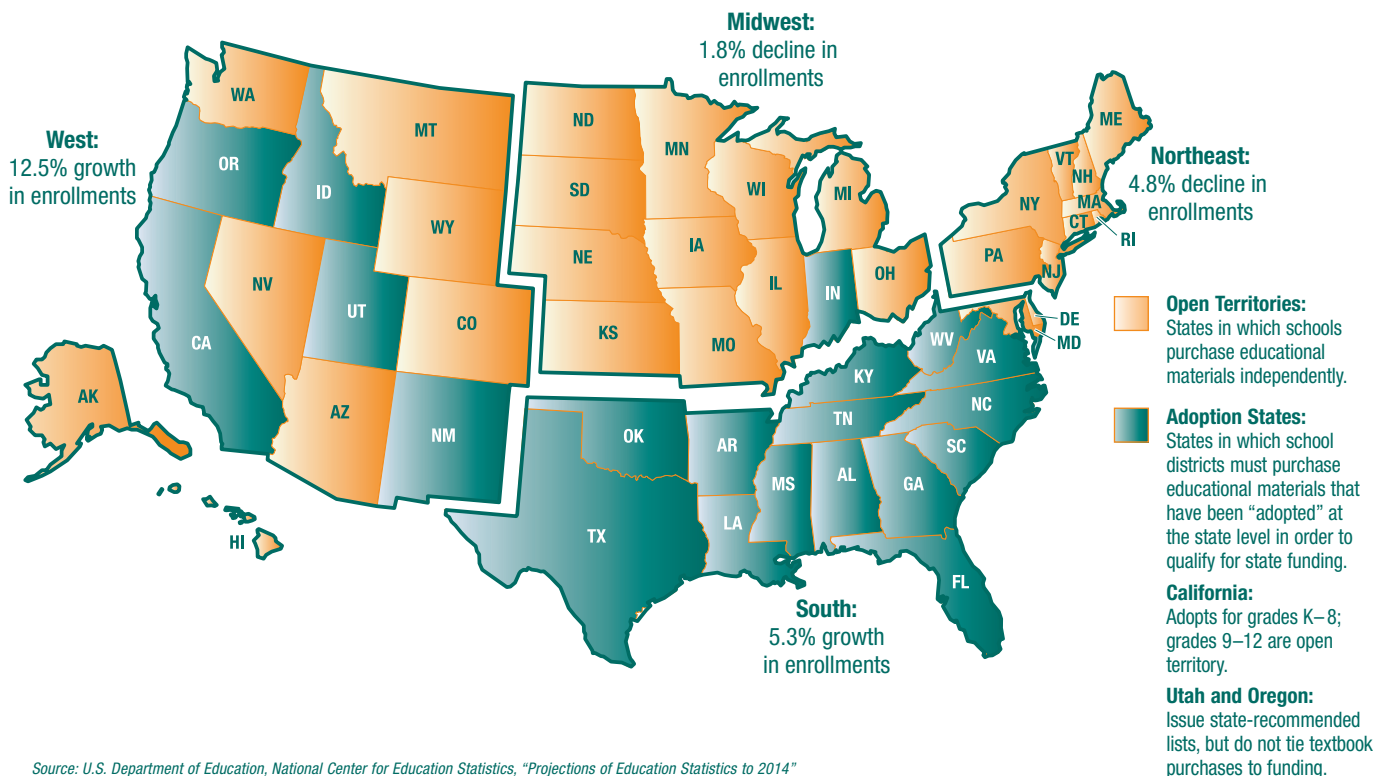
Nineteen states use the adoption process to buy elementary and secondary textbooks. A twentieth state, California, adopts textbooks through the eighth grade. In the adoption process, a state education board selects textbooks to be placed on an approved list. To use state education funds, local school 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, 2002–2014

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, “Projections of Education Statistics to 2014”

Elementary and Secondary School Adoption Schedules

**EL-HI ADOPTION OPPORTUNITIES**

Beginning in 2007, prospects improve for the rest of the decade as major adoption states plan to buy new materials. These new opportunities are a key factor in gauging the outlook for the elementary and secondary school markets.

**ELEMENTARY SCHOOL ADOPTION SCHEDULE**

Bid Year	2005	2006	2007	2008	2009	2010	2011
Purchase Year	2006	2007	2008	2009	2010	2011	2012
<b>Reading</b>	Kentucky North Carolina	Indiana (1-8) Oregon Tennessee West Virginia	Alabama Florida Idaho Louisiana Oklahoma	California Georgia New Mexico (P-8) South Carolina (K-5) Texas (K-5) <i>Texas (Span K-5)</i>	Mississippi	Arkansas North Carolina	Kentucky
<b>Math</b>	Arkansas	Georgia New Mexico (P-8) Texas (6-8) <i>Texas (Span 6)</i>	California Mississippi Texas (K-5) <i>Texas (Span K-5)</i>	Idaho Kentucky North Carolina (K-5) South Carolina	Alabama Florida (K-5) Indiana (1-8) Oklahoma Oregon	Tennessee West Virginia	—
<b>English/ Language Arts</b>	Kentucky North Carolina (3-5)	Idaho Mississippi Oregon	Indiana West Virginia	Alabama California Florida (K-5) Georgia Louisiana South Carolina (K-5) Texas (K-1) <i>Texas (Span 1)</i>	New Mexico (P-8) Tennessee (1-8) Texas (2-8) <i>Texas (Span 2-6)</i>	Arkansas North Carolina Oklahoma	Kentucky South Carolina (6-8)
<b>Science</b>	Alabama Florida New Mexico (P-8) Oklahoma West Virginia	Arkansas California South Carolina	Georgia Kentucky	Mississippi Oregon Tennessee	Idaho North Carolina	Florida Indiana (1-8) Louisiana Texas <i>Texas (Span K-6)</i>	Alabama New Mexico
<b>Social Studies</b>	California South Carolina	Kentucky Louisiana Oklahoma	Arkansas Idaho North Carolina Tennessee	Indiana (1-8)	West Virginia	Alabama Georgia New Mexico (P-8)	California Florida Mississippi South Carolina Texas <i>Texas (Span K-6)</i>
<b>Health</b>	New Mexico (P-8) South Carolina (6-8) West Virginia	Arkansas Florida Mississippi	Oregon	Georgia North Carolina Oklahoma Tennessee	Alabama Idaho Kentucky	Indiana Louisiana South Carolina (K-5)	New Mexico
<b>Music</b>	Indiana (1-8) Oregon Tennessee	Alabama California Idaho New Mexico (P-8) North Carolina Oklahoma	South Carolina	Florida West Virginia	Arkansas	Georgia Kentucky	Indiana Louisiana Mississippi Tennessee (1-8)
<b>Spelling</b>	Kentucky North Carolina (2-8) Tennessee (1-8)	Idaho Mississippi West Virginia	Florida Indiana	Alabama Georgia South Carolina (K-5)	—	Arkansas North Carolina Oklahoma	Kentucky Tennessee (1-8)
<b>Literature</b>	Idaho Kentucky North Carolina (6-8) Tennessee (6-8)	West Virginia (6-8)	Alabama Indiana Louisiana (6-8) Oklahoma	Florida (6-8) Texas (6-8) <i>Texas (Span 6)</i>	Mississippi	—	Kentucky
<b>English as a Second Language (ESL)</b>	—	—	—	Arkansas Florida	Georgia Tennessee (1-8) Texas (1-8)	Oklahoma Oregon	—
<b>Handwriting</b>	Kentucky North Carolina (1-5)	Indiana (1-8) Mississippi	Florida (K-5) South Carolina (K-3) West Virginia	Alabama	—	Arkansas Oklahoma	Kentucky Louisiana
<b>Dictionaries</b>	—	Idaho Mississippi (K-12)	—	Alabama Florida Georgia	—	Arkansas Oklahoma	—

Source: AAP School Division/NASTA

Notes:

- Schedules are subject to change
- Elementary adoptions are for grades K-8, unless otherwise noted
- Secondary adoptions are for grades 6-12, unless otherwise noted
- Italics indicate Spanish-language program*

**SECONDARY SCHOOL ADOPTION SCHEDULE**

<b>Bid Year</b>	<b>2005<sup>1</sup></b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Purchase Year</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Science</b>	Alabama Florida New Mexico Oklahoma West Virginia	Arkansas California (6-8) South Carolina (6-8)	Georgia Kentucky South Carolina <sup>2</sup> (9-12)	Mississippi Oregon South Carolina <sup>2</sup> (9-12) Tennessee	Idaho Florida North Carolina South Carolina <sup>2</sup> (9-12) Virginia	Florida Indiana Louisiana Texas <i>Texas (Span 6)</i>	Alabama New Mexico Oklahoma West Virginia
<b>Social Studies</b>	California (6-8) South Carolina <sup>2</sup> (6-8)	Kentucky Louisiana Oklahoma	Arkansas Idaho <sup>2</sup> North Carolina South Carolina <sup>2</sup> (9-12) Tennessee	Indiana Virginia	South Carolina <sup>2</sup> (9-12) West Virginia	Alabama Georgia New Mexico South Carolina <sup>2</sup> (9-12)	California (6-8) Florida Mississippi Oregon Texas
<b>Mathematics</b>	Arkansas	Georgia (6-8) New Mexico Texas <i>Texas (Span 6)</i>	California (6-8) Georgia (9-12) Mississippi	Idaho <sup>2</sup> Kentucky North Carolina South Carolina (6-8)	Alabama Florida Indiana Oklahoma Oregon South Carolina (9-12)	Tennessee Virginia West Virginia	Arkansas
<b>Literature</b>	Idaho Kentucky North Carolina (9-12) Tennessee	Indiana (6-8 Reading) Oregon West Virginia	Alabama Indiana Louisiana Oklahoma South Carolina (9-12)	Florida Georgia (6-8) New Mexico Texas <i>Texas (Span 6)</i>	Georgia (9-12) Mississippi	Arkansas (9-12) Idaho North Carolina (9-12) Virginia	Kentucky Tennessee
<b>Reading</b>	Kentucky North Carolina (6-8)	Indiana <sup>2</sup> Tennessee West Virginia	Alabama Florida <sup>2</sup> Idaho (Tradnl) Louisiana Oklahoma <sup>2</sup>	California <sup>2</sup> (6-8) New Mexico	Mississippi	Arkansas North Carolina (6-8) Oklahoma <sup>2</sup>	Kentucky
<b>English/ Language Arts</b>	Kentucky North Carolina South Carolina <sup>2</sup> (6-8)	Idaho <sup>2</sup> Mississippi Oregon	Indiana South Carolina <sup>2</sup> (9-12) West Virginia	Alabama California <sup>2</sup> (6-8) Florida Georgia (6-8) Louisiana	Georgia (9-12) New Mexico Tennessee Texas <i>Texas (Span 6)</i>	Arkansas North Carolina Oklahoma Virginia	Idaho Kentucky
<b>World Languages</b>	–	Alabama Florida Idaho	Indiana Mississippi South Carolina	Arkansas New Mexico Oklahoma West Virginia	Georgia North Carolina Tennessee	Kentucky Oregon Virginia	Idaho Louisiana
<b>Business Education</b>	Georgia Indiana Tennessee	Florida <sup>2</sup> South Carolina <sup>2</sup>	Mississippi <sup>2</sup> New Mexico North Carolina South Carolina <sup>2</sup>	Arkansas Idaho <sup>2</sup> Oklahoma	Alabama Florida <sup>2</sup> Louisiana South Carolina <sup>2</sup>	South Carolina <sup>2</sup>	Georgia Indiana Tennessee
<b>Computer Education</b>	Arkansas Idaho <sup>2</sup> Oklahoma	Florida Idaho <sup>2</sup> South Carolina <sup>2</sup>	Idaho <sup>2</sup> Mississippi North Carolina (7-12) South Carolina <sup>2</sup>	Idaho <sup>2</sup> Oklahoma	Alabama Florida Kentucky South Carolina <sup>2</sup>	Louisiana <sup>2</sup> South Carolina <sup>2</sup> Tennessee	Arkansas Mississippi Oklahoma
<b>Health (H) Physical Education (PE)</b>	New Mexico (H, PE) South Carolina (H) West Virginia (H)	Arkansas (H, PE) Florida (H, PE) Mississippi (H, PE)	Oregon (H, PE) South Carolina (PE)	Georgia (H, PE) Louisiana (H, PE) North Carolina (6-9) (H) Oklahoma (H, PE) Tennessee (H) South Carolina (PE)	Alabama (H, PE) Arkansas (H, PE) Idaho (H) Kentucky (H, PE)	Indiana (H) Louisiana (H, PE)	New Mexico (H, PE) West Virginia (H)
<b>Family/ Consumer Science</b>	Georgia Indiana South Carolina <sup>2</sup>	Florida Mississippi North Carolina	New Mexico South Carolina <sup>2</sup>	Idaho Oklahoma Tennessee West Virginia <sup>2</sup>	Alabama Arkansas Louisiana	South Carolina <sup>2</sup>	Georgia Indiana North Carolina
<b>Art (A) Music (M) Drama (D) Speech (S)</b>	Indiana (A, M) Kentucky (S) Oregon (A, M) Tennessee (A, M, D)	Alabama (A, M, D) California (A, M 6-8) Florida (A) Idaho <sup>2</sup> (A, M, D, S) Mississippi (S) New Mexico (A, M, D) North Carolina (A, M, D) Oklahoma (A, M, D)	South Carolina <sup>2</sup> (A, M, D, S) West Virginia (S)	Alabama (S) Florida (M, D, S) Louisiana (S) West Virginia (A, M)	Arkansas (A, M) Georgia (S) Tennessee (S) Texas (S 7-8)	Georgia (A, M, D) Kentucky (A, M, D) Oklahoma (S)	Idaho (A, M, D, S) Indiana (A, M) Kentucky (S) Louisiana (A, M) Mississippi (A, M, D) North Carolina (A, M, D) Tennessee (A, M, D)
<b>Vocational/ Technical Education</b>	Georgia Indiana Tennessee	Arkansas <sup>2</sup> Florida <sup>2</sup> South Carolina <sup>2</sup>	Mississippi <sup>2</sup> New Mexico South Carolina <sup>2</sup>	Idaho <sup>2</sup> Mississippi <sup>2</sup> North Carolina Oklahoma South Carolina <sup>2</sup>	Alabama Arkansas Florida <sup>2</sup> Kentucky Louisiana <sup>2</sup> South Carolina <sup>2</sup>	South Carolina <sup>2</sup>	Georgia Indiana Tennessee
<b>Career/ Workforce Education</b>	Georgia	Mississippi	New Mexico	Arkansas Idaho <sup>2</sup> Louisiana North Carolina Oklahoma	Louisiana	Alabama	Georgia
<b>Driver Education</b>	Idaho Tennessee	South Carolina	Alabama Arkansas Mississippi New Mexico	Florida Georgia Oklahoma West Virginia	Kentucky	Idaho	Tennessee

<sup>1</sup> 2005 bid year based on actual participation  
<sup>2</sup> Selected titles

Providing Solutions

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

Beginning in the 2005-2006 academic year, *No Child Left Behind* (NCLB) mandates annual statewide testing in reading and math for grades 3–8. The law also requires statewide testing once in grades 10–12, as well as specialized assessments for English-Language Learners (ELL). In order to comply with these new mandates, educators are focusing more and more of their attention on bringing students up to speed and intervening where and when appropriate – both in the classroom and online via the Internet. McGraw-Hill

Education has developed an extensive suite of technology-based intervention products and digital solutions that incorporates the latest technology to enhance learning for students and provides productivity tools to enhance instruction for teachers. By making instruction more individualized and targeted, educators will be able to use McGraw-Hill Education’s technology-based products to fulfill the educational standards required by NCLB.

**Reading intervention for grades 6–12**

**Jamestown Reading Navigator**  
www.jamestowneducation.com

The U.S. Department of Education estimates that 40% of all middle and high school students cannot read at a basic literacy level. *Jamestown Reading Navigator* is the first online reading intervention program built specifically for students in grades 6–12 that fully integrates the latest research in adolescent literacy. Designed to accelerate growth in reading fluency and comprehension skills, *Jamestown Reading Navigator* helps struggling students catch up to where they need to be.

- Provides online instruction, print resources, and progress monitoring
- Continuously assesses student progress, adjusts instruction, and provides individualized reports
- Aligns with Federal Striving Readers grant requirements
- Integrates professional reading training and development for district staff



**Enriching math instruction with fully-integrated technology**

**SRA Real Math**  
www.realmath.com

*SRA Real Math* is the first skills-based pre-K–6 program to use a fully-integrated suite of technology tools to enrich classroom math instruction. Online technology augments print editions and hands-on materials to provide a broader set of resources for teachers and students.

- **ePlanner:** Lets teachers plan daily, weekly, and monthly lessons that can be organized to a teacher’s specific needs and correlated to state and national standards
- **eAssess:** Enables teachers to provide individualized intervention and enrichment materials to students based on their proficiency level
- **eMath Tools:** Encourages students to engage, explore, and learn by interacting with electronic number lines, multiplication tables, and more

**Pre-K–3 reading program with a strong home-school technology connection**

**The Wright Skills™**  
www.wrightgroup.com

*The Wright Skills* reading program for pre-K–3 provides sequential and explicit daily phonics and word study instruction that includes skills practice, student assessment, program management, and at-home reinforcement of classroom lessons. The program uses technology for progress monitoring to address individual needs of students and to create a strong home-school connection.

- The online, subscription-based version enables students and parents to reinforce classroom lessons with learning activities at home. Parents can listen to their child’s oral fluency readings and download progress reports
- A CD-ROM version with skill application activities and assessments correlated to print material, together with interactive decodable books, is included in each kit



### New K–6 reading program meets NCLB requirements

#### Treasures

[www.macmillanmh.com/reading/treasures.html](http://www.macmillanmh.com/reading/treasures.html)

*Treasures* is a new research-based reading program for K–6 that meets all requirements of NCLB—phonemic awareness, phonics, fluency, vocabulary, and text comprehension. A variety of assessment tools help identify strengths and weaknesses, plan instruction, and meet the needs of all students. *Treasures' Progress Reporter*:

- Diagnoses and prescribes lessons for re-teaching every skill the student did not master
- Measures and reports students' results against state and local curriculum standards to assist in reporting Adequate Yearly Progress
- Provides interactive graphic and text reports to help administrators and teachers analyze progress of individual students, a whole class, a school, or an entire district



### Interactive science simulations for grades 1–6

#### Operation: Science Quest

CD-ROM-based product

- Interactive science simulations help students in grades 1–6 understand key science concepts
- Uses a combination of animated characters, video, and interactive simulations to help students and teachers with hard-to-teach concepts
- Provides teacher reports to identify areas of student success and accomplishments
- Modules cover the three areas of science: Life, Earth, and Physical
- English and Spanish audio tracks are available as well as closed captioning

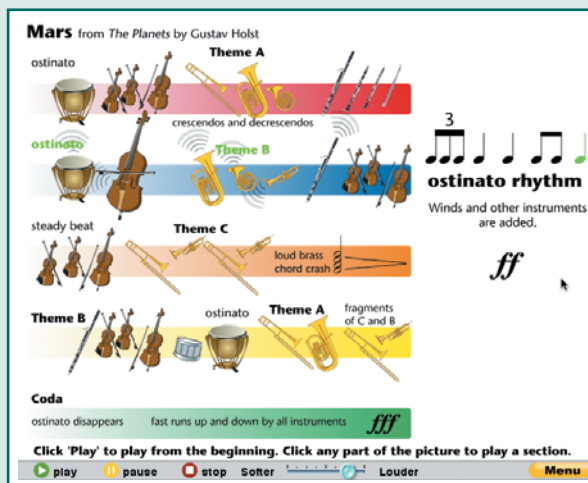
### Interactive music learning for pre-K–8

#### Spotlight on Music™

CD-ROM-based product

*Spotlight on Music™* enhances learning music through interactivity for students in pre-K–8.

- **Electronic Listening Maps** reinforce music concepts through stimulating and perfectly-timed animation to help students improve focus and learning
- **Spotlight on Orchestral Instruments** and **Spotlight on World Instruments** teach visual and aural identification of orchestral and world instruments through interactive lessons, video demonstrations, and instrument identification games
- **Music Ace™** and **Music Ace 2™** reinforce musical concepts and skills through lessons, games, and doodle pads of famous listening selections that help students learn pitch recognition, rhythmic patterns, harmony, and scales
- **MiDisaurus™** features games, ear training exercises, and songs that enable children to build music literacy, develop keyboard skills, read music, and recognize music symbols



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 a student's 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 once in high school 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.

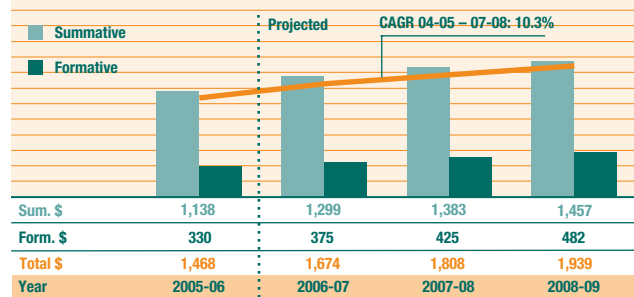
The Impact of *No Child Left Behind* on Annual Testing

Starting Year	Subject	Grades	Frequency
2005-06	Reading	3–8	Once a year
		10–12	Once in high school*
	Mathematics	3–8	Once a year
		10–12	Once in high school*
2007-08	Science	3–5, 6–9, 10–12	Once a year at three different grade levels

\*Grade not specified

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 \$1.9 billion by 2008-09.

K–12 Educational Testing: Projected Market Growth (dollars in millions)



Source: Eduventures

A PORTFOLIO OF ASSESSMENT AND REPORTING SERVICES

MEETING EVOLVING MARKET NEEDS

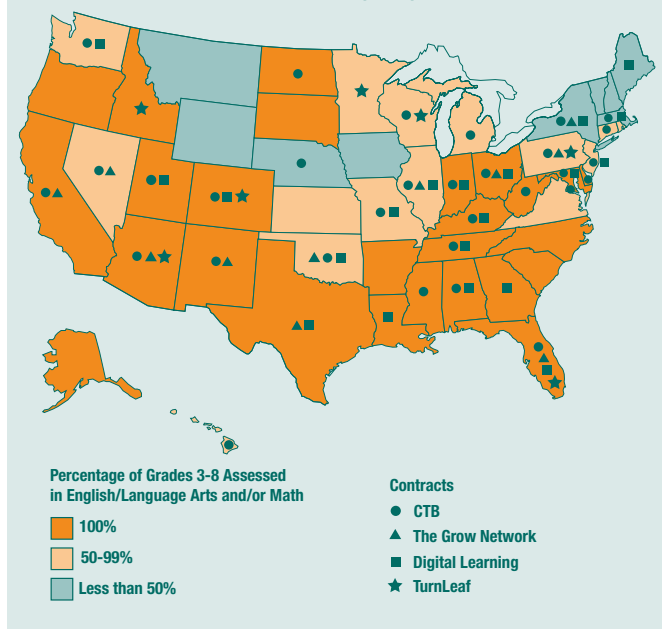
McGraw-Hill Education offers a vast portfolio of research-driven assessment and reporting solutions through its leading brands – CTB, The Grow Network, Digital Learning, and TurnLeaf – demonstrating its commitment to advancing learning through end-to-end solutions linked to rigorous standards. McGraw-Hill Education is serving and shaping the expanding education market by:

- Creating formative assessments that transform classroom learning
- Continuing to build English-language learning solutions
- Helping educators meet NCLB-driven accountability requirements

As higher learning institutions in the U.S. embrace national accountability, McGraw-Hill Education is positioned to provide educators with college readiness and post-secondary education assessments, aligned reports, systems that facilitate the use of assessment data for accreditation purposes, and professional certification and licensing.

On a global level, McGraw-Hill Education is reviewing the assessment needs of developing markets and leveraging knowledge from across McGraw-Hill to expand into new geographies. McGraw-Hill Education can help countries develop self-sustaining systems of learning linked to assessment and instruction, as demonstrated with the State of Qatar.

McGraw-Hill Assessment and Reporting Programs



**PROVIDING ASSESSMENT AND REPORTING SERVICES TO IMPROVE LEARNING AND INSTRUCTION**

**Acuity**

Acuity is an online assessment solution that provides immediate, actionable data on student progress to help classroom teachers create opportunities for one-on-one instruction, adhere to state learning standards, and estimate performance on NCLB tests. The product includes a suite of classroom-friendly, diagnostic benchmark assessments that mirror NCLB content in grades 3–8 and high school for math and reading/language arts. Designed in collaboration with educators nationwide, *Acuity*:

- Offers online and paper-and-pencil administration options
- Fits seamlessly into lesson plans and correlates to a district’s teaching sequence
- Provides important point-in-time diagnostic data that informs instruction to help maximize student performance

**Acuity is a new online assessment solution that measures student progress toward state learning standards for math and reading/language arts**

**Adequate Yearly Progress Report for School**

1. Select Grade Level of Assessment: 2nd Grade  
 2. Select Assessment: 2nd Grade Math Predictive Form A

Get Report

**Show-Me Elementary School**

Grade level 2 Mathematics

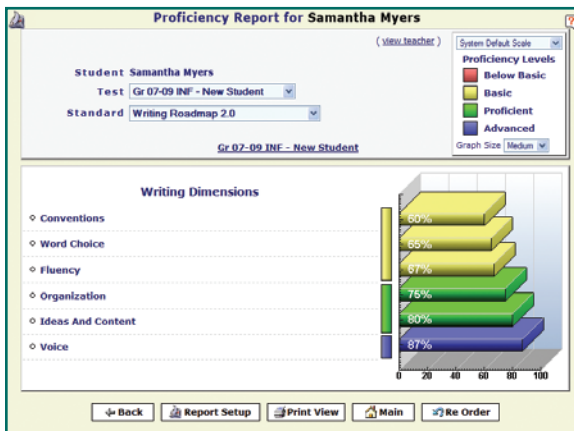
Test Delivery: Online and Paper  
 Report Date: 08/22/05  
 District: Show-Me School District  
 Test Name: 2nd Grade Math Predictive Form A  
 Dates Test Completed: 07/22/05 - 07/30/05  
 Number of Students Assigned Test: 88

**Test Performance**

The score ranges for each performance tier are as follows: Tier 1 (0-25%), Tier 2 (26-50%), Tier 3 (51-75%) and Tier 4 (76-100%)

AYP Subgroup	Number of Students	Number of Students Completed/Assigned	Average Scaled Score (Standard Deviation)	% of students who scored in each Performance Tier (based on % Points Obtained)				% Points Obtained	
				Tier 1	Tier 2	Tier 3	Tier 4		
<b>Assessment Totals:</b>				N/A	29%	14%	6%	61%	49%
<b>Gender</b>									
Male	15	12/14	N/A	33%	40%	17%	10%	25%	
Female	10	10/10	N/A	15%	20%	25%	40%	49%	
Unknown	5	4/4	N/A	25%	25%	25%	25%	50%	
<b>Ethnic/Racial Groups</b>									
White	10	7/8	N/A	15%	20%	25%	40%	49%	
African American	7	6/7	N/A	33%	40%	17%	10%	25%	
Hispanic/Latino	3	3/3	N/A	15%	20%	25%	40%	49%	
Asian	2	2/2	N/A	13%	25%	55%	7%	59%	
Native American	2	2/2	N/A						
Multiracial	0								
Unknown	6	6/6	N/A	25%	25%	25%	25%	50%	
<b>Socioeconomically Disadvantaged Students</b>	10	6/10	N/A	50%	17%	33%	0%	30%	
<b>Limited English Proficiency (LEP)</b>	8	6/6	N/A	50%	17%	33%	0%	30%	
<b>Students with Disabilities</b>	2	2/2	N/A	0%	50%	50%	0%	55%	

Note: Scaled scores will be available after research has been completed



**Writing Roadmap 2.0**

Writing Roadmap 2.0 is an online essay scoring tool that assesses students’ writing skills and teaches them to write more effectively. Designed for students in grades 3–12, its easy-to-use interface and instructional tools provide support throughout the writing process, while automatic online scoring generates instant time-saving reports. Writing Roadmap’s holistic reports help teachers identify instructional needs, assess student and class results, and compare those results against school and district averages. Automatic feedback is provided to the student using instructional tools. Teachers can also review essays and provide their comments.

**Writing Roadmap assesses students’ writing skills**

**First Performances™**

First Performances™ is a suite of observational assessments designed to help teachers measure developmental learning milestones in reading and math in pre-K–3 students. First Performances’ assessments meet Reading First requirements, align to NCTM’s Principles and Standards for School Mathematics, and follow NAEYC’s assessment recommendations. One-on-one instruction is provided through three interconnected products:

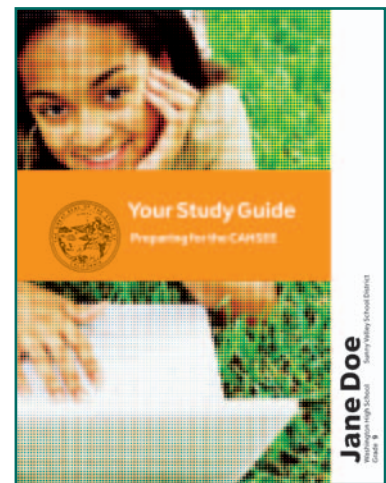
- *Fox Letters and Numbers™: Pre-K Literacy and Mathematics Assessments* – Uses developmentally appropriate activities to assess a child’s literacy and math progress
- *Fox in a Box®: K–3 Literacy Assessment* – Enables teachers to identify struggling readers by zeroing in on specific learning needs with customized activities
- *Fox Adds Up™: K–3 Mathematics Assessment* – Helps teachers observe and guide each child’s math learning progress through engaging, targeted activities

**Achievement Management System**

The Achievement Management System is a powerful data tool that integrates student information systems and provides instructional alignment through assessment and reporting. This data tool complements McGraw-Hill Education’s ability to provide educators at the state, district, and local levels with a broad base of reporting capabilities.

**Personal Learning Program**

The Personal Learning Program is a unique learning program under the Grow Network brand that transforms students’ individual test data into actionable information. Customized fully to state standards, the program provides students with personalized study guides and online tutorials that build on strengths and focus on areas of need. The Governor of Texas has praised the personalized study guides for contributing to a substantial increase in exam passing rates (24 states require exit exams to get a high school diploma).



The Personal Learning Program:

- Supports each student by providing clear feedback, targeting individual needs, and appealing to different learning styles
- Helps educators and tutors create a strong network of support for student achievement and improve classroom instruction
- Engages parents through print and online tools in multiple languages

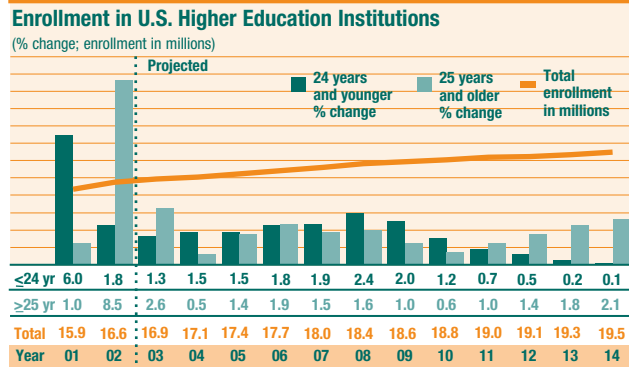
Higher Education Market

HIGHER EDUCATION IN A KNOWLEDGE ECONOMY

Education is a global business with steadily improving prospects fueled by the rise of the knowledge economy, the need for skilled workforces, and growing enrollments. At the same time, the convergence of content and technology is increasing technology's role in education as online courses and products attract more instructors and students. The McGraw-Hill Companies is positioned to benefit from these trends.

In U.S. higher education, there are 16 million students in more than 4,000 colleges and universities. By 2014, a record 19.5 million students will be enrolled according to the National Center for Education Statistics. Enrollments at for-profit post-secondary institutions are growing faster than the overall U.S. higher education market.

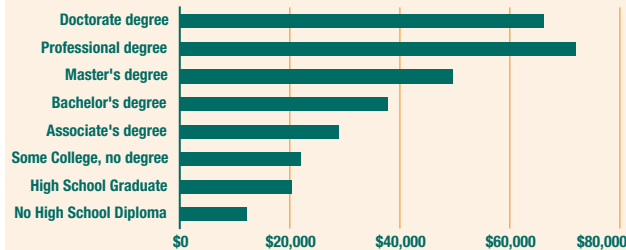
The economic value of an education is well established. According to the U.S. Census Bureau, people holding Bachelor's degrees will earn almost \$1 million more over their working life than high school graduates.



Source: U.S. Department of Education, National Center for Education Statistics, "Projections of Education Statistics to 2014"

Median Annual Earnings by Educational Attainment

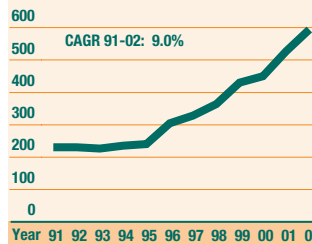
(in dollars; U.S. adults 18 years and over)



Source: U.S. Census Bureau, March 2005

Enrollment in For-Profit Post-Secondary Institutions

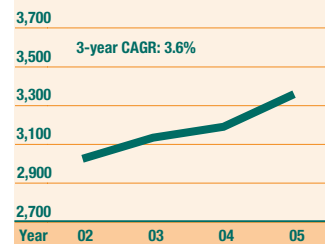
(number of students in thousands)



Source: National Center for Education Statistics, "Digest of Education Statistics 2004"

Estimated Higher Education Industry Sales of U.S. Publishers

Books and Materials (dollars in millions)



Source: AAP. Includes sales of domestic and non-domestic products. Note: Data has been restated to reflect the 2002 U.S. Economic Census

TECHNOLOGY IS ENABLING FLEXIBLE EDUCATIONAL SOLUTIONS AND OPPORTUNITIES

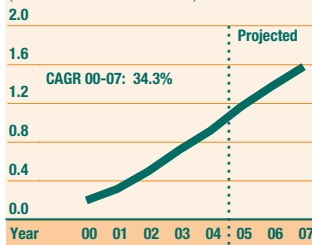
Digital learning solutions are making online learning one of the most dynamic segments of the higher education market. Technology is enabling busy college students and working adults to learn anytime, anywhere. Universities and online schools are meeting this demand by offering flexible educational programs ranging from single courses to postgraduate degree programs.

The convergence of content and technology is leading to a new generation of products that can improve class management for instructors and enrich the learning experience for students. McGraw-Hill Education provides:

- **Online Homework and Study Tools:** Online submission of homework assignments and other drill and practice that are automatically graded for the instructor and provide instant feedback to students.
- **Online Courses:** Introduced nearly 40 online courses in 2006 that may be used as a complete course or as part of a regular course with both classroom and online instruction. Courses come with streaming video, animation, and personalized assessment.
- **Mobile Resources:** Flexible delivery of student study materials to iPods, PDAs, and other mobile devices.
- **Online Assessment:** Targets students who need help to make sure they keep pace with the rest of the class.
- **Online Content:** Updates and more current content made available after the book's publication date.

Enrollment in Fully-Online Distance Education

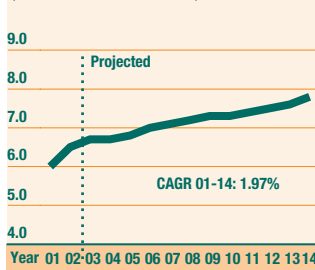
(number of students in millions)



Source: Eduventures

Adults Returning to School

(number of students in millions)



Source: U.S. Department of Education, National Center for Education Statistics, "Projections of Education Statistics to 2014"

**STATE-OF-THE-ART STUDY AIDS FOR ONLINE HOMEWORK**

Building on the trend of anytime, anywhere learning, online homework is becoming an important component in higher education. Students benefit from online resources that complement and reinforce their classroom instruction. McGraw-Hill's interactive learning tools such as online quizzing, assessment, and tutoring provide a complete solution for students and instructors.

McGraw-Hill's Web-based homework management system links into its line of digital solutions for the higher education market. The system is purchased on a subscription basis and is branded for different courses:

McGraw-Hill's

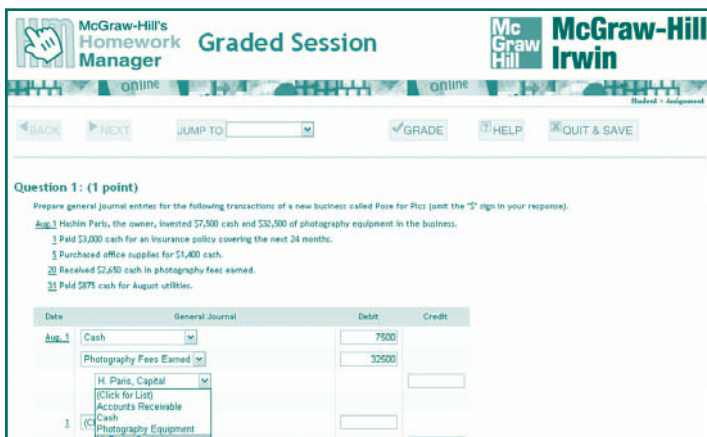


*Homework Manager Plus* is offered across many courses including financial and managerial accounting, business statistics, and corporate finance.



*MathZone* is offered for college-level math and statistics courses.

**A COMPLETE HOMEWORK SOLUTION**

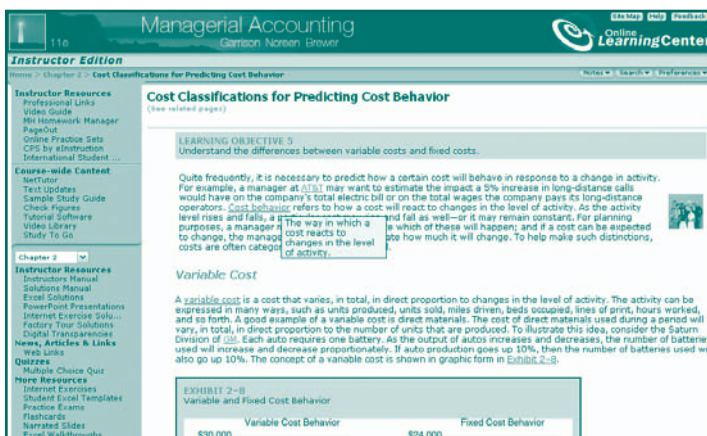


**Assign Homework, Tests and Quizzes**

Instructors assign homework online using either the textbook's end-of-chapter questions or an algorithmic option which generates an unlimited number of unique questions for each student.

**Automatic Grading Tool**

Assignments are graded automatically and the results are stored in the instructor's grade book. Instructors can determine how well each student solved individual problems or handled an assignment.



**Online Practice and Instant Feedback**

Algorithms provide an unlimited supply of online self-graded practice quizzes for students and instant feedback is provided during homework and study time.

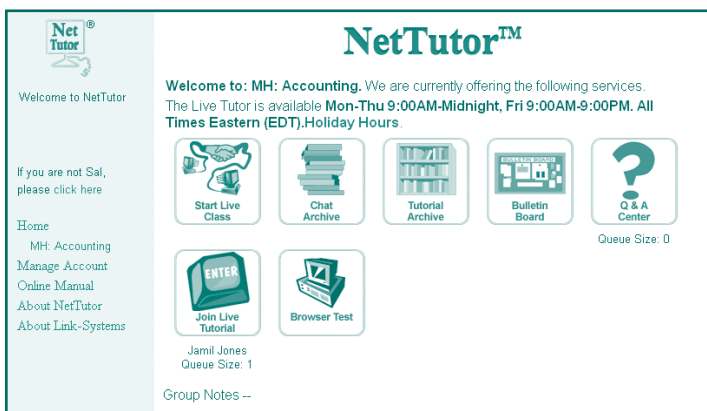
**Interactive Online Textbooks**

Students have quick access to relevant content in the online textbook as they work through problems, exercises, and practice quizzes through McGraw-Hill's Online Learning Center, which follows the textbook chapter-by-chapter.

**NetTutor™**

A breakthrough program that connects students with qualified tutors online so they can receive help outside regular school hours in math, accounting, chemistry, and English composition.

- **Live Tutor Center:** Student and tutor collaborate in real-time using a graphical white board and chat area
- **Q & A Center:** Submit questions at any time and receive answers within 24 hours
- **Tutorial Archive Center:** Browse questions and answers from other students



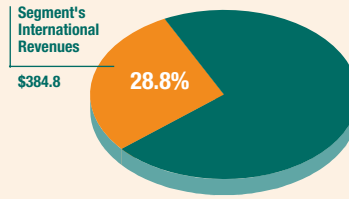
International Markets

**GROWING INTERNATIONAL SALES**

The Higher Education, Professional and International (HPI) Group is a multimedia provider of content to education and professional markets around the world. In international markets, the focus is on higher education, medicine, computer science, engineering, business and economics, English-language training, and selected school markets. In 2005, McGraw-Hill Education's international sales grew to \$384.8 million, up 8.5% over 2004.

**2005 Foreign Source Revenue\***

Total Company: \$1,337.8 million  
(dollars in millions)



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

**HIGHER EDUCATION: A GROWING, GLOBAL MARKET**

The worldwide demand for education is being driven by the requirements of a knowledge economy for skilled workers; growth in enrollments; and the increased use of technology, including online courses, to deliver products and services.

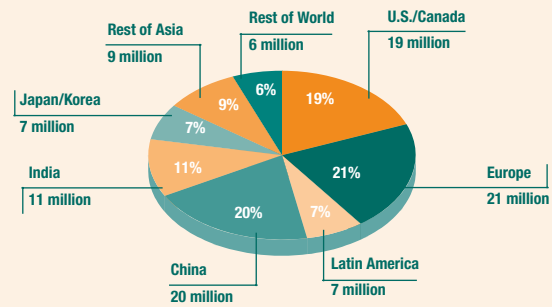
Nearly 100 million students are currently enrolled in higher education around the world. That figure is expected to increase substantially over the next 20 years stimulated by growth in worldwide population and the continued rise of emerging economies. In China, India, and Latin America, enrollments could more than double over the next two decades.

To maintain a stronger and more globally competitive workforce, the European Union launched the Bologna Process to streamline the continent's higher education system. By 2010, universities throughout the European Union will confer 3-year Bachelor's degrees and 2-year Master's degrees. This common structure will replace a multitude of specific national degrees with consistent program standards and quality and facilitate students wishing to transfer to other higher education institutions in the EU or worldwide.

In Asia, there is a strong demand for higher education, with particular emphasis on science, engineering, and business skills. Increasing enrollments in mainland China and India represent the biggest opportunities. There are particular growth opportunities in vocational education and English-language training.

**Global Higher Education Enrollment – 2005**

Total Enrollment: 100 million students



Sources: UNESCO, Hezel Associates

**DELIVERING DIGITAL CONTENT GLOBALLY**

Reflecting the globalization of higher education, the HPI Group seeks material from leading experts worldwide. For example, authors in India now provide material for the global engineering market. Online courses will also play an increasingly important role in education in emerging markets as growing enrollments outstrip the availability of traditional classrooms.

The HPI Group is taking full advantage of these global growth opportunities by focusing on key markets, including engineering, MBA, and vocational training. Digital products are gaining market acceptance as courses follow a more common curriculum and both

teachers and students have better access to technology. The HPI Group provides these markets with robust, in-depth offerings of higher education and professional content. The *MBA Resource* ([www.primismba.com](http://www.primismba.com)) serves the pre-MBA, MBA, and Executive MBA markets in the U.S. and enhances the offering with relevant content from *BusinessWeek* and Standard & Poor's. The next release will serve customers in Asia, Europe, and Latin America. The engineering market is served with strong higher education content and McGraw-Hill's *Digital Engineering Library* which provides access to over 150 McGraw-Hill engineering titles online ([www.DigitalEngineeringLibrary.com](http://www.DigitalEngineeringLibrary.com)).

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

Leveraging content, global brands, and technology, the Higher Education, Professional and International (HPI) Group is delivering new solutions anytime, anywhere to professional, medical, scientific, technical, and computer markets.

**MEDICAL**

**AccessMedicine** (www.AccessMedicine.com), a digital subscription service, provides cross-searchable information and regularly updated content that is now used in more than 42 countries and by virtually all U.S. medical schools. *AccessMedicine* provides content at the point-of-care on a PDA and podcasts of lectures from world-renowned physicians. Subscribers have access to:

- Podcasts of weekly medical updates for iPods, MP3-compatible devices, or downloadable to the desktop
- Patient education materials
- In-depth information on over 51,000 drugs
- A differential diagnostic tool that can search by symptom, disease, or organ system
- Exam review tools powered by the best-selling series, *First Aid for the USMLE*

**AccessSurgery** follows the *AccessMedicine* model and combines leading McGraw-Hill reference texts with digital videos and other functionalities to provide a dedicated online resource for practicing surgeons and surgical residents. It can be purchased as a standalone subscription, or as an additional paid module within *AccessMedicine*. When it launches in August 2006, subscribers will have access to:

- More than 12,000 pages of content from leading medical texts such as *Schwartz's Principles of Surgery*
- Narrated videos of key surgical procedures
- Point-of-care information on surgical diagnosis and treatment available online or on a PDA
- 2,000 questions and answers to assist with board preparation and certification
- Updated content, videos, and journal reviews



**HarrisonOnline en español** (www.HarrisonMedicina.com), launched in March 2006, brings the world's best-selling medical reference, *Harrison's Principles of Internal Medicine*, 16th Edition, to Spanish-language markets and provides:

- Daily updates on recent medical advances, including information from clinical trials
- Interactive self-assessment tests
- An emergency medicine photo gallery to assist with visual diagnosis
- *Grand Rounds* lectures by *Harrison's* expert authors

**SCIENTIFIC AND TECHNICAL**

**AccessScience** (www.AccessScience.com) includes the contents of the *Encyclopedia of Science and Technology*, 9th Edition, and features daily science news updates and an interactive science "Q&A." *AccessScience's* growing list of global adoptions includes the Hong Kong Public Libraries, Council of Australian University Libraries, and Ontario Council of University Libraries.

**Digital Engineering Library** (www.DigitalEngineeringLibrary.com) provides access to over 150 McGraw-Hill engineering titles in a fully-searchable, taxonomically-organized database. Available by subscription or pay-per-view.

**FINDING GROWTH IN OUR MARKETS**

The HPI Group publishes and distributes more than 1,000 titles a year in business, health, language, science, technical, and medical fields.

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



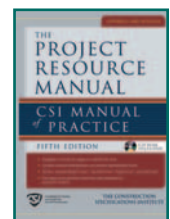
**Consumer:** McGraw-Hill serves the growing consumer health segment through strategic relationships with Harvard Medical School and the American Diabetes Association, and through market-leading health titles for the aging baby boomer demographic.



**Education:** McGraw-Hill released 24 test preparation titles in 2005, up from 11 in 2004. Successful launches include *McGraw-Hill's SAT 1* with CD-ROM and *The Official Guide to the New TOEFL iBT*, the first in a series to be published in partnership with Educational Testing Service.



**Professional:** Building upon decades of publishing strength, McGraw-Hill is focused on globalizing its content and authorship to meet the developing needs of science, engineering, computing, and construction professionals worldwide.



Standard & Poor's

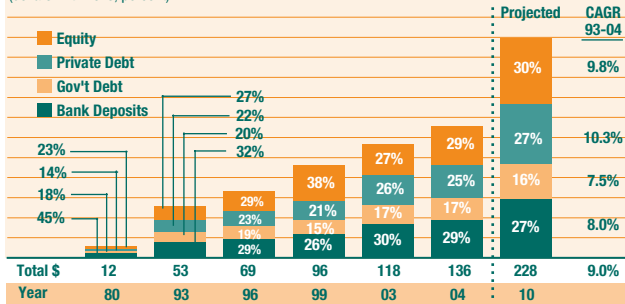
STANDARD & POOR'S

Growing capital markets around the world continue to stimulate demand for Standard & Poor's ratings, data and information, indices, and other products and services. The trends – globalization, disintermediation, securitization and privatization – are well established as key drivers in global financial markets, which continue to benefit from the creation of new investment opportunities. The

charts below illustrate the growing size and complexity of the global capital markets. Global financial stock is growing faster than global gross domestic product, according to a 2006 McKinsey Global Institute report. Private debt securities are the fastest growing part of this vibrant market.

Global Financial Stock Is Growing Rapidly

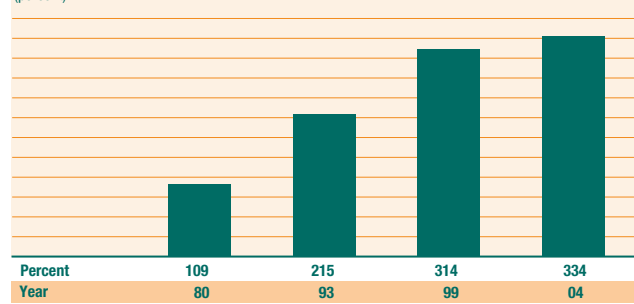
Composition and Growth of Global Financial Stock (dollars in trillions, percent)



Sources: McKinsey Global Institute Global Financial Stock Database; World Federation of Stock Exchanges; Merrill Lynch; Global Insight  
 Note: Extrapolation off of 2004 base, with components grown at 1993-2004 CAGRs; Detail may not sum due to rounding

Growth of Global Financial Stock Is Outpacing that of Global GDP

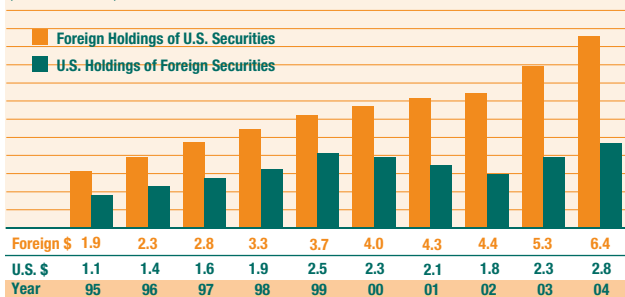
Global Financial Stock as % of Global GDP (percent)



Sources: McKinsey Global Institute Global Financial Stock Database; Global Insight

Cross-Border Holdings Are Increasing

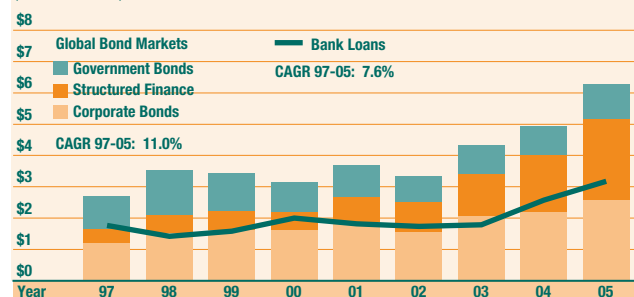
(dollars in trillions)



Source: "2005 Securities Industry Fact Book," Securities Industry Association, July 2005

Disintermediation Is Moving Borrowers Directly to the Bond Markets

(dollars in trillions)



Sources: Reuters/LPC; Thomson Financial; Harrison Scott Publications/S&P estimates

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EXPANDING THE GLOBAL FOOTPRINT

Since opening its first international office in 1984, Standard & Poor's global network has grown substantially. The company operates directly and through affiliates in 24 countries and generates revenue in over 110 countries.

Standard & Poor's international operations have contributed strongly to revenue growth, with Europe's strong performance reflecting the significant growth in the region's capital markets.

The outlook for Standard & Poor's Asia Pacific operations is also favorable. It is driven by continued strong economic fundamentals, ongoing deregulation, development of regional financial markets, and increasing globalization. The region is leading world GDP growth, and the economic recovery of Japan and Korea combined with the fast growth of China and India creates sound, strong momentum for future growth.

During 2005, Standard & Poor's completed a number of acquisitions and entered into an alliance to expand its presence in the Asia

Pacific region and broaden its capabilities in data and information and equity research:

**CRISIL Limited:** Majority shareholder position in India's leading provider of credit ratings, financial news, and risk and policy advisory services

**Taiwan Ratings Corporation:** Majority ownership of Taiwan's largest rating agency

**Vista Research:** Purchase of an independent primary research firm

**ASSIRT Research:** Acquisition of a leading provider of fund data, ratings, and portfolio services to the Australian investment marketplace

**Rating Agency Malaysia:** Affiliation with Malaysia's leading ratings service

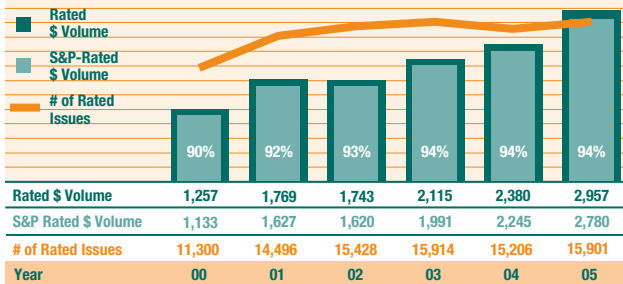
**U.S. DEBT MARKET**

In 2005, the size of the rated debt market in the U.S. totaled \$2.9 trillion, with Standard & Poor's rating 94% of this debt issuance. The rated debt market is a component of the total debt market and includes only the debt securities issued with a rating. The rated U.S. debt market chart below equals issuance for the five new-issue debt categories.

(annual figures; dollar volume in billions; data by domicile of issuance/issuer)

**Rated U.S. Debt Market** (a, b, c, d, e)

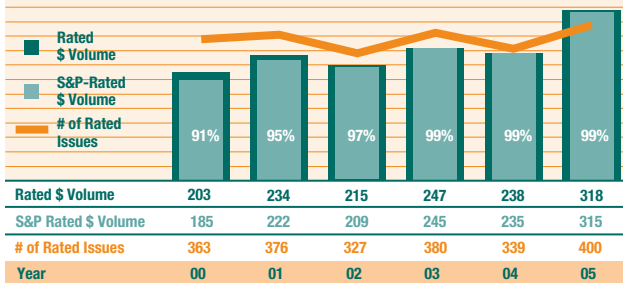
S&P penetration rate as a % of rated dollar volume



Sources: Thomson Financial; Harrison Scott Publications/S&P estimates

**Asset-Backed** (b, e)

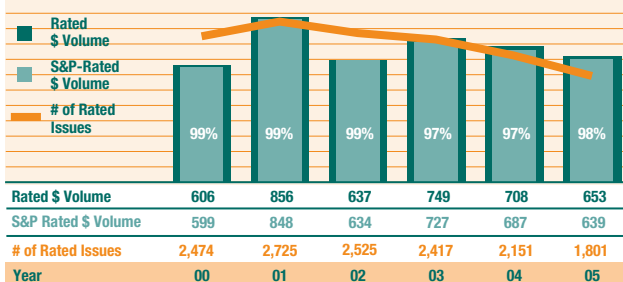
S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications/S&P estimates

**Corporates** (c, d)

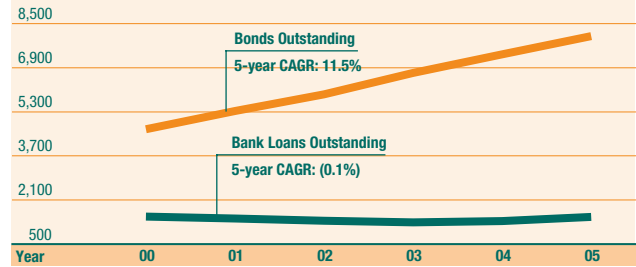
S&P penetration rate as a % of rated dollar volume



Source: Thomson Financial

**Changing Dynamics of U.S. Debt Outstanding**

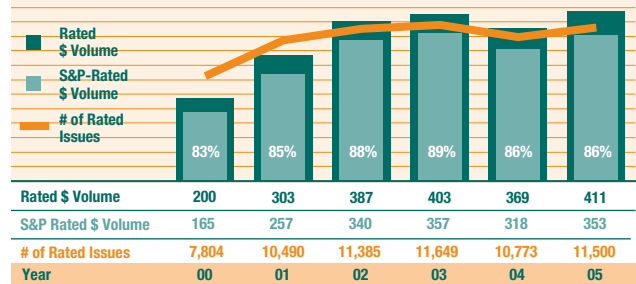
(dollars in billions)



Source: Board of Governors of the Federal Reserve System

**Municipals** (a)

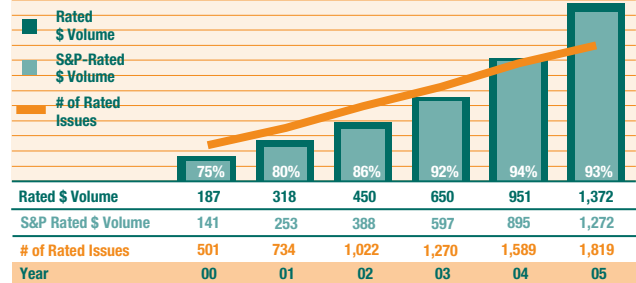
S&P penetration rate as a % of rated dollar volume



Source: Thomson Financial

**Mortgage-Backed** (b, d)

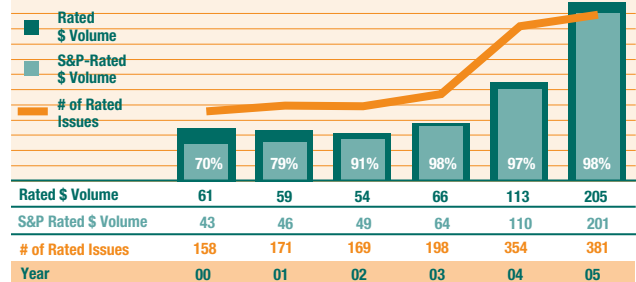
S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications/S&P estimates

**Collateralized Debt Obligations (CDOs)** (b)

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



Source: Harrison Scott Publications/S&P estimates

Notes for debt issuance:

(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) Excludes agency deals. Includes home equity loans  
(e) Excludes asset-backed commercial paper and letters of credit

Standard & Poor's

EUROPEAN AND ASIAN DEBT MARKETS

European Debt Market

In 2005, rated debt issuance in Europe was nearly \$1.7 trillion, up 20% from 2004. Standard & Poor's utilized its strong European network to capitalize on the significant growth in the region. Standard & Poor's 2005 market penetration was 81% for all rated debt.

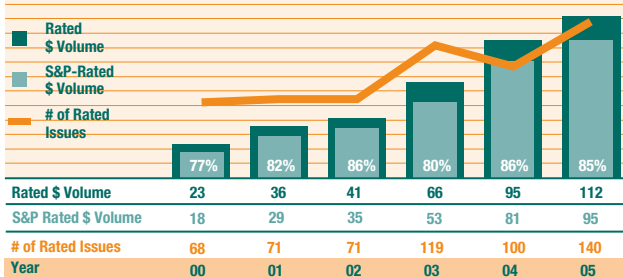
Asian Debt Market

In 2005, rated debt issue volume for corporates in Asia was \$154 billion, up 17% from 2004. Standard & Poor's 2005 market penetration was 91% for corporates. Rated issuance for structured finance was \$124 billion, with Standard & Poor's rating 71% of that volume.

(annual figures; dollar volume in billions; data by domicile of issuance/issuer)

European Asset-Backed (a, c)

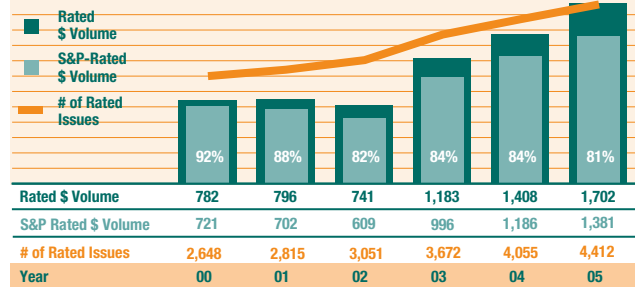
S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications/S&P estimates

Rated European Debt Market (a, b, c, d)

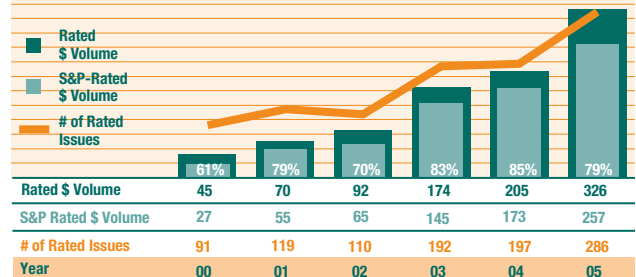
S&P penetration rate as a % of rated dollar volume



Sources: Thomson Financial; Harrison Scott Publications/S&P estimates

European Mortgage-Backed (a, d)

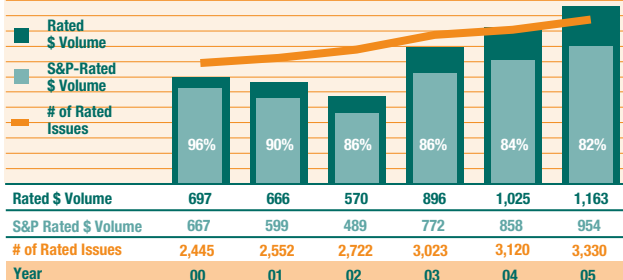
S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications/S&P estimates

European Corporates (b)

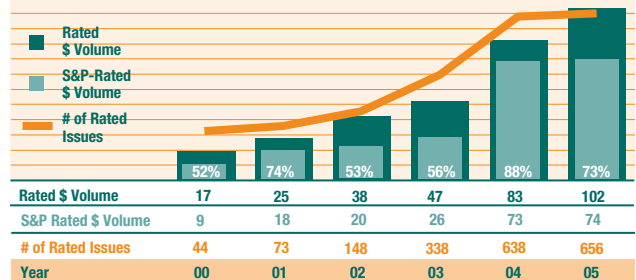
S&P penetration rate as a % of rated dollar volume



Source: Thomson Financial

European Collateralized Debt Obligations (CDOs) (a)

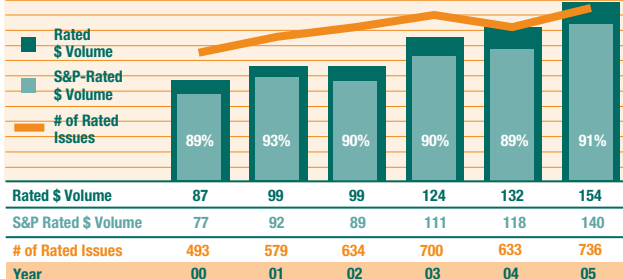
S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications/S&P estimates

Asian Corporates (b)

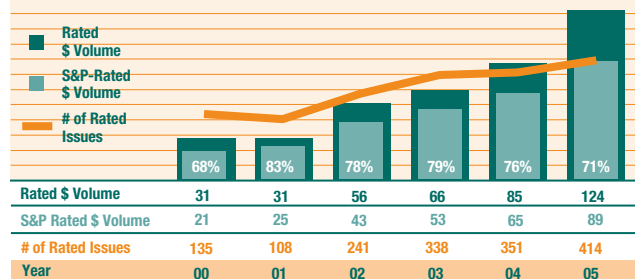
S&P penetration rate as a % of rated dollar volume



Source: Thomson Financial

Asian Structured Finance (a, c, d)

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



Source: Harrison Scott Publications/S&P estimates

Notes for debt issuance:

(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) Excludes asset-backed commercial paper and letters of credit

(d) Includes home equity loans

**NON-TRADITIONAL PRODUCTS AND SERVICES**

Standard & Poor's continues to successfully reduce dependency on new issue volume in the bond markets by leveraging its expertise in 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, including charts that illustrate the growing marketplace acceptance of non-bond rating activity by Standard & Poor's.

**NON-BOND RATINGS**

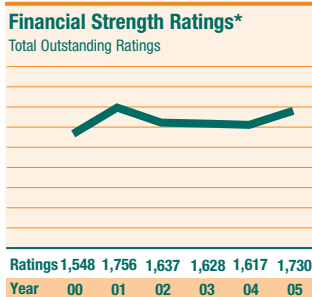
**Financial Strength, Counterparty, and Corporate Credit Ratings:**

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

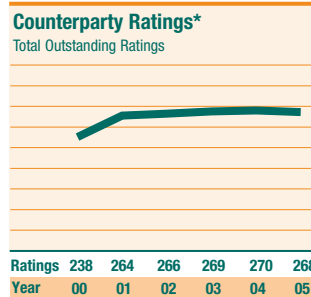
**Project Finance Ratings:** An evaluation of default probability, or the level of certainty with which lenders can expect to receive timely payment of principal and interest according to the terms of the bond or note. Project ratings do not distinguish between the debt issue rating and the issuer credit rating, as is the case with corporate credit ratings.

**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 event of default.

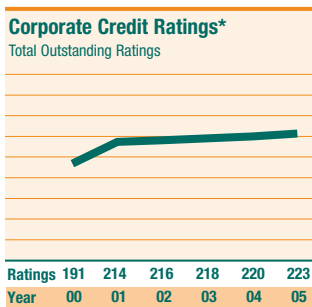
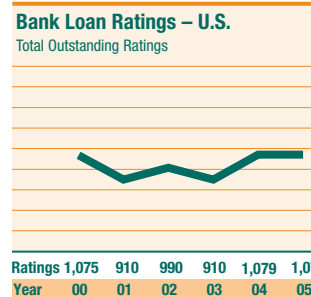
**Recovery Ratings:** A stand-alone, transparent opinion of the likely recovery of a loan in the event of default; expressed on a numerical scale, not linked to or limited by the issuer's traditional corporate credit rating.



\* Formerly Claims-Paying Ability Ratings

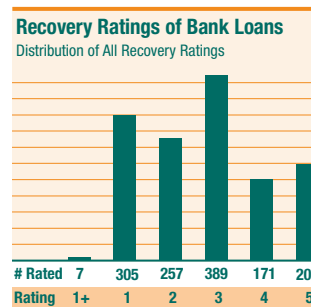
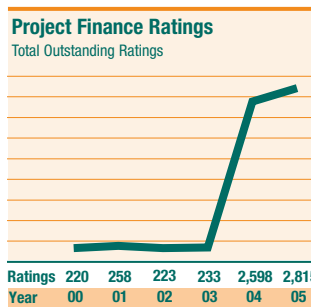


\* Total for those organizations whose only rating is a Counterparty Rating



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

Source: Standard & Poor's



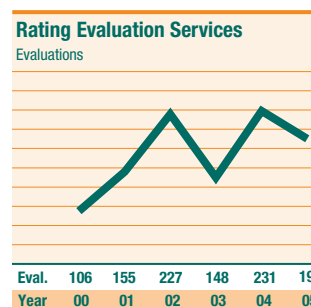
December 2003-April 2006

Standard & Poor's Recovery Rating of Principal	Indicative Recovery Expectations of Principal
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%

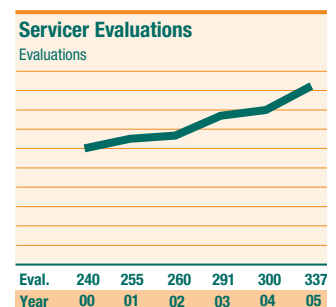
**EVALUATIONS**

**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.

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



Source: Standard & Poor's



Standard & Poor's

ANALYTICAL TOOLS AND MODELS

Standard & Poor's CDS Accelerator

Standard & Poor's *CDS Accelerator* is a powerful analytical product that gives participants in the synthetic or credit derivative collateralized debt obligation (CDO) market the ability to quickly and accurately analyze the credit quality of new and existing CDO transactions and determine an indicative capital structure of selected transactions based on Standard & Poor's published synthetic CDO rating methodology.

*CDS Accelerator* incorporates the synthetic CDO resources used by Standard & Poor's analysts including *CreditWatch*® data, industry codes, and analytics designed to help users determine SROCs (Synthetic Rated Overcollateralization), a proprietary Standard & Poor's CDO benchmark. These tools enable users to evaluate potential investments and compare and monitor transactions.

Standard & Poor's facilitates the creation of new CDO transactions and brings transparency to the growing and complex structured finance market

Covered Bond Monitor

In February 2006, Standard & Poor's launched *Covered Bond Monitor*, a model that defines parameters that pass or do not pass Standard & Poor's criteria for covered bond ratings. This model was developed in response to the need for a way to inform the

European market of Standard & Poor's criteria for covered bond ratings. Its two-fold goal is to satisfy the needs of issuers and investors for greater transparency and continue Standard & Poor's leadership in the covered bond rating market.

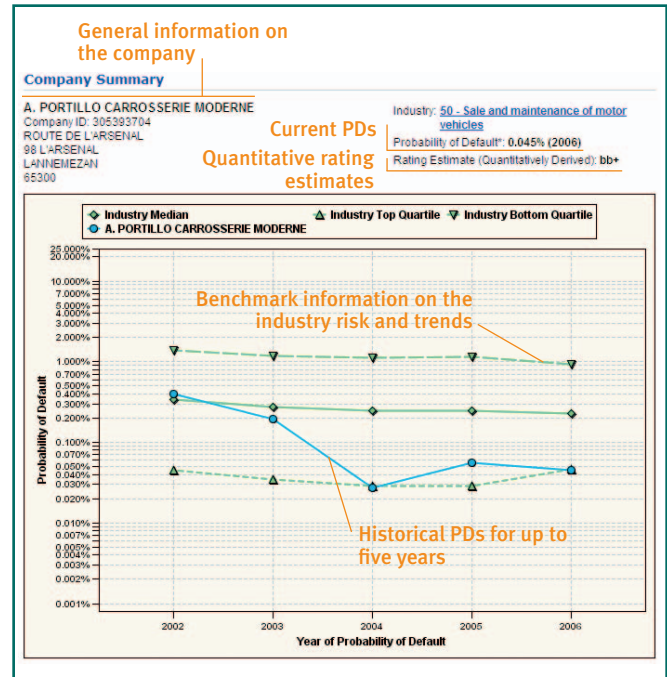
RISK SOLUTIONS

Standard & Poor's risk management solutions focus 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. Standard & Poor's integrated credit risk management solution leverages its experience in credit assessment to help clients manage enterprise risk, economic and regulatory capital, active exposures, and risk pricing with confidence.

Standard & Poor's Credit Risk Tracker

Standard & Poor's *Credit Risk Tracker* is a Web-based, comprehensive probability of default (PD) model covering private companies in Europe and North America. Users can assess, benchmark, and validate probabilities of default for middle-market exposures.

- The European version provides PDs for more than 1.1 million companies in France, Italy, Germany, Spain, and the United Kingdom. Customers can look up the pre-calculated PD, quantitatively-derived rating estimate, and industry statistics for middle market firms, as well as small- and medium-sized enterprises (SMEs). Industry- and country-specific models produce forward-looking one-year PDs based on financial, business, and economic information for each company.
- The North American version produces forward-looking, one-year PDs that are consistent with the Basel II internal ratings-based approach for calculating regulatory capital. Customers can build better default protection into new credit facilities, tighten pricing guidelines for new loans to private firms, and approach prospective clients with an enhanced awareness of their credit quality.



Standard & Poor's Credit Risk Tracker is a comprehensive probability of default model

## CONTRIBUTING TO TRANSPARENT, EFFICIENT FINANCIAL MARKETS

Standard & Poor's is committed to offering data products and services that contribute to transparent, efficient markets and giving the global financial community the independent benchmarks it needs to make informed financial decisions. As the financial markets have grown more complex, the financial community has increasingly sought out the vital company, ratings, reference, pricing, fund, and index data offered by Standard & Poor's.

Standard & Poor's embeds its data offerings – the market's most comprehensive and timely financial information – into the workflow of financial professionals globally. Timely, critical, and unique content is packaged into client-integrated workflow platforms, specific workflow applications, and data feeds to help clients provide value to their customers.

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

### Unique Content

- Company Data
- Ratings Information
- Reference Data
- Securities Evaluations
- Fund Data
- Index Data
- 3rd Party Data\*
- Client's Proprietary Data\*\*

### Solution-Based Delivery

- Workflow Application
  - Capital IQ Platform
- Single Process Applications
  - Research Insight
  - RatingsDirect
  - CUSIP Access
- Data Feeds
  - Compustat Xpressfeed
  - RatingsXpress
  - Masterfeed

CLIENT

\* Includes entity identification and global equity pricing

\*\* Client's own proprietary data stored on Capital IQ Platform and accessible only by client

**Company Data:** Standard & Poor's delivers timely, standardized fundamental data and market information, as well as industry classifications on global companies, to investment professionals worldwide. Standard & Poor's company data meets clients' needs with wide company coverage, a large number of unique data items, and an extensive historical database.

**Ratings Information:** Standard & Poor's provides real-time ratings information on Standard & Poor's-rated global issuers including corporations, financial institutions, insurance companies, sovereigns, structured financings, and utilities, supplying users with the insight they need into the decisions made by Standard & Poor's ratings analysts on the credit status of thousands of entities worldwide.

**Reference Data:** Standard & Poor's provides global reference data solutions including industry standard CUSIP numbers, global cross-referencing, corporate actions, descriptive data, and services to link business entities with financial securities that support securities operations and risk management worldwide. Reference data capabilities assist customers with Straight Through Processing (STP), global clearance and settlement, compliance, security master file maintenance, and data management operations.

**Securities Evaluations:** Standard & Poor's provides independent fixed-income evaluations and global pricing services that support securities operations, fund pricing, and portfolio management worldwide. Standard & Poor's also provides objective fair value evaluations on municipals, corporates, mortgage-backed securities, derivatives, swaps, and other evaluated securities.

**Fund Data:** Covering nearly 100,000 global funds, including mutual funds, pension-linked funds, insurance-linked funds, and hedge funds, Standard & Poor's defines the standard for the normalization and comparison of fund information. Standard & Poor's has been tracking fund information for more than a decade, building one of the most complete and best-known sources in the industry.

**Index Data:** For investment professionals who rely on S&P index information, Standard & Poor's offers easy-to-use tools for complete access to S&P index activity and analysis. Standard & Poor's index data products are crucial for investment professionals who need timely updates on index information.

### Workflow Application

**Capital IQ Platform:** Provides high-impact information and workflow solutions to over 1,400 leading financial institutions. 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 either deploy the Capital IQ Platform as a standalone solution or seamlessly integrate its components into existing business applications and portals via systems integration and custom data feeds.

### Single Process Applications

**Research Insight:** Investment professionals' portal to authoritative financial data, company reports, easy-to-use performance graphs, and documents. Extensive functionality and broad selection of data items enable investment professionals to customize research and transform their analysis into insight.

**RatingsDirect:** The real-time, online source for Standard & Poor's global credit ratings, research, and risk analysis. Investors seek the objective and informed opinions of S&P credit analysts to help them evaluate the credit quality of issuers and their debt obligations.

**CUSIP-ISID Plus Access:** Online access to the entire universe of CUSIP numbers along with ISIDPlus, the global cross-reference database.

### Data Feeds

**Compustat Xpressfeed:** Timely, comparable, objective company information with deep history to support sophisticated analysis across industries, companies, and items.

**RatingsXpress:** Customizable digital feed of Standard & Poor's credit ratings information including real-time ratings coverage of global issuers, structured finance, and U.S. public finance segments.

**Masterfeed:** A single source for global pricing and securities data including dividend announcements, credit ratings, and descriptive data on more than 6 million instruments. The flexible data delivery platform gives financial professionals the freedom to prioritize pricing and reference data sources.

## 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, offering a wide array of investment opinions and related services that is purchased by financial advisors, investors, and institutions worldwide. Standard & Poor's equity research serves a full range of financial advisors, from traditional broker to registered investment advisor, from wirehouse to independent advisor, and from financial planner to wealth manager. Standard & Poor's provides its research in a number of ways, including strategy-

driven stock portfolios, trend-driven thematic research tied to specific recommendations, individual reports on equities, and advanced practice management services. Standard & Poor's qualitative stock analysis (STARS, also known as Stock Appreciation Ranking System) is analyst-based and was introduced in 1987, while S&P Quality Ranking System, a powerful quantitative measure widely used in evaluating equities, was launched 50 years ago.

## INVESTMENT RESEARCH FOR FINANCIAL ADVISORS AND INDIVIDUAL INVESTORS

Key services include:

- **Standard & Poor's Stock Reports:** Covers more than 5,000 publicly-traded companies, including qualitative coverage of over 1,800 companies, and presents an in-depth picture of each company's activities, development, performance, and outlook
- **Standard & Poor's Advisor Insight:** Provides financial advisors with online access to Standard & Poor's research, analytical tools, and performance-driven investment advice
- **Standard & Poor's Interactive Stock Reports:** Provides online access to sophisticated equity opinions and analyses based on S&P's STARS analytical methodology
- **Standard & Poor's MarketScope:** Provides real-time commentary, recommendations, investment strategies, current opinions, and stock picks to over 120,000 investment professionals daily
- **Standard & Poor's Investment Playbooks and Spotlights:** Trend-based research reports and investment recommendations with themes drawn from current events, media stories, and emerging developments identified by Standard & Poor's analysts
- **Standard & Poor's Research Notes:** Reports analysts' intraday recommendation changes through a direct feed into the networks of key brokerage and banking clients
- **The Outlook:** Standard & Poor's consumer-oriented, investor web site, which includes a weekly newsletter that has been providing investors with unbiased research for eight decades

## INVESTMENT RESEARCH FOR INSTITUTIONS

Standard & Poor's institutional equity research products and capabilities support a portfolio manager's investment assumptions and research practice. 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 "top-down" economic, fundamental, and technical outlook as well as 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

## LEADING THE WAY IN THOUGHT LEADERSHIP AND ANALYTICAL EXCELLENCE

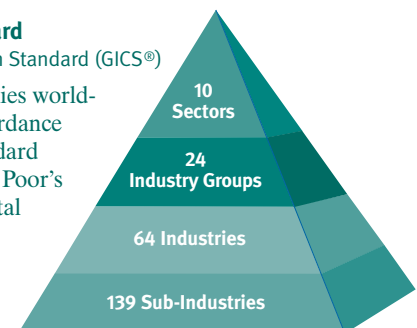
## Standard &amp; Poor's Quality Ranking System

The Standard & Poor's Quality Ranking System (also known as the Earnings & Dividend Ranking System) ranks a broad universe of U.S. common stocks based on each company's 10-year history of earnings and dividend activity. Created nearly 50 years ago, the S&P Quality Ranking System's proprietary quantitative methodology evaluates more than 4,000 common stocks, and is relied on by both individual and professional investors to identify securities that consistently outperform market indices on a risk-adjusted basis. Standard & Poor's also produces a number of in-depth S&P Quality Ranking reports and creates products which apply this popular, time-tested evaluator in innovative ways, including a growing number of S&P model portfolios and structured investment ideas.

## Creating a Global Standard

Global Industry Classification Standard (GICS®)

More than 33,500 companies worldwide are classified in accordance with GICS®, a global standard developed by Standard & Poor's and Morgan Stanley Capital International Inc. Each company is classified at the sub-industry level.



## LEVERAGING GLOBAL INTEREST IN INDEPENDENT EQUITY RESEARCH

The global equity research business is undergoing transformational change. Intense regulatory oversight in the U.S., the Global Research Settlement, requirements for analyst certification, and measures for increased transparency have been instituted to help restore investor confidence in equity markets. Due to the separation of sell-side research from investment banking, the sell-side has found it challenging to fund its institutional equity research efforts. As institutional commissions alone are unlikely to fully fund the research effort, the sell-side is reducing the amount of equity research it provides. In turn, the sell-side is facing a shrinking commission pool, which is further impacted by the price pressure

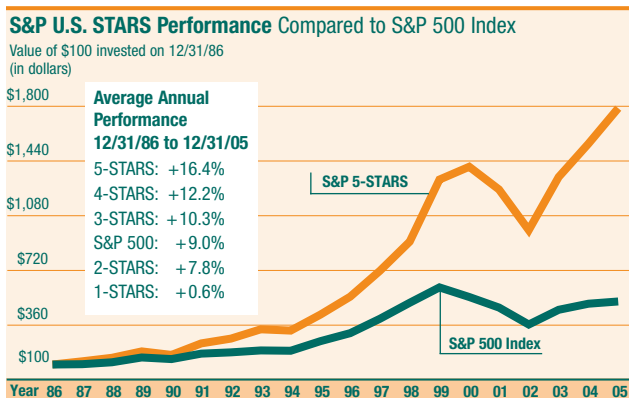
that is likely to result from increased transparency related to research and execution costs. Sell-side coverage reductions have also resulted in a large number of public companies without coverage or with inadequate coverage.

The evolution of the global equity research environment is creating opportunities for independent equity research firms to provide new and enhanced research and support services to the sell- and buy-side, as well as new customer groups including individual companies and exchanges.

## ANALYTICAL RIGOR

### Qualitative Research

Standard & Poor's equity research 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.

- Quality Ranking (Earnings & Dividend Ranking) System:** A ranking that reflects Standard & Poor's appraisals of growth and stability of earnings and dividends over the past ten 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, Quality Rankings, and Credit Ratings. The IQ calculation also draws from a proprietary statistical model that looks at valuation, profitability, risk and momentum factors, relative strength, liquidity, and volatility
- Standard & Poor's Core Earnings:** Standard & Poor's equity analysts rigorously evaluate the underlying earnings 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 a groundbreaking 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 approximately 200 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

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

## Standard &amp; Poor's

## 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 designed to serve as proxies for the different 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 both the S&P/Citigroup and 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&amp;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, exchange-traded funds, and institutional index funds

## S&amp;P Indices

## Comprehensive S&amp;P/Citigroup Indices

Broad market indices cover more than 10,000 companies in 53 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&amp;P FAMILY OF INDICES

- **S&P Global 1200** offers investors a large cap view of global equities. Its seven regional components are led by the widely-followed S&P 500 for the U.S. market, with over \$1 trillion indexed and more than \$4 trillion benchmarked to it at year-end 2005. The S&P Global 1200 is designed for traded products, and its component indices are world leaders for index futures, options, and exchange-traded funds (ETFs).
- **S&P/Citigroup Broad Market Indices** give a comprehensive view of world equity markets, and are especially suited for institutional benchmarking and performance analysis. Backed by nearly 20 years of index history and stock data, the indices and related data

sets are used by asset managers and pension plans around the world.

- **S&P stock exchange partner indices** measure equity market performance in line with views of local market investors. Standard & Poor's works with local stock exchanges and other organizations to provide headline indices for Australia, Canada, China, Hong Kong, India, Italy, Japan, and Russia.
- **S&P/TSX Canadian Bond Index** is a comprehensive fixed income benchmark for the Canadian market. Supported by price feeds from six dealer desks, the index is the first independently calculated bond benchmark in Canada.

## RAPIDLY GROWING INDEX SERVICES

In 2005 and early 2006, Standard & Poor's continued to demonstrate its leadership in providing new tradeable portfolio indices and products for the global investment community:

- **S&P Dividend Aristocrats:** Focuses on the S&P 500 constituents that have paid increasing dividends each year for the past 25 years
- **High Yield Dividend Aristocrats:** Focuses on the top 50 highest dividend yielding companies in the S&P Composite 1500 that have issued increasing dividends for at least 25 consecutive years
- **S&P Style:** A market capitalization-weighted index series that draws on the multi-factor methodology of the S&P/Citigroup Indices and includes all constituents of the parent index
- **S&P Pure Style:** A style score-weighted index series that draws on the multi-factor methodology of the S&P/Citigroup Indices and selectively includes constituents that exhibit strong growth or value characteristics
- **S&P Commodities:** Broad-based index series covering 17 widely-traded U.S. commodities futures contracts
- **S&P/CITIC China 30:** An index that draws on the 250 China-headquartered companies with shares publicly traded on Singapore, Hong Kong, New York, and NASDAQ exchanges
- **S&P Select Industry:** Measures the performance of narrow sub-industries – including biotechnology, homebuilders, and semiconductors – in the Global Industry Classification Standard (GICS®). Each index in the series constitutes a minimum of 21 liquid securities and represents at least 90% of the float-adjusted market capitalization of the GICS sub-industry, providing investors an investable portfolio representing a concentrated industry
- **Russian Trading System Stock Exchange Index (RTSI):** Standard & Poor's has exclusive rights for distributing, licensing, marketing, and publicizing the RTSI, the leading Russian equity benchmark for international and domestic investors

## HOW S&amp;P IS PAID ON INDEX PRODUCTS AND SERVICES

Standard & Poor's generates revenues 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 underlying funds
- **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**, which generate royalties based on trading volumes of derivatives contracts listed on the Chicago Mercantile Exchange, Chicago Board Options Exchange, and other exchanges

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

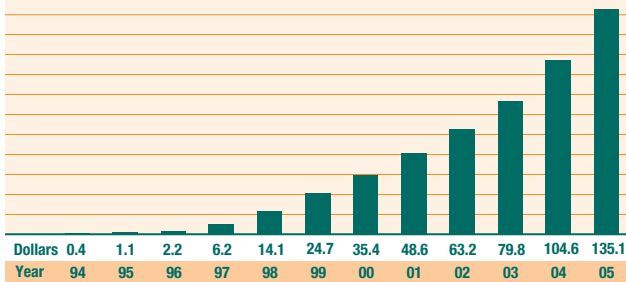
Exchange-traded funds (ETFs), which represent share ownership of an index fund but trade like shares of stock, have become the most popular securities on the American Stock Exchange. Standard & Poor's has been at the forefront of ETF development since the launch of the S&P 500 SPDR (Standard & Poor's 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 2005, led by the S&P 500 SPDR, the largest ETF in the world.

Introduced in January 2005, trading volume on SPDR options (SPY) on the Chicago Board Options Exchange (CBOE) totaled more than 16 million contracts, with an average volume of 65,568 contracts per day, in 2005.

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

(dollars in billions)

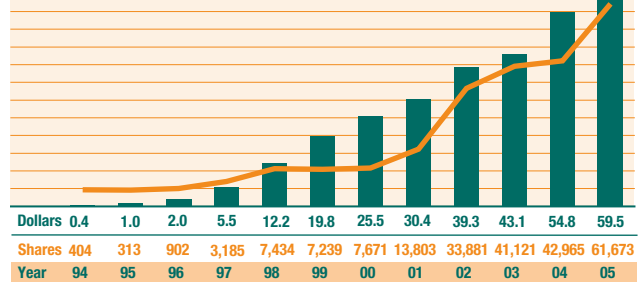


Source: Standard & Poor's

\* Reflects year-end data

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

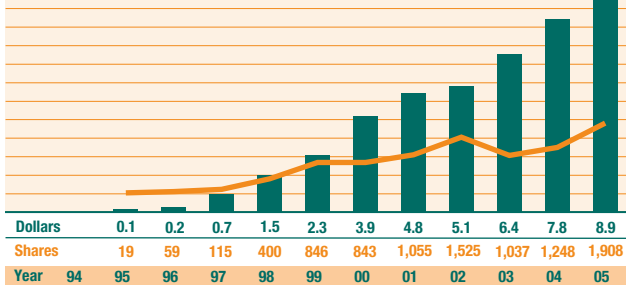
(dollars in billions) / (shares in thousands)



Source: American Stock Exchange

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

(dollars in billions) / (shares in thousands)

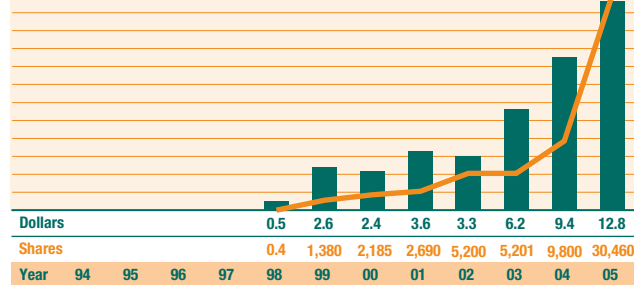


Source: American Stock Exchange

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

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

(dollars in billions) / (shares in thousands)

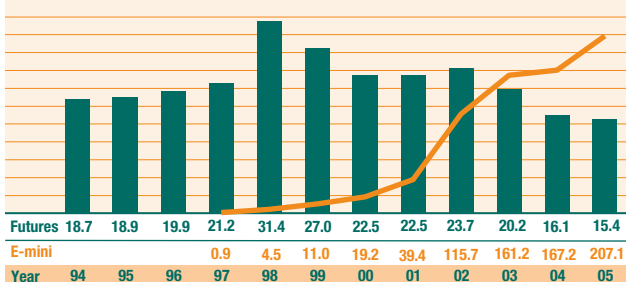


Source: American Stock Exchange

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)



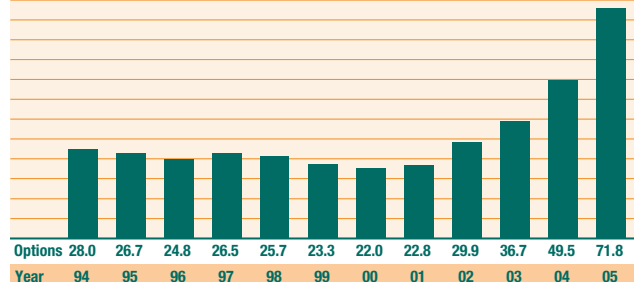
Source: Chicago Mercantile Exchange

\* 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

## Standard &amp; Poor's

## INVESTMENT ADVISORY SERVICES

Standard & Poor's provides independent, custom-tailored analysis and recommendations to leading financial organizations, from mutual fund companies and brokerages to insurance companies

and retirement plan providers. Standard & Poor's advisory services offers three categories of investment advice – Portfolio Strategies, Fund Research and Recommendations, and Asset Allocation.

## PORTFOLIO STRATEGIES

Standard & Poor's portfolio strategies incorporate Standard & Poor's independent, analytical insights and proprietary research.

- **Stock-Based Strategies:** Standard & Poor's stock-based portfolio services range from developing recommended stock lists to acting as a non-discretionary subadvisor for equity portfolios. Standard & Poor's portfolio officers leverage proprietary data and research tools in designing stock portfolios, the composition of which can be driven by quantitative models, fundamental research, or both.
- **Multi-Manager Strategies:** Standard & Poor's combines its asset allocation and fund recommendations to create multi-manager strategies, which can be customized to accommodate the client's universe of available funds and needs for number and type of asset classes desired. Services range from preferred lists of funds to managing funds of funds on a non-discretionary subadvisory basis.

## FUND RESEARCH AND RECOMMENDATIONS

Standard & Poor's provides clients with rigorous evaluations to aid in fund portfolio analysis and manager selection. Standard & Poor's fund research covers all styles and market capitalization segments, spanning global equity and fixed-income markets.

Standard & Poor's recommends lists of funds, separately managed accounts (SMAs), exchange-traded funds (ETFs), and insurance

sub-accounts for portfolios tailored to client-supplied requirements. On an ongoing basis, these lists are monitored to ascertain that the portfolios continue to meet Standard & Poor's high standards for performance, consistency, process discipline, and management quality, while remaining focused on the portfolio's investment objectives.

## ASSET ALLOCATION

Standard & Poor's asset allocation services can be used to develop portfolios for both institutional and retail settings. Standard & Poor's investment professionals use modern portfolio theory as the foundation of their analysis, layering it with their perspectives on current market, economic, and industry forecasts – all while addressing specific client requirements and investment objectives. Standard & Poor's then recommends a forward-looking, strategic asset allocation at the asset class level designed to allow the client to create

portfolios that strive to maximize return for each unit of risk.

Standard & Poor's asset allocation recommendations span a spectrum of asset classes and risk appetites and can address targeted objectives, such as capital appreciation, industry sector, income, and regional/global classifications. This process can also incorporate risk tolerance questionnaires for individuals, institutions, and plan sponsors.

## A VARIETY OF OPTIONS FOR WORKING WITH STANDARD &amp; POOR'S

Standard & Poor's investment research and advice is available through a variety of arrangements, including:

- **Licensing:** Clients can license Standard & Poor's proprietary research and rankings to create funds, SMAs, unit investment trusts (UITs), structured notes, and other investment vehicles
- **Consulting:** Standard & Poor's provides recommendations consistent with a portfolio's investment objectives that clients use in their decision-making
- **Subadvisory:** Standard & Poor's acts as a non-discretionary subadvisor to investment managers of fund of funds and equity portfolios. Standard & Poor's provides daily evaluation and monitoring of the portfolio as well as specific buy, sell, and weighting recommendations
- **S&P Portfolio Advisor:** Fee-based advisors can receive Standard & Poor's investment advice and research via S&P Portfolio Advisor, an online asset management platform designed to seamlessly blend advice and research with intuitive workflow tools to help advisors create and manage investment plans for their clients. Standard & Poor's Portfolio Advisor features modular technology and a user-friendly interface that can be integrated with a client's existing trading and portfolio management systems
- **Support Services:** Standard & Poor's provides marketing and sales support such as conference and teleconference speakers, wholesaler meetings, road shows, and various other programs

**PROVIDING GLOBAL ENERGY INFORMATION SOLUTIONS**

Platts is the world's leading provider of energy information for oil, natural gas, electricity, nuclear, coal, petrochemical, and metals markets. For nearly a century, Platts has helped traders, risk managers, analysts, governments, and industry executives make better decisions through its independent real-time industry news, price benchmarks, and analytical services.

Volatility across energy markets – prices, deregulation, legislation – has led to a more fragmented, less predictable business landscape. Rising demand, supply constraints, interconnected and expanding markets, and market speculation are forming a stronger link between the physical and financial energy markets. These factors are attracting an increasing number of investors to the energy asset

class. To participate in more financially-driven transactions, Platts is partnering with exchanges, extending its risk management products, and working with Standard & Poor's to create new energy indices.

More than 50% of Platts' revenue comes from outside the U.S. and is driven by the market economies in Russia, China, Latin America, and the Middle East. To capitalize on the growth potential in these markets, Platts is expanding its global scope. In mid-2006, Platts will begin daily price assessments for crude oil and petroleum products in the Russian domestic market, and will launch *China Alert*, which provides real-time news, prices, and commentary on events that affect market pricing.

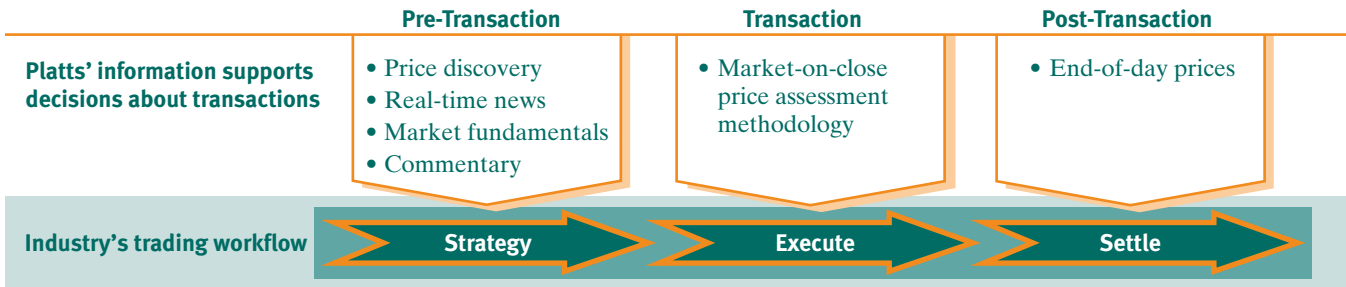
**DEEPLY EMBEDDED IN THE INDUSTRY'S WORKFLOW**

Everyday, nearly \$15 billion in global petroleum contracts are traded and settled daily on Platts' benchmarks. In 2005, across a comprehensive array of commodity markets, Platts produced approximately 4.2 million price assessments. Leveraging its innovative market-on-close (MOC) assessment methodology, Platts determines market prices based on actual transactions executed by market participants in a Platts-facilitated market-place. Platts is extending its MOC methodology into U.S. oil, European power, U.S. petrochemical, and global steel markets.

Traders and analysts rely on Platts' breaking market news, price reporting, data, and analytics to stay connected to opportunities in fast moving global markets. In addition to being used as the benchmark for physical supply contracts, Platts' price assessments are used by major energy exchanges such as NYMEX and Intercontinental Exchange (ICE) to clear trades.

In the second half of 2006, Platts will release a new browser-based version of its *Platts on the Net* product with enhanced features and functionality to improve access to real-time energy prices, breaking news, market commentary, and end-of-day price assessments.

**PLATTS' DATA: A CRITICAL ELEMENT IN THE INDUSTRY'S TRANSACTION WORKFLOW**



**PLATTS ENERGY ADVANTAGE – COMPREHENSIVE RESOURCE FOR MARKET FUNDAMENTALS DATA**



*Platts Energy Advantage* is the industry's most comprehensive and flexible online resource for market fundamentals data. Subscribers have access to a suite of energy market information covering the electric power, natural gas, and coal markets. Organized in a matrix of industries and topics, it includes energy company information, energy market prices, energy transactions, forecasted prices and analyses, and fundamental market data.

Analysts use the research and analytical tools in *Platts Energy Advantage* for:

- Operational and strategic planning decisions
- Asset valuation
- Competitive benchmarking
- Forecasting energy prices
- Understanding customers and sales prospects
- Evaluating capital investment decisions
- Supporting regulatory requirements

Monthly power generation details, including fuel price, at the holding company-level, by fuel type from *Platts Energy Advantage*  
[www.platts.com/energyadvantage](http://www.platts.com/energyadvantage)

Construction

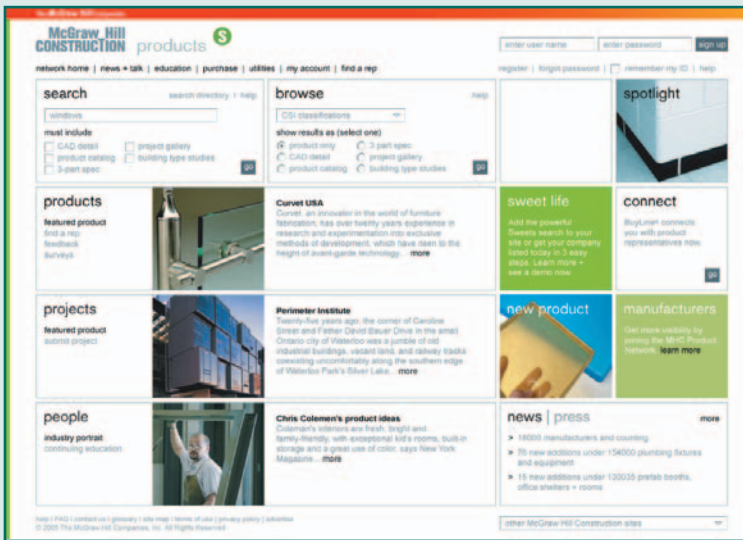
CONNECTING PRODUCTS, PROJECTS, AND PEOPLE

A trusted source for more than a century, McGraw-Hill Construction serves a universe of 1.2 million industry professionals and continues to set new industry standards by connecting products, projects, and people. Offering comprehensive fully-searchable downloadable content, workflow integration, process

orientation, and interoperability, McGraw-Hill Construction's information and solutions help design and construction professionals make better business decisions and grow their businesses in a \$4.6 trillion global marketplace.

MCGRAW-HILL CONSTRUCTION NETWORK®

McGraw-Hill Construction Network® is an online, subscription-based platform that connects a community of more than 300,000 manufacturers, contractors, architects, and engineers. The Network gives these key players the ability to manage project and product leads, and coordinate industry information. The recent integration of the well-established and comprehensive Sweets building products database into the McGraw-Hill Construction Network adds functionality and makes it easier to find, compare, select, specify, and make building product purchase decisions.



[www.construction.com/network/](http://www.construction.com/network/)

Products

Built on the 100-year print heritage of Sweets, the Network for products integrates more than 87,000 building products from more than 10,000 manufacturers, 1,500 searchable PDF catalogs, 20,000 computer-aided design (CAD) details, and 3,400 3-part specifications.

Projects

The Network for products integrates more than 500,000 active commercial construction projects and 60,000 digitized plans and specifications. The Bid Management module allows collaboration activity around the complex process of project bidding.

People

McGraw-Hill Construction connects the industry's leaders and companies with news, trends, analysis, and forecasts.

GROWING ABILITY TO SEARCH, FIND AND INTEGRATE INFORMATION INTO THE WORKFLOW

ARCHITECTS

The product search links users directly to building product information located in PDFs of product catalogs, CAD drawings, and three-part specifications – all of which can be downloaded and used in the design process. Users can save the results in “My Workspace” and maintain a working gallery of design projects online within the Network. Architects can earn continuing education credits through construction.com and *Architectural Record*.

CONTRACTORS

Users can search for new construction project leads and find more business by connecting to decision makers in a project's pre-planning, planning, or bidding stage. They can download plans, specifications, and addenda. Contractors can invite sub-contractors to bid on jobs in a secure online environment and can track and organize key projects throughout the entire construction cycle.

BUILDING PRODUCT MANUFACTURERS

Manufacturers can search the Leads Dashboard to identify and win business. Each time an architect or contractor downloads product information, CAD details, or 3-part specifications, the manufacturer sees a qualified sales lead plus all of the lead's current building projects. The Dashboard also aggregates leads from reader service cards and advertising in *Architectural Record* and *Product News*. These connections enable manufacturers to have a measurable return on investment.

MCGRAW-HILL CONSTRUCTION MEDIA

Award-winning, industry leading publications:  
*Architectural Record*,  
 magazine of The American Institute of Architects  
*Engineering News-Record (ENR)*  
 11 regional construction publications  
*MyHouse* (<http://myhouse.construction.com/>)  
*Constructor*, magazine of the  
 Associated General Contractors of America  
 MHC Product News Tabloid  
 MHC Custom Publications  
[www.construction.com](http://www.construction.com)

MCGRAW-HILL CONSTRUCTION RESEARCH & ANALYTICS

McGraw-Hill Construction's research and analytics team is comprised of leading industry economists who maintain and analyze detailed historical and forecast databases of construction activity. Drawing upon more than 36 years of data and a content database of 7,000,000 records for over 3,000 counties, the expert staff provides comprehensive analysis, forecasts, and trends to assist in major business decisions and future planning.

## MOVING DEEPER INTO THE INDUSTRY'S WORKFLOW

More than 1.2 million professionals in global aviation, aerospace, and defense industries look to proprietary, multimedia products from McGraw-Hill Aerospace & Defense for news and analysis, forecasting, data and analytics, and marketing solutions.

The aerospace and defense industry is the world leader in integrating complex technology systems to serve needs in defense, space, and

commercial and business aviation. The industry has grown by evolving from "airplane makers" into "systems integrators" and expanded its focus from manufacturing to include global maintenance, repair, and overhaul (MRO) service networks serving aircraft and other systems. Future expansion is being driven by the steady growth of commercial air travel and the advanced technology required by the military.

## AVIATION WEEK INTELLIGENCE NETWORK

By providing total solutions to its customers' information needs, McGraw-Hill Aerospace & Defense is focused on moving deeper into the industry's workflow. Aviation Week Intelligence Network (AWIN) is the industry's most integrated business tool for managers, business developers, buyers, and technical professionals. In 2006 AWIN was awarded the Jesse H. Neal National Business Journalism Award for "Best Website" with 25,000 to 100,000 monthly visitors.

[www.aviationweek.com/awin](http://www.aviationweek.com/awin)

### News & Analysis

News, insight, data, and analysis across commercial aviation, aerospace and defense, space, business aviation, homeland security, and maintenance, repair and overhaul

### Industry Intelligence

Integrates content from McGraw-Hill Aerospace & Defense print and online publications

### Data & Tools

Access to comprehensive industry database:

- Expanded fleet data covering 97,000 commercial and military aircraft
- Specifications tables for more than 3,100 aircraft, engine, spacecraft, weapons, and electronics systems
- Company profiles provide data on 20,000 industry companies, 60,000 industry personnel, 6,000 product categories, 90,000 products and services

## PROVIDING CUSTOMERS WITH INTEGRATED MEDIA SOLUTIONS

McGraw-Hill Aerospace & Defense is the largest multimedia information and marketing services provider to the global aviation, aerospace, and defense industry.

### Print

Leads the industry with 360,000 subscribers across its portfolio of publications

*Aviation Week & Space Technology*  
*Business & Commercial Aviation*  
*Overhaul & Maintenance*  
*Aviation Daily*  
*Aerospace Daily & Defense Report*  
*The Weekly of Business Aviation*  
*Defense Technology International*  
*ShowNews*  
*World Aerospace Database including World Aviation Directory*

### Online

*AviationNow.com* and AWIN

Provides the industry's most reliable news, information, and intelligence

- Channels: Commercial Aviation; Defense; Space; Business Aviation; Maintenance, Repair, and Overhaul; Homeland Security
- Career Center and Employment Report
- Podcasts, RSS (Really Simple Syndication) feeds, daily industry news stories
- Find a Fleet and Find a Supplier tools

### Conferences

Reaches customers directly as attendees, exhibitors, or sponsors, as well as through advertising and merchandising opportunities

- Produces 12 major conferences and exhibitions for the MRO, defense, and program supplier communities within the aerospace and defense industries

**GROWING THE FRANCHISE**

By changing the emphasis on how and when information is delivered, the convergence of technology and content is shifting media usage by both consumers and advertisers. *BusinessWeek* is capitalizing on this trend. With the integration of its print and online editorial staffs, *BusinessWeek*'s expertise is now available daily across its growing lineup of distribution channels. In addition to reaching 4.7 million readers via its global magazine, *BusinessWeek* also averages 5.6 million unique users online around the world each month. Its syndicated television news program, *BusinessWeek Weekend*, reaches 700,000 viewers each week.

*BusinessWeek* expanded its content and online reach and partnered with Standard & Poor's and J.D. Power & Associates to enrich its editorial package. *BusinessWeek* also:

- Launched multi-channel content (Autos, Innovation & Design)
- Increased *BusinessWeek SmallBiz*'s circulation by 30% in 2005 to 650,000
- Added new columnists (Maria Bartiromo, Jack & Suzy Welch)
- Launched blogs, podcasts, newsletters, and an interactive gallery with video and online polls
- Created online channels for European and Asian markets
- Added local-language editions in Arabic, Turkish, Bulgarian, and Romanian. *BusinessWeek* already publishes local-language editions in Chinese, Russian, and Bahasa Indonesian. Local-language editions have been launched as part of a plan to deliver customized versions of *BusinessWeek* to a growing international audience. In 2006, *BusinessWeek China* celebrates its 20th anniversary.

**Top Print Advertising Categories, 2005**

Category	Global Edition	
	Revenue	% of 2005 Total
High Tech	\$ 105,379	31.7%
Finance/Insurance	68,548	20.6%
Automotive	29,082	8.8%
Professional Services	19,941	6.0%
Industrial Materials	17,144	5.2%
Corporate*	14,097	4.2%
Consumer	13,693	4.1%
Travel	13,578	4.1%
<b>Major Ad Categories</b>	<b>281,462</b>	<b>84.7%</b>
<b>All Others</b>	<b>50,853</b>	<b>15.3%</b>
<b>Total</b>	<b>\$ 332,315</b>	<b>100.0%</b>

Source: Publishers Information Bureau \* Corporate not elsewhere classified

**Top Online Advertising Categories, 2005**

BusinessWeek.com	Estimated Spending	
	Estimated Spending	% of 2005 Total
Financial Services	\$ 2,627,700	23.8%
Business to Business	2,594,300	23.5%
Consumer Goods	1,086,000	9.8%
Travel	964,900	8.7%
Hardware & Electronics	938,200	8.5%
Telecommunications	808,400	7.3%
Public Services	798,500	7.2%
Web Media	667,600	6.0%
Automotive	313,800	2.8%
All Others	240,500	2.2%
<b>Total</b>	<b>\$11,039,900</b>	<b>100.0%</b>

Source: Nielsen//NetRatings AdRelevance

**Global Advertising Pages**

2001-2005	Pages	2005	Pages	% of Year
2005	2,759.45	1Q	534.15	19%
2004	3,163.54	2Q	794.22	29%
2003	3,034.66	3Q	546.34	20%
2002	3,333.13	4Q	884.74	32%
2001	3,785.95	<b>Total</b>	<b>2,759.45</b>	<b>100%</b>

Source: Publishers Information Bureau (PIB)

**BusinessWeek.com – Monthly Page Views and Unique Visitors**

Page Views (average)		Unique Visitors (average)	
U.S.	35,000,000	U.S.	4,300,000
Europe, Middle East, Africa	3,200,000	Europe, Middle East, Africa	558,000
Asia Pacific	2,900,000	Asia Pacific	383,000
Others*	2,190,000	Others*	330,000
<b>Total</b>	<b>43,290,000</b>	<b>Total</b>	<b>5,571,000</b>

Note: Based on visits during November 2005-April 2006

\*Includes North America (non U.S.), South America, Central America, and the Caribbean

Source: BusinessWeek's internal data

**Advertising Rates, 2006**

	Global Edition <sup>1</sup>	% change vs. 2005	BW/China Edition <sup>2</sup>	% change vs. 2005	SmallBiz <sup>3</sup>	% change vs. 2005
Rate Base	900,000	-7.2%	120,000	9.1%	650,000	30.0%
4-Color Page Rate	\$99,500	-6.6%	\$14,100	5.2%	\$68,800	32.9%
B/W Page Rate	\$67,500	-6.3%	\$9,500	5.6%	\$46,520	NA

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

<sup>3</sup> Published 4x a year

<sup>2</sup> Published 12x a year

<sup>4</sup> Paid/controlled (06/2005)

**Print Subscription Rates, 2006**

	Global Edition <sup>1</sup>	% change vs. 2005	BW/China Edition <sup>2,4</sup>	% change vs. 2005
Single Copy	\$4.95	–	10 RMB	–
Annual Subscription	\$59.97	–	120 RMB	–
3-Year Subscription	\$119.97	–	–	–

**Average Paid Circulation (12/31/2005)**

	Global Edition <sup>1</sup>	% of total	BW/China Edition <sup>2,4</sup>	% of total
Subscription	960,777	97.2%	–	–
Single Copy	27,291	2.8%	–	–
<b>Total</b>	<b>988,068</b>	<b>100.0%</b>	<b>110,880</b>	<b>100.0%</b>

**CROSS-CHANNEL ORIENTATION FOR NEWS, ANALYSIS, AND INFORMATION**

*BusinessWeek* is leveraging its editorial expertise so each day its global audience is provided with insights on trends, news, business and financial analysis, and services across multiple channels.

**Print**

*BusinessWeek* magazine

- Global edition
- Local-language editions
- Special sections and directories

*BusinessWeek SmallBiz*

**Online**

*BusinessWeek Online*

- Channels: Top News, *BusinessWeek* Magazine, Investing, Asia, Europe, Technology, Autos, Innovation, SmallBiz, B-Schools, Careers
- *MBA Insider* (subscription-only premium content)
- Podcasts, blogs, RSS (Really Simple Syndication) feeds, daily updates, videos
- Interactive gallery (slide shows, polls)

*BusinessWeek Digital*

Delivers the magazine by e-mail

**Television**

*BusinessWeek Weekend*

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 markets on a number of networks (mostly ABC).

*BusinessWeek Business Reports*

Airs daily business information from the NASDAQ MarketSite on affiliates around the U.S.

**MAXIMIZING THE DELIVERY OF UNIQUE CONTENT ACROSS MULTIPLE CHANNELS**

The multi-channel approach adds a new dimension to *BusinessWeek*. A prime example is the expanded coverage of automobiles on *BusinessWeek*'s new information highway.



**Online**  
Launch of the Autos Channel on *BusinessWeek Online*  
[www.BusinessWeek.com](http://www.BusinessWeek.com)



**Television**  
*BusinessWeek Weekend* airs a single-themed program on location at the North American International Auto Show in Detroit



**Blog**  
Reporter David Kiley kicks off the "The Auto Beat" weblog with a report on the newest cars at the North American Auto Show in Detroit



**Magazine**  
*BusinessWeek*'s global edition publishes a special report on the future of cars



**Podcasts**  
*BusinessWeek Online* partners with the podcast "Cruise Control Radio," making it available for download directly from *BusinessWeek Online* or Apple's iTunes

***BusinessWeek* Autos Channel**

All of the Autos Channel's online content is free, including news, reviews, special reports, and videos. The site features a state-of-the-art car configurator tool where users can build their own dream vehicle by choosing from a drop-down menu containing all of the manufacturers' latest vehicle packages, options, and features. When the user finishes building the vehicle, the tool generates a Manufacturer's Suggested Retail Price (MSRP) based on the user's choices. The user then has the option to view the vehicle's safety ratings and rebate offers, compare it to other comparable models, and even get a free dealer quote. The Autos Channel also features:

- **J.D. Power Rankings:** Ratings based on independent and unbiased feedback from verified product and service owners
- **Car Reviews:** Provided by *BusinessWeek* editors and *BusinessWeek Online* users
- **Auto Shows:** Slide shows of new models from around the world
- **News:** The latest industry information from *BusinessWeek* and J.D. Power experts
- **Classic Cars:** Classic show reviews
- **Design:** Slide shows of the latest concept cars, and the latest design trends

J.D. Power and Associates

**LISTENING TO THE VOICE OF THE CUSTOMER**

An independent source of marketing information to consumers and businesses for nearly four decades, J.D. Power and Associates' quality and customer satisfaction ratings and market research have achieved worldwide recognition. J.D. Power and Associates' industry performance benchmarks and must-have research on customer satisfaction have become 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 with a strong and growing presence in other important industries including finance, insurance, healthcare, homebuilding, telecommunications, and energy. Today, more than 30% of its revenue comes from non-automotive sources. International operations generate more than 20% of the revenue.

In 2005, after surveying tens of millions of consumers, J.D. Power and Associates compiled its vast database of information in *SATISFACTION: How Every Great Company Listens to the Voice of the Customer*. In this comprehensive guide to customer satisfaction, Chris Denove and James D. Power IV include insights previously available only to clients. The book explains how great companies like Lexus, UPS, JetBlue, and Enterprise Rent-A-Car translate consistently high customer satisfaction into profitable growth.



To help consumers make more informed decisions when shopping for products and services, J.D. Power and Associates provides highlights of its research online at J.D. Power Consumer Center [www.jdpower.com/cc](http://www.jdpower.com/cc)

**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 [www.jdpower.com](http://www.jdpower.com).

**Brand Licensing:** Highest-ranking 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.

**Proprietary Research:** Company-specific tracking studies to monitor quality and customer satisfaction over time.

**Power Information Network (PIN):** PIN's real-time information transforms vehicle-specific transaction data into business analysis tools to help manufacturers optimize incentives and inventory management. Retailers can evaluate gross profit margins, monitor used car sales, and assess the effectiveness of the dealership's advertising.

**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.

**2005 AWARDS OF EXCELLENCE**

Here is a sampling of awards J.D. Power and Associates presented to highest-ranked companies in 2005 for quality and customer satisfaction:

Sales Satisfaction  
**Jaguar**

Customer Satisfaction with Dealer Service  
**Lincoln**

Most Dependable Premium Luxury Car  
**Lexus LS 430**

Investor Satisfaction with Online Trading Services

**Scottrade**

Investor Satisfaction with Full Service Brokerage Firms

**Edward Jones**

Customer Satisfaction among National Auto and Home Insurers

**Amica**

Highest in Customer Satisfaction with New Home Builders in Detroit, Michigan

**Pulte Homes**

Highest in Customer Satisfaction with New Home Builders in Sacramento, California

**Centex Homes**

Highest in Guest Satisfaction among Luxury Hotel Chains

**Four Seasons Hotels and Resorts**

Highest in Rental Car Customer Satisfaction

**Enterprise**

Wireless Customer Service Performance

**T-Mobile**

Customer Satisfaction among High-Speed Internet Service Providers

**Cox Communications**

Customer Satisfaction among Cable/Satellite TV Subscribers

**WOW!**

Overall Member Satisfaction among National Vision Plans

**Vision Service Plan**

Overall Customer Satisfaction among Vision Care Retailers

**Costco**

Distinguished Hospital for Service Excellence

**South Jersey Healthcare**

Overall Ownership Satisfaction among Compact Cars – Mexico

**Honda Civic**

Customer Satisfaction with Pre-Paid Wireless Service – Canada

**Virgin Mobile**

Color Laser Printer in Customer Satisfaction among Business Users

**Fuji Xerox**

Customer Satisfaction with Auto Insurance Claims

**Zurich Insurance**



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This document includes certain forward-looking statements about the Company’s businesses, new products, sales, expenses, cash flows, and operating and capital requirements. Such forward-looking statements include, but are not limited to, the strength and sustainability of the U.S. and global economy; Educational Publishing’s level of success in 2006 adoptions and enrollment and demographic trends; the level of educational funding; 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 interest rates and the strength of the economy, profit levels, and the capital markets in the U.S. and abroad; the level of success of new product development and global expansion and strength of U.S. and international markets; the demand and market for debt ratings, including mortgage and asset-backed securities; the regulatory environment affecting Standard & Poor’s; the strength of the U.S. and international advertising markets; the volatility of the energy marketplace; the contract value of public works, manufacturing, and single-family unit construction; the level of political advertising; and the level of future cash flow, debt levels, product-related manufacturing expenses, pension income/(expense), distribution expenses, postal rates, amortization and depreciation expense, income tax rates, capital, technology and other expenditures, and prepublication cost investment.

Actual results may differ materially from those in any forward-looking statements because any such statements involve risks and uncertainties and are subject to change based upon various important factors, including, but not limited to, worldwide economic, financial, political, and regulatory conditions; currency and foreign exchange volatility; the health of capital and equity markets, including future interest rate changes; the implementation of an expanded regulatory scheme affecting Standard & Poor’s ratings and services; the level of funding in the education market (both in the U.S. and internationally); the strength of the economy; the strength of the advertising markets; continued investment by the construction, computer, and aviation industries; the successful marketing of new products; and the effect of competitive products and pricing.

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